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There are good taxes and bad taxes [1]

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Or perhaps I should say that there are taxes which do less damage and taxes which do more. My interest being piqued by two stories in the papers. The first is businesspeople complaining loudly about business rates [3]:

> For most business people across the country, there will be just one thing on their minds when the Chancellor delivers his Autumn Statement next month ? will he act in the economic interest of the nation and announce a freeze on business rates? Business rates are an inflexible and irrational tax that thousands of companies have to pay before they turn over a single pound. We hear from our members constantly that they want to grow but are held back because the business rates imposed on new premises are too punishing for them to bear. The last thing the Government should be doing is weighing down on business growth at a time when we need the economy to move from being just about good, to being truly great. If businesses have more cash freed up from paying less in business rates, they can take on more staff, invest, export and put money back into their local communities.

The second is a different group of people complaining about stamp duty on property transactions [4]:

> The Government is coming under increasing pressure to reform stamp duty on house purchases as experts predict rising property prices will push up the total bill to more than £9bn annually. The Council for Mortgage Lenders (CML) said stamp duty paid by home-buyers already looks set to exceed £6bn this year and is predicted to grow by a further 50pc to £9bn in the next five years.

Now, given that we know that there are some things that must be done, even things that must be done that can only be done by government, we are going to need to raise some taxes somewhere, from some part of the economy. But cleartly, what we'd really like to do is raise that money where it does the least amount of damage. The OECD has a handy guide to this for us here [5]. The measurement is of deadweight loss. How much economic activity doesn't take place because of the imposition of different types of taxes?

Repeated taxes on property, that is business rates, have the lowest deadweight costs of any form of tax. The only one that could be better is a proper land value tax.

At the other end of the scale, one that has such detrimental effects that they've not even bothered to put it into the table for they cannot believe that anyone would be stupid enough to use them, are transactions taxes. Like, for example, stamp duty on house and shares, or perhaps the financial transactions tax.

Diamond and Mirlees gained their Nobels in part for pointing out how appllingly damaging this form of taxation is.

It's fairly easy for us, therefore, to judge between these different taxes. Business rates are an efficient tax, stamp duty an inefficient one. We should therefore support the rates and attempt to do away with the duty.

It is possible for those subject to business rates to claim that, for example, they put retailers at a disadvantage to internet sellers. But this is fine: we want people to economise on their use of inputs in the production of whatever. If internet retailing uses fewer inputs than traditional then we'd like to see the move from one to the other. This frees up property and capital to be used to do something else: meaning we all become richer as we have both retailing and whatever else from the same initial set of assets and capital.

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