

Figures for June show that the UK's budget deficit has now reached the point that the Labour government will have to breach its own self-imposed borrowing rules. Naturally this has invited plenty of comment, most of it slightly off the point. On the right, it is suggested that too high a proportion of GDP is in the public sector and that cuts are needed. Nobody these days is arguing that taxes ought to go up. Brown is being criticised for not putting away money for a rainy day while things were good. But since he, like most people, had come to believe that the boom/bust cycle had been beaten, it is understandable that nothing was put aside as there would be no more rainy days.

There are two sides to this coin. The first is how much money is spent, and on what. There is nothing magic about the amount of the GDP that is or should be in the public sector. It all depends how the money is spent. Sweden and Denmark have over 50% in the public sector and it makes a difference. On the other hand, it might be very much less if such a large proportion of public revenue was not going on the relief of avoidable poverty.

However, there is certainly a need to spend more on the "public realm". One has only to walk down the streets and catch a train in the Scandinavian countries to know one is not in Britain, with its broken pavements, poor infrastructure and general and widespread air of squalor. Given the UK's larger population and its concentration, it could well be that even more needs to be in the public sector. But the important thing is that the money is well spent and not wasted. It is public sector money-wasting that should be the concern as there is obviously a lot of it in Britain.

The other side of the coin is how the money is collected. Commentators almost never give it a mention, assuming that there is, and can be, no other way than how it is done at the moment. Tax systems nearly everywhere are mostly little more than a structure of fines and penalties for successfully engaging in legal economic activity. This destroys wealth. It is alienating and harmful to social cohesion. It is not sustainable - anywhere.

The UK tax system costs £25 billion a year just to run. A similar amount is lost through evasion. But these amounts are tiny compared with the deadweight cost of around £140 billion a year which is production which just does not take place because of the way the tax system works. That is 15% of GDP lost each year - wealth production that is stymied by the tax system. The tax system is a major cause of poverty and the undue concentration of 85% of the population into one-third of the country's land area.

Conclusion 1 - that the government may need to spend more money, and spend it wisely.

Conclusion 2 - the actual system of tax collection has to change. It is no use trying to keep on taxing labour, goods and services.