This is really an extraordinarily bad idea [1]

Written by **Tim Worstall** [2] | Tuesday 20 August 2013

A very seriously bad idea in fact. The point being made is that spending tax money does lovely things. Which indeed it can do. Therefore we shouldn't worry about how we raise the tax money, nor study the costs of doing so, because spending it all is so lovely [3].

> Economists usually think of taxation as inefficient. This column argues that the anti-tax rhetoric evident in much lay discussion of public policy draws considerable support from the prevalent negative language of professional economic discourse. Optimal income taxation doesn?t have to employ the pejorative concepts of inefficiency, deadweight loss and distortion; and this column argues that it is high time for economists to discard them and make analysis of taxation and public spending distortion-free.

This is entirely tosh of course. For it is indeed true that we can do wonderful things with the spending of tax money. I think vaccination is just great, as with a criminal justice system, only one national defence system and so on. But in order to be able to reach that decision I have to look at the benefits of the spending of the tax money as against the costs of having raised that tax money.

And this is where the first level of talking about deadweight costs comes in. A reasonable rule of thumb is that raising £1 of tax means that there's 20 pence worth of economic activity that doesn't happen. At the sort of marginal rates we have now, more like 30-35 pence. Which is fine at times: I think the herd immunity that comes from near universal vaccination (as we can see from when it doesn't happen as with measles these last few years) is worth 135% of the money that is spent on it. The benefits are larger than the deadweight costs that is.

But I also would point to areas of public spending where this test is not passed. I don't, just as my standard example, think that diversity advisers are worth 135% of the money spent on them. I don't think they're worth 2% of it but that's another matter. But they're, to my mind of course, not worth the loss of those deadweight costs: they thus make us poorer in aggreagate, not richer, and making us poorer really isn't the aim of the whole game. Please do note that while there are people who will disagree with me on the value of diversity advisers pretty much everyone has some area of tax funded expenditure that doesn't pass this simple test. Usually, those in favour of the advisers would be against something I'm in favour of, say, Trident.

So that's the first part of why we don't want to ignore deadweight costs: it's the only method we've really got of deciding whether it's worth doing something out of tax revenues or not.

The second is of course that different taxes have different deadweight costs. So, how can we possibly design a tax system for efficiency if we don't look at the efficiency of the different taxes? Sure, there's equity to consider as well: consumption taxes are more efficient than income taxes and one can certainly argue that they're more inequitable. But if we stop measuring these things then how on earth can we come to a rational decision about which we prefer?

So I'm afraid that I really do think this is a very bad idea indeed.

I also have my suspicions about what is driving the idea too. The writer would like higher taxes so that government can "do more". And he'd much prefer that no one started to come up with pesky little arguments about why government might not be the best method to get more done. An easy way of doing that is simply to forbid any discussion about the way in which governent and taxation might not be all that efficient....

blog comments powered by Disqus [5]

Source URL: http://www.adamsmith.org/blog/tax-spending/this-is-really-an-extraordinarily-bad-idea

Links:
[1] http://www.adamsmith.org/blog/tax-spending/this-is-really-an-extraordinarily-bad-idea
[2] http://www.adamsmith.org/taxonomy/term/5778
[3] http://www.voxeu.org/article/removing-deadweight-loss-economic-discourse-income-taxation-and-public-spending
[4] http://disqus.com/?ref_noscript
[5] http://disqus.com