IFS

The Political Economy of Tax Policy: Commentary

Chris Wales

Prepared for the Report of a Commission on Reforming the Tax System for the 21st Century, Chaired by Sir James Mirrlees

www.ifs.org.uk/mirrleesreview

The Institute for Fiscal Studies

Full Report to be published by
Oxford University Press

The political economy of tax policy

Commentary

In this chapter, Professors Alt and Preston and Luke Sibieta make an important contribution to our understanding of the dynamics of the political economy of tax policy in the UK. They present a broad-based analysis of the subject, ranging across the institutional structure of policy-making, the influence of purely party political thinking on policy formation and the significance of the framework of scrutiny and accountability for legislative proposals. They provide an interesting and multi-perspective example of the tax policy-making process under Chancellor Brown that shows the interaction between economic theory, political intent, lobbying and consultation and sheds some light on how relationships between the Chancellor's Departments are perceived. The significance of the practical influence of the consultation process in shaping policy is well-illustrated.

In the comments that follow, I build on the analysis that the authors have presented with some thoughts of my own, drawing on my experience at HM Treasury as a member of Chancellor Brown's *Council of Economic Advisers* between 1997 and 2003, and as the individual with the most direct responsibility for tax policy in that period.

I argue that the democratic deficit in relation to tax policy-making, to which the authors allude, arises because:

- The public are ill-informed about the tax system and the education system does nothing to address that;
- Governments do not adequately present policy choices to the electorate and Opposition parties shy away from firm policy commitments in the run-up to general elections;
- There is an unnecessary imbalance of information relevant to tax policy choices between Government and the rest of the population;
- The mechanisms through which the public can engage on tax policy issues are too limited and ill-defined; and
- Standards of journalism on taxation issues are too low, partly because of the information deficit.

I set out an analysis of policy development that explains how the situation is exacerbated by the narrow base for tax policy-making in the UK and institutional weaknesses.

Finally, I comment on three other factors that affect tax policy-making in the UK: the nature of the electoral system; attitudes to radical change, which I illustrate briefly by reference to the balance between national and local taxation; and the absence of effective scrutiny and accountability for tax policy choices.

The democratic deficit

One of the key points that emerges from this Chapter is the extent of the democratic deficit in relation to tax policy-making. How do policy-makers, including ministers, know what the people want and how do they present choice to a largely uninformed public? How do the people decide what they want? And if and when they do, what are the mechanisms through which they can communicate their views?

It would be difficult to identify any element in the education system in the UK that adequately prepares the general population to participate in a meaningful way in a debate about tax policy choices. Beyond a narrow group of specialists who are mostly practitioners working with existing legislation, there are frighteningly few individuals who have any real understanding of how the tax system works and of the likely consequences of making changes to it. The sums of money that are raised by taxation are unimaginably large for the average voter; and the relationship between tax and public spending is poorly understood. How many hospitals does Inheritance Tax fund? How many new teaching posts would a 1p increase in capital gains tax allow? How many voters can visualise a tax to GDP ratio of 40% and what it means to private sector wealth creation, the size of government or the quality of public services? How many understand the impact of a change in that ratio to 35% or 45%; and how many can judge the impact of raising a given level of taxation through one set of instruments rather than another? Tax policy-making is a very specialist game.

To say this is not to criticise the general population but rather to highlight the difficulty of trying to engage, even at a headline level, on complex issues on which the vast majority are simply not informed. The problem exists in other policy areas as well but generally to a lesser extent. Most of us, for example, are not experts in education but we will have experienced the UK education system first hand and many of us will have seen it in relation to our own children as well. We are more likely to have experience-based views that we can articulate on the quality of teaching, the state of our schools and the relevance and rigour of the examination system, than on the efficacy of taxes on expenditure rather than income. We can more easily envisage the impact on education of proposals to introduce a system of specialist schools, than the effect on investment of reforming the taxation of North Sea oil production. Election manifestos map out the differences between the education policies of the parties and we can make reasonably informed choices. It is rare in the UK to have a broadly-based debate about taxation policy, even at the time of a general election. In recent elections, there has been a reluctance to set out any detailed proposals and have them tested by the electorate.

