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

The value of tax competition [1]

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One of the more annoying things we hear from the likes of the European Union is that tax competition is harmful. If one country or another decides to loot the wallets of their populace a little less than the place next door, the harm is seen as being a constraint on the ability of that second country to do more such looting. The EU is having a large spat with Switzerland on this very point at the moment.

We here of course regard tax competition as beneficial for exactly that reason, that it places a limit of sorts on the ability to loot. Sir Gus O'Donnell, the head of the civil service, takes this point a little further [3]. Talking about the way in which people are going to be demanding more in public services (an ageing population etc.):

> *But increasing taxes to pay for the increased demand was not the answer, he said. He said: "We are going to have real problems, because of the competitive nature of globalisation, it is going to be hard to put tax rates up. The increasing demand for spending more which falls on the state ... means that we are going to have to do more with less.*

Now Sir Gus might not think of it this way but I do. Tax competition constrains greater looting of the populace while it doesn't constrain the desire for more services. The result is that the public sector will have to provide more output with the same (or even lessened....hey, we can hope can't we?) input in the form of tax money.

This is more generally known as increasing efficiency. It's something that private sector businesses try to do all the time, so as to maximise their profits. Unfortunately, as we know, the public sector is not subject to those incentives. But if tax competition can, by reducing the ability to tax us, force a similar process on the public sector then I'm all for it.

Less tax paid *and* it spent more efficiently? Who couldn't like that?

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