The FT offers an economically incompetent view of tax w...

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The FT is joining in the chorus that UK taxes must rise to pay for the coronavirus crisis. It has an editorial this morning that says:

Tax rises will be needed to fill Britain's fiscal hole

The **argument is, initially, that:**

Rishi Sunak, the current chancellor, will be no different. However, first he must hold the line and resist attempts to push the UK into a premature fiscal retrenchment. Cutting spending in the middle of the worst recession since the creation of the country would be a historic blunder and make Britain poorer in the long run through unnecessary unemployment and business failure.

But then they say:

Eventually the bill for the crisis-fighting measures will come due. Extending the maturity of debt and low interest rates mean there are no concerns about fiscal sustainability in the medium term but modern monetary theories cannot mask the fact that the productive capacity of the UK economy has shrunk and a higher rate of taxation will be necessary to sustain the same quality of public services.

Why do they say this? Because:

Britain's fiscal watchdog, the Office for Budget Responsibility, has warned that the long-term public finances are on an unsustainable path. While the assumptions used in their forecasts can be quibbled with – the economist John Maynard Keynes wrote that the state of interest rates in 20 years' time was the kind of thing one could simply not know. The scenario of economic crises ratcheting up debt levels, while the government fails to reduce borrowing in good times is all too plausible. The watchdog estimates £60bn of tax rises are needed this time.

My immediate reaction is that its a shame that the FT can't think for itself.

It's worse that it thinks that a decline in productive capacity will be solved by increasing taxation, but it does. As they say:

The hit from the 2008 financial crisis and the decade of meagre productivity growth that followed was distributed largely by cutting the welfare state and spending on public services, in particular to local authorities. Even before the coronavirus hit, many in Britain were prepared to pay higher taxes in order to boost spending on public services. The pandemic has only underlined the importance of investment in collective health and social insurance schemes. Many who have found themselves relying on the universal credit scheme of income support for the first time are surprised at how little they receive.

So they conclude:

Taxation rather than cuts will have to do most of the work. The commissioning of a report into capital gains tax suggests the government has the right priorities: those with more will have to pay additional tax. However capital gains tax is probably not the right tool. While there is a case based on fairness for equalising tax on earnings from working and investing, research by the Treasury suggests raising the top rate above 28 per cent does not increase revenue. Taxes on sales, such as capital gains tax and the similar stamp duty, have the counterproductive effect of reducing sales.

The research was biased. What they're really saying is everyone needs to pay more:

Overall, taxes will have to rise by a few percentage points of national income, bringing the UK more into line with continental Europe. But as well as increasing rates, Mr Sunak should lay out a comprehensive package of reforms to change how the system works, simplifying some taxes and reducing the distortions from others.

I agree with the need for removing distortions. But what is really scary is this:

The Mirrlees review from 2011 provides an excellent starting point, as does the Dilnot report from the same year on how to fund social care provision. The blueprints for fixing the public finances are already drawn up. Mr Sunak should follow them.

Let me be clear FT could not get this editorial more wrong if it tried.

Firstly, Mirrlees effectively ignored taxes on wealth: it concluded they were not desirable.

But, second, and following the extraordinary line from the Institute for Fiscal Studies **that VAT is not regressive (which they manage to conclude by comparing tax paid with a person's spending when all measures of regressivity compare tax paid with income, meaning they are knowingly disingenuous in pursuit of tax increases on those with least capacity to pay them) the Mirrless report argued for the replacement of corporation tax with what was, in effect, an**

additional VAT. As noted here, the Mirrlees proposal for corporation tax reform:

... fails to provide any effective basis for taxing investment income and capital gains in companies. Any government seeking a level of tax revenue to manage its fiscal budget will then, if [this tax base] was in use, have to shift taxes onto individuals and consumption in that case because [it] effectively exempts the wealthy and capital from much of the (already little) tax that they might owe at present.

In a letter I wrote to the FT a year ago in this same issue **I and others said:**

Corporation tax has three purposes. One is to protect the income tax base from attack. The second is to tax capital, which by and large it does, making it a rare tax as a result. And third, it is a tax that should be used to apportion taxable benefits to those locations where value is added in the global supply chains that benefit us all.

Mr Wolf misses all these points and proposes a destination-based cash flow tax. This, in effect, is nothing more than an additional VAT in those places with the biggest consumer markets in the world. The consequence is that it will be regressive within a state as the incidence will be highest on those with lowest income, since the tax will be easy to pass on to consumers. It will reapportion taxable income from the world's poorer regions and states to the richest ones of all. It will, as a result, increase global inequality when the precise opposite is needed.

So the FT gets at least three things wrong.

First, because productive capacity has reduced they want to tax more, and not less. That will continue the downward capital in productive capacity, of course, which should be exactly what they do not want.

Second, they are promoting tax reform that is pure neoliberalism from an era long dead - which is what Mirrlees represents.

And third, they want tax proposals that hit those on lowest incomes with the highest propensity to consume who are, therefore, the drivers of recovery, the hardest.

It is very hard to imagine economic tax incompetence of this level, but the FT manage it. And worse, they have influence.

Worse still, they show their ignorance of MMT. MMT says the job is not to balance the books but to restore the productive capacity, which can be done as money is costless: we can have as much of it as we like until full employment is reached, and without inflation risk. That this simple fact might be ignored because of the callous indifference and economic insanity of the likes of the FT (sorry to be passionate there, but this matter requires the expression of passion) is staggering.

The fight for economic sanity has to go on.