



A Fairer Share for All: Consultation Paper 137

Liberal Reform Response

About Liberal Reform

Liberal Reform exists within the Liberal Democrats to promote personal liberty and a fair society supported by free, open and competitive markets as the foundation of the party's policy. We advocate a liberalism that draws upon the values of entrepreneurship, competition and innovation to deliver a society that empowers individuals through freedom and opportunity. Our vision of freedom is all encompassing, covering personal, political, economic and social liberties. As such, we seek to put the rights of individuals first, but recognise the importance of challenging concentrations of power where they develop, both within and beyond the state.

Introduction

Liberal Reform is pleased to comment on the Consultation Paper and is grateful to the Fairer Share for All Working Group for their efforts so far. The questions the paper poses are rightly wide ranging. We have tried to avoid duplication in our answers which therefore should be read as a whole, and have avoided questions where we had no specific view.

If you wish to discuss anything in this response, please contact board members Dan Carr (dan.carr@liberalreform.org.uk) and Fraser Coppin (frasercoppin@gmail.com).



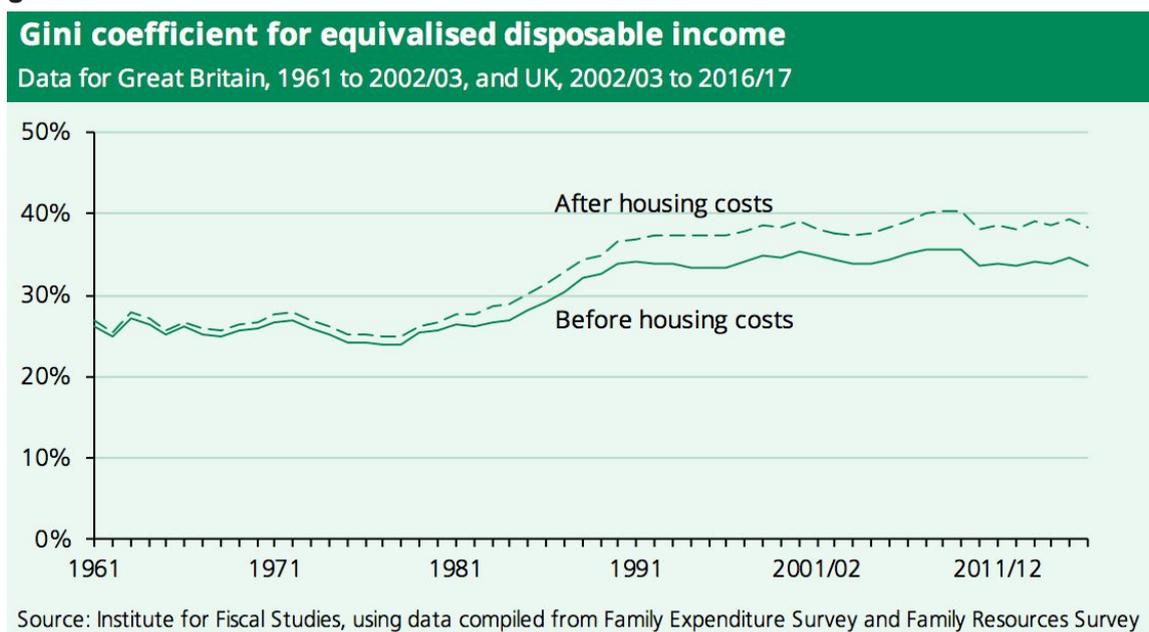
Question 1: Which of the areas discussed would you prioritise to ensure a fairer share for all? Is there something else we should be considering?

The working group rightly draws attention to the issue of housing in section 1.2.3. LR shares the view that the scale of house building anticipated by the party's existing policy is insufficient to achieve a moderation in housing costs. As it is clear that the sustained rise in housing costs (whether judged by house prices or rent) is a key contributor to poverty and growing inequality, the party must further develop policy to come to terms with this challenge. If a working group convened to tackle issues of poverty fails to address this issue, the party's credibility on the topic will suffer.

Rising housing costs are increasing inequality and causing poverty

Though income inequality increased over the 1980s, there has been little change since when measured in terms of income after taxes and transfers. What has shifted in the intervening years is inequality in disposable income after adjusting for housing costs. Housing costs have consumed an ever greater share of disposable income among poorer households, which has fuelled growth in inequality (see Figure 1).

Figure 1



As research from the Institute for Fiscal Studies and others makes clear, since 2002–03 average housing costs have risen four times faster for children in low income families than for those with middle incomes.¹ The UK now has the OECD's fourth highest cost of housing (including utilities) as a share of disposable income.²

¹ <https://www.ifs.org.uk/uploads/R145%20for%20web.pdf>

² <http://www.oecdbetterlifeindex.org/topics/housing/>



Even a cursory investigation of the rate at which housing costs have grown in other nations shows that the UK's story is an exceptional one.³ The USA, Japan, Germany and many other nations have kept housing costs relatively low over the preceding decades. Britain, while not unique in failing to do so, is an international outlier in the scale of housing cost increase.