So how *do* tax policy-makers know what the public want? And how do we break the circle of ignorance that makes sensible debate about tax policy all but impossible?

The first issue is information. One of the key issues is for government to be more open and a critical step in achieving that is to institute a policy of publishing more data in a quality and form that is usable by economists outside Government. Data has historically been closely guarded by Government and the very limited availability of data, even in an anonymised or aggregated form, makes it exceptionally difficult for those outside central government, including opposition parties, academic economists and think-tanks to develop tax policy proposals with any degree of confidence. A publication programme for tax system data would make a major contribution to the development of ideas and it could, potentially, provide a mechanism through which to transform public debate.

The second issue is to publish policy choices well in advance of final decisions by the Executive. This is now done in some areas, particularly business taxation, where there is extensive consultation, at least with the largest companies, but the process needs to become much more widespread. Steps taken in the last ten years to require the publication of the rationale for significant policy proposals, the alternatives considered and the costs of compliance have made a contribution but they are published in any detail only very late in the decision-making process. The Freedom of Information Act provides only limited assistance. The publication of detailed analysis in support of tax policy changes proposed by Government would do much to improve the trust and confidence of the electorate in Government and the quality of public debate around policy options. This is a process that will become much easier the more often it is used.

The third issue is that there has to be a clearer mechanism through which the electorate can express its views on tax policy issues. The media have a role to play here. Standards of journalism around taxation policy are relatively low, a problem exacerbated by the limited access to relevant hard information. Wider publication of data should support higher standards among the most influential news media.

At present, when debate arises on tax policy issues, it is normally very narrowly focused. It is easy enough to get a reaction to a specific proposal put forward in isolation. But the discussion and the follow-up have to be handled with greater maturity and less political opportunism. We have learned in autumn 2007, for example:

- That Inheritance tax is very unpopular even among those who are likely to be well beyond its reach – an echo of experience in the US;
- That the British public is happy to see a random amount of tax charged on a group of people with little in common save that they are perceived (whether rightly or wrongly) to be well off and more importantly to be demonstrably of foreign origin; and
- That targeting simplification above policy purpose may sub-optimise outcomes and run into significant opposition as the recent round of capital gains tax proposals has demonstrated.

We have learned that environmental taxation is regarded by many as a good thing but we also know from the fuel tax disputes in 2000 that there are limits to public tolerance of heavier taxation, even when the underlying justification is powerful.

The challenge is to get a debate going about broader choices and to allow it time to mature. That is inextricably linked to the first two issues: the availability of quality data to support analysis by institutions (including the press) external to Government and a willingness to put broad ideas out into the public for discussion. The result will be that ministers and other policy-makers will be much better equipped to make policy choices that reflect what the electorate really want.

Sources of tax policy

Today, the problem with achieving democratic inputs to the development of tax policy is a real one. Ministers are not tax policy experts. They are professional parliamentarians. Even Treasury ministers are unlikely to have wide experience of tax policy-making before taking office. Most that do will have gained it on the Opposition Front Bench where the skills required are somewhat different from those needed in office. Focus groups can be useful at the two ends of the spectrum: the very broad and the very narrow; but they are better for testing out ideas than for inspiring them. Policy-makers have little to go on in terms of broad attitudes towards taxation. Most media research is shallow and of limited value. The British

Social Attitudes survey, cited by the authors, is interesting but of limited utility in forming anything other than high level policy thoughts. So where do ministers' ideas for tax policy come from? Essentially, there are three main sources.

The first is their own fundamental political beliefs. The second is the internal institutions of Government. The third is external institutions.

