Published on *Adam Smith Institute* (http://www.adamsmith.org)

In which we catch the New Statesman being very silly [1]

Written by **Tim Worstall** [2] | Friday 18 October 2013

Here's the New Statesman putting forward an entirely ludicrous idea. A very silly one indeed [3]:

> Yet whilst the financial sector likes to think of itself as the powerhouse of the UK economy, in terms of the tax it pays, it's more of a Wendy house. HMRC figures show a drastic reduction in Corporation Tax contributions since the financial crash ? on average just £3.3billion a year, even when the paltry Bank Levy is included.

They are equating the value that a company or industry sector adds to the economy with the amount of tax that that company or industrial sector pays to The Treasury. Which is not just silly it's actively insane.

Quick question: how much tax does the NHS pay? None is I think the correct answer, yes? But we all do think that it's a pretty good thing to have a health care system around, yes? Perhaps not exactly this one, perhaps it could be tweaked or improved or replaced, but we do all agree that the value to us of health care is not reliant upon the tax paid by that health care system?

One of the few thinking lefties that remain notes that the New Statesman isn't correct here [4]:

> I?m under the impression that taxes are something you pay out of the contribution you make. The contribution you make being, if you?re a company, the profits you make and the wages you pay. That?s your value add. For finance the waters are muddied, because of TBTF etc., but the vast majority of the people involved in finance are doing work as boring and worthy as the rest. Employing over one million people counts as a contribution to me, so why is the New Statesman being so odd?

But sadly doesn't get the answer quite correct.

It is indeed true that the contribution of a company to GDP roughly equates to the wages paid plus profits made (not entirely exactly, but it's a very good estimate). However, this is not the value to us all of that company's (or industrial sector's) existence or work. For example, the wages paid are, while a contribution to GDP, actually a cost to us of what is produced. For if there's a million people doing banking then there's a million people not wiping babies' bottoms. One must never, if one wants to keep ones' economist secret decoder ring, forget about opportunity costs after all.

What we really want to know is whether having a million people doing banking makes us better off than having a million people doing nappy duty: which means wondering whether the output of the banking sector is more valuable to us than dry and smiling babies. At which point it becomes obvious that the value of a company, and industrial sector, is the value to us of the output of that company and or sector.

Thus the value of banking is that we get to have a banking system. The value of the NHS is that it (occasionally) cures more people than it kills. The value of Google is that we get to Google.

The value or contribution to us all of what people are doing lies not in the taxes they pay and not even in either the profits they make or the number of jobs they create. It is in the value to us of consuming their production. Any other measure of value will inevitably lead to the sort of nonsense that the New Statesman is peddling here.

Something that Adam Smith pointed out 237 years ago when arguing that the correct labour theory of value is the one that measures the value in use of something that has been produced: something we would rather hope that people would have grasped after all of this time.

blog comments powered by Disqus [6]

Source URL: http://www.adamsmith.org/blog/economics/in-which-we-catch-the-new-statesman-being-very-silly

Links:
[1] http://www.adamsmith.org/blog/economics/in-which-we-catch-the-new-statesman-being-very-silly
[2] http://www.adamsmith.org/taxonomy/term/5778
[3] http://www.newstatesman.com/economics-blog/2013/10/financial-sector-isnt-powerhouse-uk-economy-its-more-wendy-house
[4] http://leftoutside.wordpress.com/2013/10/17/contributing/
[5] http://disqus.com/?ref_noscript
[6] http://disqus.com