

[There really is a Laffer Curve you know](#) [1]

Written by [Tim Worstall](#) [2] | Thursday 5 December 2013

That there really is a Laffer Curve is obvious: tax rates of 0 and 100% raise no revenue, revenue is raised at points in between. The precise shape of the curve is of course a matter for more debate. But as the *Spectator* [has just pointed out](#) [3], and as should be general knowledge but sadly isn't, the people who face the highest tax rates in this country are the working poor. Which is, of course, entirely ludicrous.

So the same low-paid job will be worth far, far more to a Romanian than a Brit on benefits. That explains why so many foreign workers are happier, keener, more likely to apply ? they actually get to keep all of the extra money they earn, while Brits have to sacrifice up to 84 per cent of it. Again, who'd be all zip-a-dee-doo-dah turning up at work when you keep just 16p in every pound you earn? Certainly not me. So there is nothing lazy about Brits. The problem lies not with our people, but an still-unreformed welfare system. Iain Duncan Smith's revolutionary Universal Credit would lower the top rate of effective tax to 65 per cent ? still too high, but a vast improvement. When it's up an running, the Chancellor should say in every budget what this top rate would be, and aim to lower it to 40 per cent. The top rates of tax in this country are not paid by millionaires. They're paid by the millions who are caught in a welfare trap. That's why the Romanians spot such an opportunity here. And that's why IDS's Universal Credit cannot come fast enough.

Universal benefit will be better, yes, but not sufficient to take us down to more sensible levels of the discouragement of work.

The first part is that we've got to, as we here at the ASI have been saying for years now, take those working poor entirely out of the income and NI tax systems. I prefer a tax allowance (which would include both types of NI) pegged to the minimum wage. Madsen has proposed a higher, £15,000 a year allowance. My proposal is based on the political resonance of tying those two numbers together of course, not on the economics.

That is, as far as I can see, the only thing that will get that combined tax and benefit rate down to something more reasonable, like that 40%. And if we want to drive it down again we'd have to become very radical indeed, move to a citizens' basic income. Here's £7,000 a year or so for each and every adult,

untaxed, and that's it. That's the welfare state in its entirety. That would drive that tax and benefit rate down to zero and I think people would be very surprised indeed at the sort of change in behaviour that sort of supply side change would create. Rather than an increase in leisure I would expect a huge increase in hours worked actually.

But the real point is that if we do want to free the working poor from tax rates that we consider entirely unacceptable for the richer among us then those are the sorts of changes we're going to have to start making.

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