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Laffer Curve spotted in the wild again [1]

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It always surprises me when people claim that there's no such thing as the Laffer Curve. For the existence of it is simply a mathematical truism, an identity. I'm a little less surprised when people say that OK, there is, but it's got nothing to do with our current tax rates. Surprises me less, but it's still wrong to say so [3]:

> This year's budget and increase in stamp duty to 7% above £2m is another example of the folly. Transactions in this price segment have plummeted 50% and the amount of stamp duty realised has actually fallen! Higher rates have produced less. Wealthy people have not been affected one iota. They have either stayed put or bought property outside of the UK. The real victims have been those who will now suffer less government spending because there is less revenue to go around. Where is the social justice in that?

The recent vast increase in cigarette taxes in New York City has also led to falling revenue: not because of falling smoking rates but because of smuggling from other States.

Just as it isn't true that a reduction in tax rates always increases revenue it also isn't true to state that an increase in rates always increases revenue. It really does depend where we are on that curve.

Which leads us to the question of where we are on that curve. The political pressure, that public choice theory thing about tax rates, is that we're always likely to be slightly over the peak of the curve. Politicians are, after all, by definition there so that they can take more of our stuff to do as they wish not as we wish. That's the point of standing for election. They'll continue to push up tax rates until they find that doing so any more doesn't produce any more revenue. Thus the likelihood is that in any mature political system we're going to be just over the peak of that curve: tax rates will have been pushed above that revenue maximising rate.

It's been claimed by very serious people who actually know these things that the current CGT rate of 28% is at that curve peak. Further, that the 45% income tax rate is. I'm not insisting that they are, only that we would expect them to be above it given the incentives to politicians

Which leads us to the really interesting question. For those who say that we should just raise more tax revenue to solve all our problems. Umm, where from? If we're at the Laffer peak then there isn't anywhere we can get more tax revenue from. It's simply not possible. If we're over it then we need to cut tax rates to increase revenue.

Which leads us to the real point. There's some limit to the amount of tax revenue that you can suck out of any given population. When you've got to that point, as I suspect we have, then calling for more tax is not just the usual political silliness, it's actually impossible. Which rather changes the political convsersation, doesn't it?

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