A Suggestion in The Guardian I Agree With: A Fair Tax Commission [1]

Written by **Tim Worstall** [2] | Saturday 3 March 2012

Yes, even The Guardian sometimes has sensible reader's letters to publish. And I wholeheartedly support this suggestion [3]:

> Surely it's time for Labour and others on the left to set up a Fair Tax Commission to examine the legitimacy of a more progressive tax system which shifts the burden to taxation of wealth, land and the grossly overinflated incomes which have become the hallmark of 21st-century capitalism;

I can't quite see why it is to be a thing of the left: Fair Taxes are the concern of us all. But given that we are all so concerned let us try to sketch out the various constraints within which such a Commission would be operating.

The first and most obvious is that it is obviously immoral that those working part time on minimum wage are paying income tax. Quite apart from the stupidity of taxing them then handing back tax credits there's the moral point. If this minimum wage is the minimum that it is legitimate to pay people for their labour then why is the bureaucracy getting a slice of it? We here at the ASI have been recommending for years that the personal allowance should rise to £12,000 a year. I would go further: if we are to have a minimum wage, something which we probably shouldn't but it's a political reality that we will, then the personal allowance for both income tax and national insurance should be that minimum wage for a full year full time job. If one moves then so does the other, link the two expressly and by law.

Secondly we almost certainly want to merge the income and NI systems anyway. The last benefit that relies upon NI is the state pension and that link is to be removed in upcoming legislation. There is no point in having this hidden income tax anymore: merge them.

We need to take note of this Laffer Curve thing. As Diamond and Saetz [4] point out, given the existence of allowances (and yes, the ability of a UK citizen to leave the UK and thus not pay UK tax is just such an allowance) the peak of the Curve for all taxes on income is 54%. Yes, this includes even employers' national insurance (yes, I know, we've just abolished it up above) so that is the absolute top *total* tax rate we can have on incomes.

We also need to note the deadweight costs of taxation. Different taxes [5] have different effects on future growth for the same revenue raised. We obviously want to have the least effects on future growth for whatever level of revenue. This means heavy on land and consumption taxes, light on income ones and probably best to do away with corporate and capital taxation altogether.

Now, if we're to set up a Commission to look at Fair Taxes then obviously, these are the sort of constraints that such a Commission should look at. Indeed, if there is to be such a Commission I'd happily take part so that it did look at these very points.

But the real importance of such a Commission would be that it would be an opportunity to force those on

the left to understand a very basic point about progressive taxes and government. You cannot pay for Big Government with a highly progressive tax system. There just aren't enough rich people and they don't, collectively, have enough money to pay for everything. It's worth noting that the countries that do have substantially larger government than we do, the Nordics, have tax systems which are more *regressive* than our own one. That's the only way you can have both a Big State and also any hope of continued growth.

I, personally, am not averse to a system of governance that is paid for entirely by the rich. Quite happy for there to be a progressive taxation system: delighted in fact. For such a government would have to be considerably smaller than the one we have now.

And that would be the great value of a real Fair Tax Commission: bringing this indisputable point out into the open. Progressive taxation, the rich paying for it all, or and do note that it's *or*, Big Government. You can only have one of those two. So let's have the Commission and bring the point out into the open shall we?

Or if that all sounds like too much hard work and effort we could just get people to read the Mirrlees Review [6].

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