Moderating growth in housing costs

As the experience of many other nations shows, sharply increasing housing costs are not unavoidable. The UK has adopted a set of policies that have driven their sharp rise, causing income inequality to grow when it otherwise would have remained near constant, and contributing to poverty among low and middle income households.

Existing party policy, while radical in imagining an expansion of state-backed house building, fails to entertain other avenues for expanding housing supply. As London School of Economics Prof. Christian Hilber has demonstrated in a considerable body of research output, constraints in house building are the key driver in increasing housing costs.⁴ For several decades house completions have been insufficient to keep up with demand (particularly in certain areas, i.e. London), and the result has been a rapid escalation in house prices (see Figure 2).

Figure 2

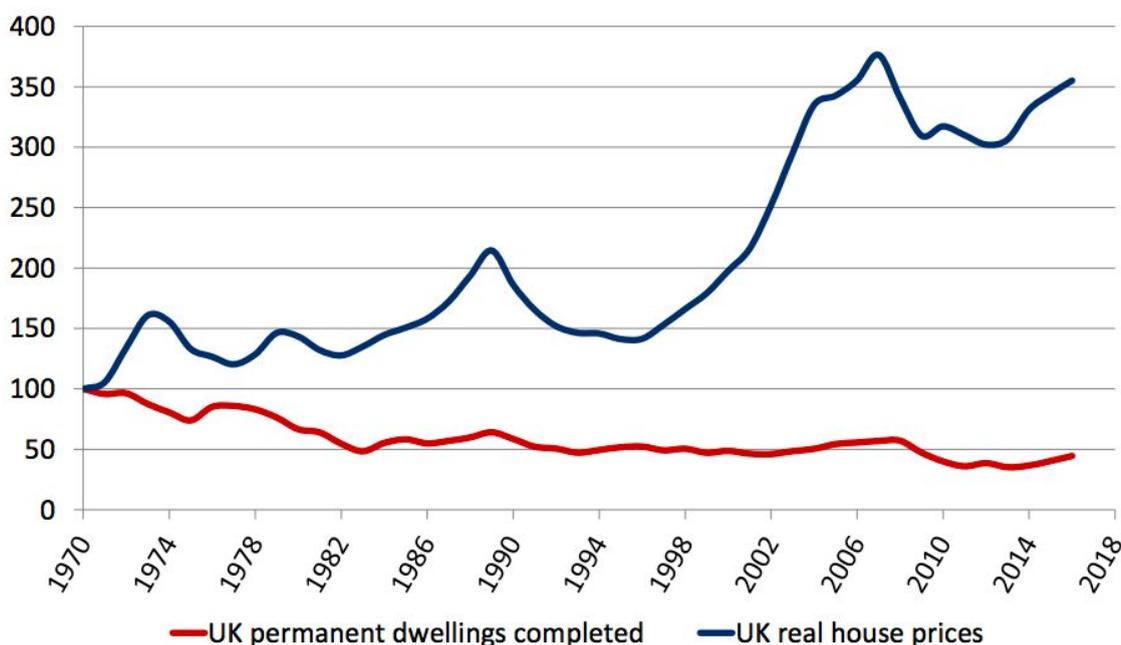
³ Compare the UK to other nations using The Economist's House Price Index tool here:

<https://infographics.economist.com/2017/HPI/index.html>

⁴ <http://personal.lse.ac.uk/hilber/>



UK construction and real house price indices (Base year = 1970)



Sources: DCLG, Nationwide, ONS



Policies of urban containment (Green Belts) and development veto rights incorporated into the Town and Country Planning Act have suppressed construction, and led to the current housing crisis. Failing to account for these issues in developing a housing policy leaves our party lacking a compelling plan. Options for reform to are well-developed:

1. **Create a presumption in favour of development, subject to it meeting certain clearly codified standards.** These standards can be high, but ought to be well defined. This would reduce the ability for anti-development groups to hold up planning processes, lowering uncertainty in the planning process and thus speeding up development of both brown and green-field land.⁵
2. **Allow further development in Green Belts within walking distance of train stations, or where Green Belt land has no biological or ecological value.** This would particularly assist housing construction in London, where the current urban containment policy has limited housing construction. Liberal Democrat former Cllr. Tom Paproth has clearly documented how hundreds of thousands of homes could be built by using just a small fraction of Green Belt land, without sacrificing natural habitats or amenity for local residents.⁶

⁵ http://personal.lse.ac.uk/hilber/presentations/Inaugural_lecture_Prof_Christian_Hilber.pdf

⁶ <https://www.adamsmith.org/research/the-green-noose>



Overall, speaking with or consulting the work of LSE Professor Christian Hilber is strongly advised, as he is perhaps the UK's leading academic expert on housing policy. An overview of his account of the housing crisis can be found here.⁷

Question 2: Should Universal Credit be scrapped altogether, or should its current flaws be addressed, and the system reconfigured to restore confidence in the benefits system?

