Political Thinking Meeting Report No 18

Chiltern U3A ‘Political Thinking’

Meeting No 18a and 18b Friday 16th Feb and Monday 19th Feb 2018

Topic: “ Taxation, Government Expenditure and the Deficit”

Question

"Are demands on the public purse too high to be met by any acceptable taxation? "

Summary

There was general agreement that taxation rates could not be raised, but that at current rates more revenue could be obtained if avoidance by corporations and some rich individuals were contained through improved enforcement and collection.

As to expenditure there was concern that government tends to spend disproportionately on older people through pensions, particularly public sector final salary based pensions, and on high medical costs with little lasting benefit.

With respect to the deficit it was considered to be morally wrong that our generation should be passing on debts to our children and grandchildren for our profligate expenditure. One member remarked that “we are the lucky generation.”

Discussion.

Three themes were identified for discussion, summarised as first can tax revenues be raised by 10%; second can expenditure be reduced by 10%, and third is the deficit morally wrong???

Among the suggestions for raising revenue were

Charging for some NHS services, both to raise revenue and reduce demand.

Additional rates of VAT at higher levels for luxury goods.

More efficient collection from and reduction of avoidance measures particularly by international corporations and wealthy foreigners choosing to live in Britain. There was some enthusiasm for “deals” to ensure some higher level of tax receipts from these, even if not the full rate. The trickle down effect from expenditure by the wealthy was noted.

State enterprises were not seen as potential sources of revenue.

Raising tax rates was proven to be ineffective as payers take evasion or avoidance measures.

It was noted that one consequence of the post war welfare state was a culture of entitlement based on having paid taxes. The Victorian ethic of the duty of doing good for the community, as some 19C employers and richer people did consider to be theirs, had all but passed away. The current view is more like a social contract with government. “I pay my taxes and you government provide everything I and everybody else needs” might express this ethic.

As to reducing expenditure, it was recognised that government has to prioritise. Defence, Law and Order, Health and Welfare, and Education were the big priorities. Specific areas where expenditure should be reduced were singled out as the Arts, and public sector final salary pensions. In connection with the NHS tighter control of expenditure on older people and on legal expenses in connection with compensation claims were considered reasonable.

There was a widespread perception that public sector expenditure was inefficient generally, in all sectors and aspects. The NHS particularly was described in less than complimentary terms in this respect. (There did not seem to be much hard evidence for this, and the paradox that the introduction of private sector managers did not seem to have improved efficiency notably was not recognised.)

As a consequence there was a common opinion that allowing more money to government was pointless; it would only waste it.

Though the original Beveridge concept was that both pensions and health spending would be financed on an insurance basis, with contributions building up and financing expenditure, in fact this disappeared in the first few years. The immediate need to support those who had not made previous contributions forced the new Welfare State to be pay as you go, with current contributions meeting current expenditure. Perhaps if politicians in those days had stuck to their principles….

In respect of the third theme, there was a perceptible feeling of guilt that as a result of continuing government deficits a debt was being built up that would fall upon our heirs. This debt sounded an impossibly large number when expressed per capita. Nobody could justify this as fair or in line with our personal moral codes.

The cost of WWII had been finally paid off by the Brown administration, the justification of unusual or extenuating circumstance was probably reasonable in defence of this previous debt. It was recognised that the UK was not the only Western economy that had a large increasing deficit. But that did not make it alright.

Someone suggested that a very high inheritance tax, perhaps hypothecated to reducing the deficit might be a gesture in the right direction.

“We are the lucky generation” was the conclusion. Not optimistic for the future generations.