

Dorling, D. (2018) The case for hypothecation in the introduction of new taxes, Common Vision Blog, October 6<sup>th</sup>, <http://www.covi.org.uk/the-case-for-hypothecation-in-the-introduction-of-new-taxes-part-two/>

# **The case for Hypothecation:** **in the introduction of new taxes (part two)**

Danny Dorling

In the previous article (Hypothecation: Beyond the 'factory model' of taxation) I made the case that hypothecation is misleading in that it reduces public spending to a 'factory model' of inputs and outputs, whereas in fact there are many complex factors which achieve social outcomes.

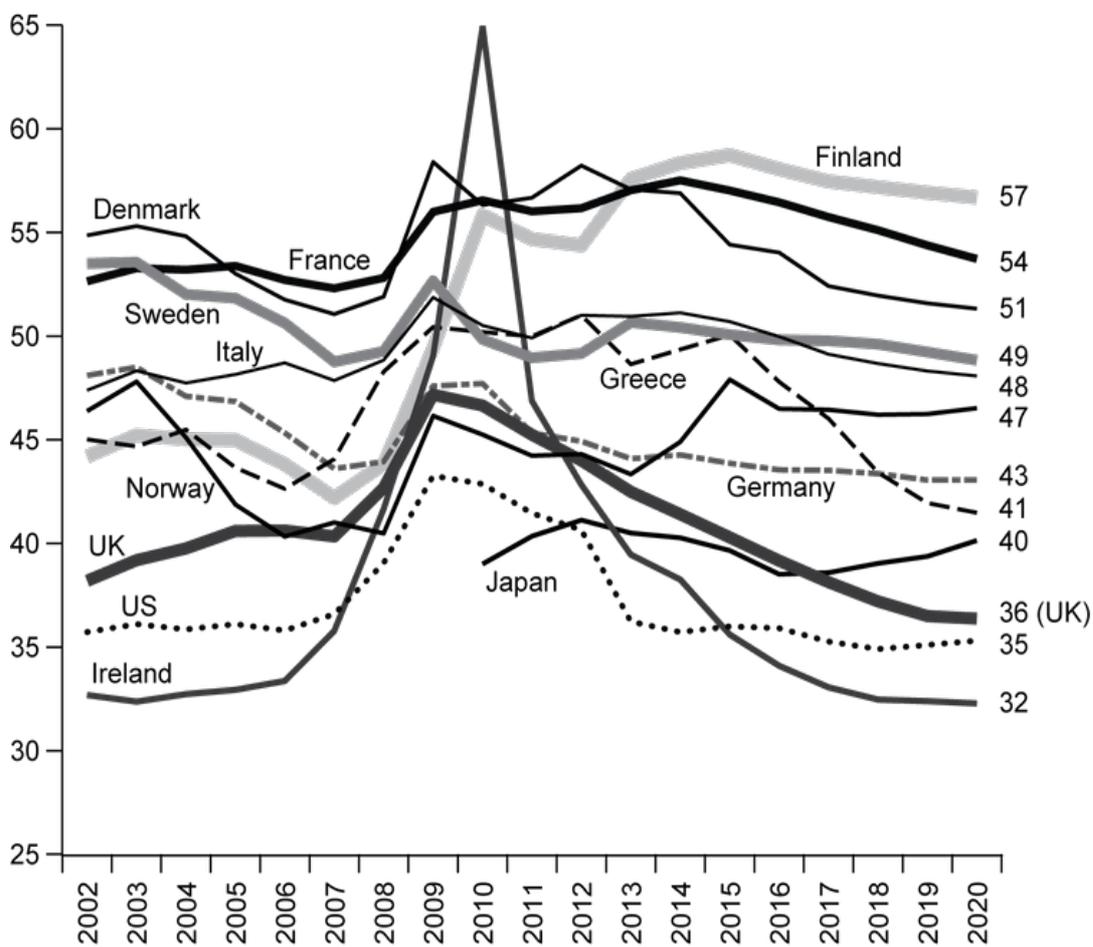
However, there is one case where I believe the argument for hypothecation is strong, and that is in the introduction of new taxes.

Taxes can easily be made unpopular when they are first introduced by government. However, after the introduction of a tax, citizens tend to adapt quickly - most people do not perceive the taxes they pay as unreasonable. It is the threat of a new tax that is often imagined as only having bad outcomes.

Indeed, evidence shows that affluent countries that tax at a higher rate have far better social outcomes in terms of health, education, housing, pollution, transport use and happiness levels. In contrast, affluent countries that tax at a lower rate - and especially ones that tax the rich less - have the worst health and educational outcomes, the most inefficient and insecure housing systems,

the highest rate of pollution per head, worse public transport provision and higher intake of anti-depressants. All of these factors are, of course, inter-related, but a government generally helps its people by taxing more as long as that government spends wisely.

Figure 2: State spending as a proportion of GDP, twelve rich countries 2002–2020 (%)



Source: The 2010, 2012 and 2015 IMF database, projections after 2014

From "A better Politics" (2016)

<http://www.dannydorling.org/books/betterpolitics/> A free copy of the book is available at that web address. It only contains two figures. This is no. 2.

In England, I would support the introduction of a hypothecated Land Value Tax to be spent on health and social care. This would free up general tax revenues to be better targeted on education, welfare, housing and much else in the UK that is in urgent need of attention. A land value tax would replace council tax and business rates, and the tax would enhance intergenerational equity as it would be levied mostly on older people.<sup>1</sup>

A land value tax could be introduced to replace inefficient wealth taxes with the promise that all the monies initially raised would be paid on enhancing health and social care. As taxes are tapered in when they are initially raised and as the need for extra health and social care funding is acute this promise could be made to be kept for at least a decade.

Inevitably, the revenues collected from hypothecated taxes reduce over time, and become less 'ringfenced'. This is what occurred with National Insurance payments, which is now a general tax. But at its point of introduction, people would know what they were voting for when they voted for the political party that proposed such a tax. On implementation, only a very few of the extremely rich would feel much financial pain, but they could bask in the knowledge that they were being taxed for a great cause – to increase babies' chances of surviving their first year of life across all of the UK and helping more elderly people live with more respect and less fear and pain. It is this sort of social contract on which the tax system is based in the first place, so if hypothecation helps make this case, then it could be effective.

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<sup>1</sup> Blog post: 'You may see now (and the UK) as normal – but that badly colours how you think', 21<sup>st</sup>, September 2018, <http://www.dannydorling.org/?p=6820>