We agree with the working group's assessment that the Universal Credit system as it currently exists is deeply flawed. However, we also agree that the principle behind it is a good one. We should aim welfare system that is as simple and efficient as possible, and combining multiple payments each with their own taper rates and threshold into one simple payment is a substantial improvement. But it has had many problems, and some major changes need to be made. As a bare minimum, claimants should not have to deal with long delays, payments should be weekly rather than monthly, and cruel sanction targets should be completely eliminated. While it is tempting to call for scrapping the whole system, we should instead look to build upon its admirable theoretical basis, and address the many implementation flaws that have resulted from poor planning and a desire to reduce the deficit at the expense of Britain's poorest. In doing so we can restore confidence in the benefits system.

We are also particularly pleased to see the mention of a Negative Income Tax as an alternative way of administering benefit payments. This something Liberal Reform have supported for a long time. In contrast to a standard income tax, where people pay money to the government, a negative income tax would pay money out to those under a certain level of income, by giving people a percentage of the difference between their income and an income cutoff. For instance, if the income cutoff was set at £20,000 p/a, and the NIT rate was 50%, someone who made £10,000 would receive £5,000 from the government. If they made £15,000, they would receive £2,500 and so on. People would still have an incentive to work and earn more, it would be cheaper for the state to administer than the current system, and claimants would not be subject to cruel and unnecessary sanctions. The idea has received support from across the political spectrum over the years, from Milton Friedman to Owen Jones, and we think it could work well in Britain.

In the short term we support continuing the Universal Credit program only if major reforms are implemented, and in the long term we would also like to see a much simpler and more compassionate welfare system, which we could achieve by phasing in a Negative Income Tax.

Question 7: Should the Party consider plans for a revenue tax on larger companies as part of its progressive approach to taxation?

⁷ http://personal.lse.ac.uk/hilber/presentations/Inaugural_lecture_Prof_Christian_Hilber.pdf



No detail is provided on why such a tax would be favourable to raising corporation tax (i.e. taxing profits). So it is hard to comment on the merits of such a policy absent more detail on the rationale. However, assuming this is motivated by a desire to tackle tax base erosion and profit shifting by international firms (e.g. Google), this should be approached in a well thought-out manner. While taxation on the basis of revenue rather than profit may be part of the answer to addressing this issue, this should be addressed in a multilateral and considered fashion. Currently the OECD's work in this space, while slow to develop, is beginning to yield results and should be watched closely.⁸ The party should also consider well-received plans by other parties abroad who are working to tackle this issue, such as the Australian Labor Party's plan to tackle multinational tax avoidance.⁹

Question 11: How could the output of robots be taxed in the same way that employment is currently taxed? And how should the proceeds from this be used?

This has been suggested by many, with no one to date creating a well-thought out system to identify units of 'robot'. While employees are a discernible unit, and are paid a salary that can also be discerned and therefore taxed at the employer level (via National Insurance Contributions), establishing equivalents for robots is likely to be extremely difficult if not impossible. Any attempt to do so would also likely run into the problem of creating a tedious new regulatory burden for British business, who would have to report how many robots (however oddly defined) they utilise. This would likely suppress capital investment in the UK, and cause firms considering large investments in robotics to look offshore, damaging economic growth and productivity with little to show for it.

A simpler solution to equalise the issue identified by the working group would be to remove any and all taxes (e.g. NICs) on employment. Given the party has identified many alternative tax streams (land value tax, taxing inheritances) which economists consider much more efficient forms of taxation, this would appear to be a feasible option that would have more credibility than taxing robots.

Question 19: Should we subsidise the cost of a PC, tablet or mobile device so that all households have access to basic levels of technology? Is there a case for treating a level of access to the internet as a basic right that should be universally available?

LR do not have a view on the desirability of providing subsidised devices in of itself, but wish to note that if pursued, there would have to be some expectation of adjustment in service delivery. Could people expect to have local banks and post offices in small villages and also be given free or subsidised devices that facilitate them bypassing local outlets and accessing services online? It would seem a costly expectation to have. Providing this kind of equipment would also mean that transport could shift to a more app-based form, increasing efficiency,

⁸ <http://www.oecd.org/ctp/beps/>

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https://www.billshorten.com.au/labor_will_tackle_multinational_tax_dodgers_wednesday_31_october_2018



and avoiding the current issue of a wholesale switch from fixed-route to demand-driven public transport leaving out those without the means to have a smartphone or like device.