

“Just under four years ago, I published the attached analysis of the drivers of our fiscal problem and my suggestion for a way forward. To my mind, back then, the recognition was that a lack of economic growth and a continued propensity to increase spending, driven in particular by a lack of control over health spending, had contributed to the problem. It was no longer a case of filling the black hole ‘created’ by zero ten, because, frankly, we have increased other taxes, including extending the 10% rate, raising TRP, removing tax allowances, etc., more than enough to compensate for that original shortfall. And whilst much of this is accepted wisdom nowadays - and I’m glad that over the last four years I’ve managed to convince many of these causes - this was all ‘news’ to many people back then. Before moving on to the tax proposals, I will point out that health spending has outstripped these projections. It’s not purely demographics; that’s just the regular trotted-out excuse. We have to get health spending under control, and that involves politicians and the public both growing up and recognising that there has to be some limit to spending.

Alongside this part of the report, I provided a quick assessment of what flat tax rate would raise the same sums as the system was doing at the time. I have long held that a flat tax regime, done correctly - that is, maintaining our tax-neutral product for the finance sector - would be a major boost to competitiveness and would send a strong signal internationally that Guernsey meant business. Frankly, something quite significant needs to be done to arrest our economic decline. Tinkering around the edges, concierge services, etc., isn’t going to cut the mustard, and the island needs to regain its appetite for risk. At present, we are managing decline.

But back to tax, the analysis I undertook, was a simple, static analysis of revenues, no partial equilibrium, no dynamics. That wasn’t the point, what I wanted to demonstrate was how it might look in terms of rates across the different fiscal measures.

So GST might be 12.5%, but so would income, etc. Now there would need to be serious work to get us there. A tatonnement process would be needed to determine what that single rate would be today, including the introduction of a social security allowance (but not a new intermediate rate of personal tax, obviously) and the removal of tax allowances (no

tautology). I'd also use the opportunity to cleanse the social security system of the bastardisation it's been subjected to over the years. I strongly believe this jobs tax has contributed to the diverging employment levels across the two Channel Islands. It's not the only, probably not the main, contributor, but it's had an effect at the margin, I'm sure.

Anyhow, one would look to that process to discover the appropriate single rate across all fiscal measures - it'll be somewhere in the region of what it was.. between 12.5 and fifteen most likely. And to be serious about introducing it, then modelling of the dynamics would need to be undertaken...

The point of my amendment was that I proposed this several years ago, in fact, I proposed it in private when I was States Economist, but no-one's picked it up. Our tax review had always just been about plugging a gap, never about reforming the regime. Indeed, when we had the scrutiny hearing on tax in July, I wrestled the admission out of P&R that no alternative package had been on the table over the previous ten months.

The thinking had just been to raise revenue from GST (here) or territorial (there). It's always taken a blinkered accountants' view of things, where can I raise more revenue, never going back to first principles about how much we are spending and what tax regime might better support growth... that's a missed opportunity. "