Fundamental political beliefs provide a natural frame of reference within which tax policy options can be considered: the optimal balance between state and private provision with its implications for the need to raise revenues; the importance and direction of redistribution of wealth; and the desirability of using taxation instruments to achieve behavioural change. The political overlay to tax-policy making is essential. Policy cannot be made on economic principles alone. However, the political overlay is ultimately no more than that. It does not of its own generate tax policy proposals. The principal utility of political beliefs is in decision-making rather than policy generation.

Of much more direct significance to the development of policy options are the internal institutions of Government. In the UK, Ministers today rely substantially on HM Treasury and HMRC officials to generate policy proposals. Before the O'Donnell Review in 2003/4, the Treasury was more of a clearing house for tax policy than a policy initiator. Tax Policy, as a department, was a small sub-set of Budget and Public Finance that ensured that proposals from Inland Revenue and HM Customs & Excise were properly presented and considered by ministers and that worked with the relevant departmental officials on costing individual measures. Relatively little work was done by that group in bringing forward policy, although there were some notable exceptions, such as the development of the Climate Change Levy. It was mostly staffed by quite junior economists who had limited previous experience of working on taxation issues. An advantage of this approach was that policy proposals were largely put together in departments that had direct experience of dealing with taxpayers and taxpayer situations and that had a high level of expertise on both the policy purpose and legislative form of individual taxes. Weaknesses were that policy-making in the revenue departments was too narrowly focused on individual taxes, often with little thought given to the system as a whole and the overall economic purpose; and, at times, it was over-concerned with avoidance. As things stood in the late 1990s and early years of this century, the Treasury lacked senior economists with the experience, knowledge and vision to provide the policy direction to harness effectively the skills and detailed understanding of Inland Revenue and HM Customs & Excise.

The implementation of the O'Donnell Review made substantial changes to the order of things. It was clearly desirable to strengthen the policy-making capability of the Treasury but the changes left a number of significant weaknesses:

1. The new structure put the Treasury firmly in control of all aspects of tax policy-making. The balance of views between the largely theory-based Treasury approach and the more experience-based approach of the revenue departments that was often evident in the pre-O'Donnell period effectively disappeared in 2004. The authors refer to "the sheer dominance of the Treasury over the entire process." It is difficult to find a democratic country where tax policy-making power is so concentrated.
2. The new structure did not involve the creation of any new senior posts for experienced economists to take responsibility for the structure of the tax system as a

whole. The Treasury does not have a heavyweight economist with such a role. The reorganisation removed some of the narrowness of focus that had previously resulted in policy being developed on a tax-by-tax basis but missed the opportunity to create one or more expert posts to co-ordinate between the directorates dealing, for example, with business and indirect tax, international tax, personal tax and welfare reform. As a result, there is a continuing failure to develop policy on a fully joined-up basis. Despite the importance of the overall design of the system, the structure of the tax policy-making departments clearly demonstrates that the lowest priority is given to system-wide coherence.

3. The strengthening of the tax policy capability of HM Treasury was achieved largely at the expense of the other revenue departments. The merger of Inland Revenue and HM Customs & Excise may have been a wise strategy (although the full benefits of the merger have yet to be realised) but denuding them of senior policy roles was not. The transfer of the policy-making function to the Treasury disconnected it from the underlying relationships with taxpayers and taxpayer issues and seems likely, in the longer term to lead to a weakening in the policy-making process. The expertise necessary for the proper functioning of the Treasury as a policy-making unit was initially largely sourced from the revenue departments. It is not obvious where that will come from in the future, since HMRC has only a limited policy-making role and seems unlikely to generate a supply of experienced policy-makers in the future. Those with a policy inclination are more likely to join the Treasury at the start of their careers and will thus miss out on the experience in the field that was a strength of the previous system.
4. The O'Donnell changes also missed an opportunity to give a stronger role to the development of economics-led policy. The two revenue departments employed a substantial number of economists and statisticians. It would have been possible to bring these together, as part of the O'Donnell changes, into a new free-standing department, reporting to Treasury ministers - an *Office of Tax Analysis* (*OTA)*. An OTA would carry out research on tax policy options based on the full statistical information available to Government and could, potentially, be an important engine room for the development of tax policy initiatives. It could give new prominence to economics-based policy development which is currently weak in the UK. It could have responsibility for the collection of tax statistics and act as the analysis and research team for HMRC and HM Treasury in relation to their tax proposals. It could also take responsibility for the publication of tax statistics and data for use by external organisations (including parliament).

