Funding the Future

The Scottish government is living in La-La Laffer Land

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John Swinney, Scottish Finance Minister issued a press release today saying:

"Scotland needs full control of the key economic levers to meet the specific challenges facing the Scottish economy - and the cross-party Scotland Bill Committee in the last parliament concluded that this power should be available to the Scottish Government if it is granted to Northern Ireland.

"Control over corporation tax would enable us to boost investment, bringing jobs to communities across Scotland, grow the economy and take the right decisions for Scotland.

"There is clear evidence from around the world of the benefits from lowering burdens on business - and this 54-page document sets out the compelling evidence in more detail than ever before.

"Lower corporation tax is a vital source of competitive advantage in an integrated global economy, helping to attract new businesses and highly-skilled jobs. A competitive corporation tax regime has been a feature of the economic success of many countries, and we want Scotland to have the same opportunities to bring in jobs and boost growth.

And much more in similar style.

But as the Telegraph noted this morning:

Figures on Friday are expected to show that companies are not spending despite the Government's best efforts to encourage corporate activity by slashing employers' National Insurance contributions and corporation tax.

Stagnant investment in the second quarter, as BarCap has forecast, would follow a 3.2pc decline in the first three months of the year. By contrast, the Office for Budget

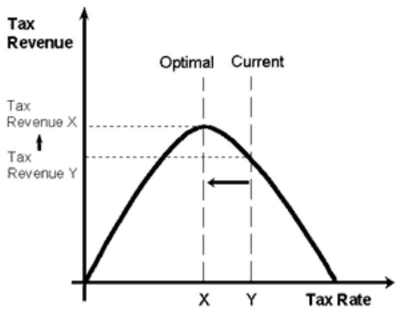
Responsibility expects business investment to expand by 6.7pc this year and contribute a third of total growth.

Let's explain that in simple terms. Tax rates have never, and tax rates never will encourage real growth.

Low tax rates do encourage people to artificially relocate profits to low tax locations. But they never encourage people to make more real money. That's because making money requires a strong top line and corporation tax is charged on what's l;eft over at the bottom line. And as is obvious, if government withdraws from the economy (as now) because it does not believe in tax then top lines are weak and bottom lines disappear - and tax considerations go out of the window in a panic about survival.

But John Swinney and the Office for Budget Responsibility are still living in the La-La Land of the Laffer curve that says cutting tax rates increases yields.

They rely on a [graph like this]:



They implicitly argue that we're on the right hand side of the graph i.e. the downward sloping but of the graph and if only we cut tax rates then yield would increase.

The trouble is I did a survey of the academic literature a while back and found the only place that might be on the right hand side of the graph was Sweden and there was not a hope that any tax rate in the UK (including the 50% income tax rate we now have) would put us anywhere near that point.

So tax cuts in the UK always mean less tax.

And more corporate profit - none of which would stay in Scotland you can be sure.

So candidly, these people really are in La La land and it's time they woke up and saw the reality of the harm they're really proposing to the ordinary people who will suffer cuts in education, health care, pensions and other essential services as a result of their mad thinking. Because that's what they're really prescribing. Which is exactly why the Taxpaters' Alliance sells this myth to them.