Oh Noes! We're being outflanked by liberals! [1]

Written by **Tim Worstall** [2] | Saturday 14 July 2012

Sam and I have been patting ourselves on the back for working out that the best and simplest way of increasing the incomes of the poor is to stop taxing them so bloody much. Raise the income tax and NI limits so as to pull all of those we define as poor out of such tax nets. We were thinking around the level of the minimum wage, around the £12,000 a year sort of level. And now I find out that we're being outflanked by people even more liberal than we are [3]:

> Both authors agreed a longer term vision to fundamentally restructure the tax and benefit system. This includes a personal allowance of £20,000 which would take half of the population out of paying income tax altogether, but would leave those earning above £36,000 contributing more because of changes in tax rates.

Well, not quite, for we're suggesting lifting the burdens of national insurance as well in a manner that they are not quite.

But even with that I'd be entirely happy to go to £20,000. But I don't think it will happen. For the quite simple reason that those people left don't have enough money to pay for the amount of government our governors wish us to have.

You see, there are two constraints to how much taxation can be squeezed out of the population. The first is this one that we're arguing about now: the morality of insisting that the poor hand over widow's mites in order to pay for bureaucrats. We're all tending towards the view that this should not be happening. On the very simple and basic moral grounds that they're poor dammit and should be keeping what money they do have. To take half the working population out of the direct taxation net is just fine by me on this very basis. I've no problem at all with it being the rich that pay for everything.

The thing is, the reason it won't happen, is that there will be a lot fewer everythings provided by government if this does happen: for there really is a Laffer Curve. A rate above which you get less revenue for higher rates. A general consensus seems to be forming that this is at around the 50-55% level for all taxes on income or, with our current NI and income tax system, a top rate income of 45% or so. On capital gains taxes, around 25-30% (compare with our current 28%). Now if that's true then there isn't any room to take more tax from the top end. We reduce tax from the poor, yes, this is excellent on moral grounds. We cannot get more tax from the rich (we can increase tax rates but we won't get more money). Thus the only way to make all of this balance is to have less government.

Which I, I have to admit, am entirely happy with.

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