Given the extent to which Treasury ministers currently rely on the generation of policy proposals by HM Treasury and HMRC officials, these are issues that need to be addressed.

The difficulties with the internal institutions are compounded by the relative weakness of external institutions with a focus on taxation policy. The quality of policy initiatives is often closely related to the strength of external institutions and, in the taxation area, these have historically been quite weak. There are few institutions that have a forward-looking, policy focus. The IFS is normally a commentator on Government policy rather than a generator of policy proposals itself, the *Mirrlees Review* itself being a major exception. There are many organisations that focus on the detail of new legislation and its impact but most of these look at the economics and policy purpose only to a limited extent and rarely put forward specific proposals of their own. A number of business organisations, including, for example, the CBI and the ABI, LIBA and the BBA, engage with the policy process but mostly from a relatively narrow standpoint and again, more as commentators and analysts of Government proposals than as generators of policy ideas themselves.

There is evidence that some think-tanks have a more direct influence on ministerial thinking: for example, the Fabian Society, IPPR and the Smith Institute under the present Government. Both the Fabians and IPPR have engaged on the debate about the use of taxation instruments in relation to environmental policy, with some apparent success but the Fabian attempt to initiate a debate around inheritance tax policy was notably less successful.

There are relatively few academic centres in the UK that engage directly on UK tax policy issues. This deficiency was partly addressed in the establishment of the Oxford University Centre for Business Taxation, funded by the Hundred Group of leading UK quoted companies. The Centre operates entirely independent of its funders, has a broad remit to address tax policy issues that affect business in the UK and to publish its research findings. One of the main objectives in setting up the Centre was to provide a source of new research-based ideas that would provide Treasury ministers and officials with an alternative perspective and a wider range of policy options.

There remain, however, a relatively small number of institutions outside Government that support the tax policy-making process and few of these have the kind of public profile that can generate a broadly-based policy debate in which the public will engage.

In the short to medium term, it is very much in the hands of Government to create an opportunity for the electorate to debate tax policy. By making data more readily available, by setting out the direction of taxation policy for a whole parliament, by publishing policy options in advance of the Executive making decisions, the Government could extend significantly the opportunity for public discussion. At present, there is almost no transmission mechanism for public views on taxation. A systematic process of publication and the creation of opportunities for debate through the early publication of policy options could change that.

Other factors affecting the development of tax policy in the UK.

In this section, I comment on three other factors that affect the development of tax policy in the UK.

a. The electoral system
   The authors comment on the significance of the electoral system in shaping tax policy. In the UK, unlike most European countries, Governments are normally strong and not dependent on the formation of policy-aligned coalitions. Political differences on the left and the right in the UK tend to be subsumed within what is essentially a two party system. Fragmentation of parties is discouraged by an electoral system that delivers first-past-the-post victories at a constituency level and the potential of a large and absolute majority in parliament to a party that may have taken as little as 40% of the votes cast. Fringe parties remain just that. Those that achieve even a handful of seats in parliament have little or no influence. It is usually better to fight for specific policies within a major party than to form a new one. This is as true of taxation as it is of other policies.

In such a system, it might be logical to expect a greater degree of extremism and volatility in tax policy. Parties would seek to reward their own supporters rather than develop policies that appeal primarily to the median voter. As the authors note, this was evident in the period from 1979 through to the mid-1990s when the UK all but abandoned the progressive taxation of income for the better off; but has been much less of a feature of more recent Government. The median voter is rarely the swing voter in UK elections but tax policy has been surprisingly skewed towards that median voter in the recent past.

Under the present Labour Government, although there has been a redistribution of income from the better off particularly to the very poorest, the focus of policy seems to have been on the redistribution of opportunity rather than of wealth.

