In which we are lectured by a Scottish socialist [1]

Written by **Tim Worstall** [2] | Monday 2 September 2013

One should never underestimate the ability of a Scottish socialist to observe a true and pertinent fact about the world and then entirely garble the significance of it. As with this example [3]:

> Next you?ll be told that tax makes you uncompetitive internationally. Except even the most market-friendly of competitiveness indicators, such as those produced by the World Trade Organisation or the IMD international business school places high-tax nations such as Sweden, Norway, Germany or Denmark well above the UK. In fact, most of the most competitive countries economically have higher tax rates than the UK and almost all the Nordic nations are in the top ten. Once again, since higher tax favours productive and manufacturing enterprises over low-pay, low-productivity, low-margin businesses, this is exactly what you?d expect to happen.

It is true that the Nordics are extremely market friendly by most measures: Scott Sumner has written a paper [4] pointing out that Denmark might have the most economically liberal economy in the rich world for example. It is also true that they have eyewateringly high tax rates: although we should point out that they don't have high tax rates on business, corporate profits or returns to capital. Those are all quite low by international standards in fact. It's the income and consumption tax rates that are high.

So much of the observation is correct. It's the interpretation that isn't. Our Scot seems to think that it is high tax which causes this economic liberalssim. Not so, it is the economic liberalism that allows the gouging of the population.

To take a step backwards: we do know that there are two things that can restrict the growth of an economy. One is high rates of tax (especially on those profits and returns to capital). The other is regulation of what people may do in the economy. You can thus imagine four states of the economy: high regulation and high tax, low of either and high of the other, and then a low tax low regulation environment. That high regulation and high tax economy isn't going to get very far. The low and low we'd see impressive growth in. The two mixed cases are where the interest is in this case. If you want to have a high tax economy then you've simply got to have that market friendly regulation thing going for you. If you're going to go for the regulation by armies of pettifogging bureaucrats then you need to have the low tax rates: otherwise nothing will ever get done.

Which leads us to our political lesson. You can indeed have an economy with reasonable growth and also high tax rates. But you can only do so by having a cuthroat economically liberal economy underneath those taxes. No other system will generate enough wealth for you to be able to tax it that much. Now of course, around here we'd prefer to have the low tax and low regulation economy because that way we'd get truly great growth, not just a reasonable amount. But the lesson we need our Scottish socialist to heed is that if you do want that high tax economy then you've got to give up all of that other meddling in the economy so beloved of socialists. Which isn't, I'm sad to have to say, either something they would understand nor a deal they would accept if they did.

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