

Let us debate whether the UK can be financed with taxes that do not exceed 33 per cent of GDP

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From Prof Willem H. Buiter and Prof Anne C. Sibert.

Sir, Martin Wolf ("UK is moving towards higher tax with no debate", October 26) is hitting a very important nail square on the head - and one that requires much additional hitting.

Fact 1: At about 45 per cent, the UK's public spending as a share of gross domestic product is well above the Organisation for Economic Co-operation and Development average of 41 per cent and just below the eurozone average of 48 per cent. It is well below Sweden (56 per cent) and France (54 per cent), but way above Ireland, Australia, Switzerland, the US and Japan, all of which have figures between 35 and 37 per cent.

Fact 2: The UK's public spending as a share of GDP has risen from 38 per cent in 2000 and is expected to increase to 46 per cent in 2006. It is an unfortunate truth that higher spending shares ultimately require higher taxes. If the UK keeps its public spending as a share of GDP at a level of, say, eight percentage points above the 2000 level, then UK taxes as a percentage of GDP will, on average, have to go up by eight percentage points of GDP. If tax increases are delayed, then they will have to rise by even more to service the increased public debt.

The low public spending countries are not just the usual Anglo-Saxon jungle habitats. Japan and Switzerland have civilised and humane societies; healthcare is good and the infrastructure works. Why does Britain need to spend more than 45 per cent of GDP? Is the country getting value for money? These are a couple of the questions our political leaders should debate. Instead politicians outdo each other by ratcheting up the spending commitments and, inevitably, the overall tax burden.

We propose that there be a debate about the pros and cons of what we call "the 33 per cent solution". This is the proposition that all legitimate functions of the state in an advanced industrial society can be financed with taxes not exceeding 33 per cent of GDP. What these legitimate functions of the state are is, of course, what the debate should be about.

Whether the 33 per cent solution is infeasible or too generous depends crucially on where one draws the boundaries of the state. For us, the essential functions of the state consist not just of law and order and defence but also its role in funding essential public goods and services (including public health education and the environment).

Beyond this, of course, the state may have legitimate redistributive objectives that it pursues through taxes and transfers. But let a real debate start, please!

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