In fact, the extremes of the income spectrum have grown further apart in the last decade, mostly through an acceleration of earnings and wealth at the upper end of the scale and in spite of significant improvements in the absolute position of the bottom decile of the population. This has given rise to surprisingly little demand for redistribution through the taxation system. There are a number of possible explanations for this: a general growth in absolute levels of prosperity which have allowed the middle classes apparently to accept that they pay proportionately too much and the rich, too little; the absence of effective mechanisms through which to give prominence to the issue; or the absence of effective political leadership for the group most significantly affected by what is largely explicable as fiscal drag. Another relatively benign explanation would be that, like the US, the UK has become a society that is fundamentally optimistic and positive towards wealth creation. People see themselves as able to improve their economic status and therefore do not want to see high earners and wealth more heavily taxed. This would fit with the attitudes displayed towards inheritance tax.

b. The approach to radical change

Political parties are often even less radical in power than they seem likely to be in opposition, to the disappointment of many of their supporters. I have already commented on some of the reasons for this: their own lack of specialist expertise that leads them to rely heavily on the internal institutions of Government for ideas and analysis; the relative weakness of external institutions providing serious input on tax policy; the structural weaknesses in the policy-making process that stress the importance of particular taxes over a system-wide approach; and the political drift to the centre right in pursuit of the median voter. However, there are other factors that also contribute to the “sameness” of policy approach between governments of different political persuasion.

- The absence of a clear electoral mandate for specific reform proposals (recent exceptions include the Windfall Tax on the excess profits of the privatised utilities introduced in 1997)
- The natural conservatism of the Chancellor’s departments (HM Treasury and HMRC)
- The normative effect of international influences (the EU, tax treaties and the OECD)

- The limitations on modelling capability, including the inadequacy of computerised records, that inhibit the simultaneous implementation of major changes in more than one area
- The perceived wisdom that an old tax is a good tax and that a new tax is a bad tax
- The stifling effect of complexity and detail
- A pre-occupation with avoidance
- The generally negative role of the media.

The Labour Administration of 1997 in which I was closely involved was moderately radical in its first years, introducing substantial changes in corporate and individual taxation, including the creation of the controversial tax credits system, a rebalancing of the capital gains tax system in favour of the entrepreneur, and putting forward a doctrine of structural simplification for the corporate sector that encompassed changes in the treatment of groups, the realisation of gains on the sale of subsidiaries, the taxation of intangible property and the abolition of advance corporation tax as well as a reduction in rates.

There is an assumption in Government that the electorate has no appetite for radical change in tax policy and structures but the reality is that that appetite is untested. None of the major parties has campaigned for radical change, even though there are elements in each of the main parties that would be willing to do so.

This is not simply a question of the level of taxation. There are extreme views on both the right and the left about the size of the state that would, if implemented, create a major shift in the overall scale of tax revenues. However, there is a debate which is overdue in the UK about the balance between local and national taxation and to which the authors refer. They note that "the British tax system is exceptionally centralised by international standards: little actual discretionary power is located anywhere outside central government. In 2003, over 95% of UK tax revenues were raised by central government."

They draw a strong link between this imbalance and the fact that "Britain has a narrow base from which policy initiatives can be made: the only body that can put forward tax policy proposals is the Treasury." Against this background, a truly radical shift would be to give more substantial tax-raising powers to local government.

The logic of such a move is clear.

There is an enormous democratic deficit in local government. As much as 70-80% of the electorate regularly abstain from voting in local government elections. Even though local government spending has a major impact on the delivery of public services, the electorate is disconnected. There is a wide range of reasons for this but part of the problem is the perception that local government choices are not significant enough; and part is a direct result of the way in which local government spending is financed.

The financing structure for local government is seriously flawed. Central government grants and allocations mean that on average as much as 75% of local authority spending is financed out of general taxation. This places enormous stress on local authorities that want to increase spending. The Council Tax has to rise by a disproportionate amount to fund small increases. Similarly, the system rewards over-generously the authorities that seek to reduce spending.

