Funding the Future

What we need from the Autumn Statement is an end to mas...

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Let me put three suggestions before you. The first is that the UK is a massively divided society, with that trend having increased over time.

The second is that since 2008 the UK has suffered a savings glut, as Marin Wolf on the FT has called it. That is, we have vastly more savings than can be usefully invested in productive activity in the UK. These savings are, of course, largely owned by those on just one side of our divided society. The glut drives the government's deficit.

The third proposition, which has been pretty commonly held since Adam Smith first proposed it as a basic tenet of taxation in 1776, is that our tax system should be based on ability to pay, which most will interpret as meaning that it should be progressive, overall.

Now let me offer you three facts. The first is that the UK tax system is not very progressive, overall. It may only be flat at best. This chart indicates likely overall tax rates excluding the impact of those on capital (capital gains tax and inheritance tax) and the impact of income shifted to companies by quintile. Data is from the ONS. Flattening of the data to quintiles removes data on the very high rates paid by the bottom decile and the advantage of low corporate and capital tax rates to the top decile. Even so it is notable that I had to assemble this graph from ONS data: they did not publish these overall rates:

Note that excluding the impact of income tax the UK tax system is almost completely flat for the first four quintiles and then significantly benefits the top quintile. It is only the impact of income tax that changes this. Capital and corporate taxes significantly reverse this trend but are not in the ONS data.

Second, the UK tax system massively subsidises the already well off under income tax rules. The following list us of what are likely, in the main, to be tax subsidies to those already well off in the UK, based on HMRC data here:

Why are those subsidies to the well off? For a start, the first group are very largely about subsidies to saving. And as a matter of fact, to save you must have money over at the end of the month. And you cannot beat about the bush, that means you are both better off than most people and have savings, of which we have a glut. You are also in a minority in the population as this chart based on ONS data of wealth distribution:

Other reliefs go to homeowners via capital gains, as does a VAT relief on new houses benefit them and landlords, who are, of course, In addition VAT subsidies to public transport go very largely to the better off commuter. Of course the numbers could be finessed, but by far the biggest, for pensions, is anyway understated because tax paid by pensioners is offset against the tax relief figure, meaning that the cost of pension relief is understated by more than £10 billion in the figures noted above.

Third, let's compare that with the cost of benefits. This is the latest summary data from the ONS:

I am going to presume that most people think that we should care for the elderly and those with disability. Likewise I presume that most people think that support for those with real needs, whether for social services, or to let them stay in their homes, are vital. Personal social services are of this nature. So that leaves support for what might be thought of as more discretionary welfare payments amounts to about £74 billion a year. Except of this sum £27 billion is housing benefits and they go straight to landlords so they provide no benefit to claimants at all: they are actually a subsidy to savers who own rental properties which means this sum should be added to the total £77 billion subsidy to the better off noted above, bringing that sum to £104 billion, and leaving what most think of as benefits costing £47 billion.

Third, it is argued that because the UK continues to run a deficit benefits must be cut. Substantial cuts to benefits for those with disabilities as well as to broader universal credit and housing benefits are all scheduled for April 2017.

Let me offer three conclusions. The first is that when we have a glut of savings the last thing we need do is give tax subsidies to those with wealth. To achieve cuts in savings rates, cuts to the deficit which those savings drive, and to create growth rational economic policy would demand cuts to many of the tax reliefs I note, but most especially to the tax relief on pensions and ISAs. These subsidies are not only not needed - their recipients are already well off - they encourage behaviour completely contrary to our macroeconomic need.

Second, if these subsidies were cut and savings reduced as a result then the UK deficit would fall: the government has to act as borrower of last resort for the savings of UK depositors. That's a role it gets as creator of the money supply. Cutting saving by reducing subsidies that currently inflate their gross sum makes sense within the context of the deficit narrative as a result.

And third, if cuts are to be made then this analysis is so clear, even if some discussion on detail is glossed over by using relatively simple headings (albeit that they are all the ones the government uses), that it is obvious that it is not those on benefits who should face them. To impose the planned April 2017 cuts cannot be justified.

In summary, what is very obvious is that the wealthy are now by far the biggest recipients of state benefits and it is they, and they alone, who must face cuts as a result.