There's a because missing in The Guardian's analysis of tax evasion [1]

Written by **Tim Worstall** [2] | Sunday 29 September 2013

> When different regions are compared, Europe comes out the worst in terms of the size of its black market and the total amount of tax it loses as a result. As a region though, Europe also has the highest tax rates in the world. Out of 36 countries looked at, Europeans averaged a tax rate that was 39% of their GDP, compared to a world average of 28%. The lowest rates were found among 39 African countries which had taxes that represented around 17% of their GDP.

Sigh.

That "also" needs to be replaced with a "because".

The more tax you try to squeeze out of people then the more people are going to try dodging the tax you're squeezing out of them. The higher the tax rates then the more tax evasion there will be.

There's more we can say about these figures too: here they're talking about tax evasion, not tax avoidance. Evasion is the illegal stuff and it's almost entirely the activity of individuals: large companies simply do not involve themselves in illegal shenannigans. This is about the VATless builder's non-invoice, absolutely nothing at all to do with offshore or the multinationals. Or perhaps the dole claimer working a few hours cash in hand: the sort of thing that is never going to be wiped out by any system of economic management or taxation at all. The question thus becomes well, how much of this do we want to try and wipe out?

And there we come up against the other side of the problem. Our aim isn't in fact to extract the maximal amount of tax from the economy. It is, rather, to allow, encourage even, the maximum utility of the populace. We want everyone to be as happy as they can be without bursting with joy at the sheer pleasure of it all. Which means that we've got to measure the utility of reducing tax evasion against the disutility of the methods we use to do so. For example, we could be extreme and state that paying someone may only happen when an armed agent of the State is in the room. If the correct tax is not applied at that moment then the agent will shoot everyone. Yes, absurd and extreme: but it makes the point about disutility of certain methods of reducing tax evasion. Less extreme or absurd, we could ban cash altogether and everything must be done by electronic card. The trail there being auditable and the taxman would certainly catch many more than they do now. But there's a certain disutility to that too.

In the end we come to a reasonable conclusion: that there's an acceptable level of tax evasion considering the foul things we might have to do to reduce that level. Other values, such as liberty and freedom, come into play against that desire for revenue. Whether we're at the right level now is another matter of course: but that is where we must start the debate. What will attempting to collect more revenue do to other values we hold dear?

Oh, and one more very important thing. Assume we accept these estimates of tax evasion: this does not

mean that we would ever be able to collect it all. For simply by bringing all into the tax net some of that economic activity would not happen at all. Economics does happen at the margin and so it would be the marginal transactions that did not happen. Which means that we can state without fear of contradiction that reducing tax evasion might make the State richer, up to a point at least, but it will absolutely certainly make everyone in aggregate poorer. For simply to tax currently untaxed economic activity is to reduce the amount of said economic activity.

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