This set of problems could be solved but it would require radical change, including the surrender of some of the taxing powers of central government. Three steps to make a real difference to the democratic deficit:

- create larger local authorities. Local government units are small and fail to attract the calibre of officials who would normally seek Whitehall positions
- make a serious investment in raising skill levels in local government and attracting well-qualified management and workers There is not enough emphasis on raising the level of public sector skills and this has a significant effect on the quality of local service delivery
- give them meaningful tax-raising powers on which the local electors could decide.

The tax changes to support this could include:

- allocating control over setting the basic rate of income tax to the local authorities, initially within limited ranges such as are set for the Scottish Parliament. This would give them a more dynamic revenue base. It would still need to be underpinned by a balancing system of grants but the aim would be to invert the ratio of locally to nationally-raised taxes so that the minimum local funding proportion became around 75%. It would dramatically change the public perception of the role and significance of local government. The system works in other countries. Sweden is a classic example, where there are significant differences in the tax rates levied by different local authorities, each approved by the local electorate. In the US, there is significant choice at the local level and real examples of local populations voting, for instance, for much higher expenditure on education funded out of locally-raised revenues. From an administrative perspective, the change to a tax system for basic rate taxpayers where the rate was set locally should not have to be complex. It can be driven by tagging PAYE information with address-based codes. But for a Treasury that has grown used to complete control over taxation structures and rates, this would involve a huge conceptual leap.
- abolishing Council Tax in favour of a more broadly-based, nationally set tax on land and property. Land and property is arguably under-taxed in the UK and the proposed changes in the capital gains tax rules will weaken the existing scheme of taxation still further by reducing the effective rate of tax on second and third homes. Replacing the Council Tax with a nationally-set tax would bring to an end the rather tenuous link between the taxation of land and property from the delivery of local public services and allow the tax to be levied on a basis that was fairer across the country as a whole rather than just within communities.

Alongside these changes, it is possible to see a much stronger case for removing inheritance tax, a significant element of which is land and property-based. If the value of land was more effectively taxed on a current basis than it is today, the argument for taxing its value again on death would be weakened.

These would be radical changes and they would require not only careful modelling but a willingness on the part of central government to see some meaningful powers devolved to the regions. It was not apparent from the outcome of the *Lyons Review* that central Government was ready for this level of devolution.

The changes would also require a serious level of public debate and a gradual transition. Moving tax-raising powers without first dealing with the issue of local government skills and the size of the new single-tier local government units that would be required would be a recipe for disaster, not improvement.

Governments face genuine difficulty in putting forward ideas for radical change. In taxation matters there is even more nervousness than in other policy areas. Part of this is an education and information issue, as discussed earlier on in this commentary. Part of it is to do with institutions: the development of radical policy ideas is much less sensitive if it is undertaken at one step removed from central Government. Where there is an "almighty" institution such as HM Treasury, with a stranglehold on tax policy initiatives, it is not surprising that the public assumes that if policy ideas are being generated within it, they are likely to come to fruition; but if they are generated, say, by the IFS or the Oxford University Centre for Business Taxation, it may be possible to achieve a more balanced public reaction. This does not mean that HM Treasury should not risk putting forward radical ideas at an early stage in their development; but it does mean that Government should also look to external institutions to do some of the early development work.

c. The influence of current arrangements for scrutiny and accountability

One of the areas where the authors focus is on the issue of scrutiny and its relationship with the policy-making process. Scrutiny has two main functions: to improve proposals by a process of debate and amendment; and to hold the Executive accountable. As the authors note, "scrutiny is even weaker for tax policy than it is for other areas".

The problems of scrutiny outside the framework of central government have already been touched upon in this note. Consultation, particularly in the area of business taxation, has been dramatically improved in the last ten years and that has both enabled certain areas of tax policy-making to become more effective through drawing in external expertise, and highlighted the need for wider consultation on other aspects of tax policy-making. Wider access to relevant data and the early publication of the strategic direction of tax policy within a parliament and of specific tax policy options and choices will further enhance the quality of public scrutiny.

This should not stop with the introduction of a tax or a taxation measure. There should be a formal process of post-legislative review. At present, there is normally no public process that seeks to establish whether a taxation measure has achieved either its intended behavioural impact or the expected revenue effect. Some changes cry out for such a review: the capital gains tax changes of 1998 and subsequent years, for example. Have they had a marked effect on entrepreneurial activity? Are gains now being realised onshore that would previously have been realised by individuals who have gone offshore for that purpose? Another case might be the research and development tax credits. Has the aggregate level of r & d expenditure increased (or was that always too susceptible to non tax-related decisions of the aerospace and pharmaceutical companies to be a useful indicator)? Has there been a real shift in r & d expenditure by small companies? Or has the net effect of the changes been primarily the spawning of a new activity among accounting firms based on re-classifying expenditure to ensure that the maximum benefit can be claimed by their clients? A formal process of post-implementation review would improve the scrutiny of these kinds of changes and arguably ensure, in the long-term, better value for public money.

There is also the issue of parliamentary scrutiny. Here the authors spend some time and point the way towards a potentially better state of affairs, albeit a little timidly.

The problem is, as I have argued elsewhere, that the present parliamentary system provides little or no effective scrutiny of taxation proposals. I do not believe the answer is, as some have argued, to have a technical Finance Bill separated out from the annual Finance Bill process. I believe the answer is structural change.

Parliament needs to be put in a position where it can have a meaningful and informed debate about taxation policy. It needs to be able to discuss the macro-economic issues, the impact of legislative proposals and, perhaps most importantly of all, the possible range of policy options. With the present structures it cannot. MPs are no more tax policy experts than ministers are and they have much more restricted access to information.

I would suggest three fundamental structural changes

1. Parliament should set up a body of economists and lawyers dedicated to providing analysis to MPs serving on parliamentary committees such as the Finance Bill Committee and the Treasury Select Committee. It should have a similar remit to the Congressional Budget Office in the US and be resourced to a level where it can analyse proposals from the Executive and examine alternative policy options on behalf of Committees. Such an organisation would transform the quality of debate on taxation policy within Parliament. Ideally, it would be provided with the necessary data to carry out its work by an Office of Tax Analysis.
2. Alongside the democratisation of the House of Lords, its members should be given a more significant role in the scrutiny of tax proposals. The absence of a “normal” review process in the House of Lords for Finance Bills creates a significant and unnecessary weakness in the process of parliamentary scrutiny for taxation policy measures. It is increasingly anomalous in the context of the changes in the composition of the House of Lords, the greater balance in party representation there and the undoubted qualification of some of its members to comment on tax policy.
3. The introduction of a requirement for the publication of a statement in parliament at the start of an Administration setting out the intended strategic direction of tax policy for the life of the parliament. Such a requirement would be likely to drive a greater openness in the preparation of election manifestos. It would facilitate a

more thorough debate about policy objectives that would aid policy-development and the scrutiny process. It would inform external institutions about policy direction and enable them to make a more effect contribution; and it would create a greater climate of certainty among the public and the business community.

I believe that the implementation of these proposals, together with the formal requirement for a post-implementation review of major policy changes, would have a dramatic effect on the quality of scrutiny and provide a much better system of accountability than exists today.

Final thoughts

As I indicated at the start of this note, the authors of this Chapter on *The political economy of tax policy* have raised some important issues in their work. In providing this commentary, I have attempted to draw out more directly some of the key points: the importance of access to information, the value of putting choices out for public scrutiny and debate; the need for structural changes to strengthen and empower the process of scrutiny. At the heart of the suggestions made in this note is the desire to see a greater engagement between Government and the governed on taxation issues; and an informed engagement in which the current imbalances are addressed. Over the last decade, there have been some significant improvements but they have served to highlight the need to go further and to establish a much stronger and more democratic base for tax policy-making.