Funding the Future

Why neoliberalism doesn't work when it comes to tax cri...

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I have been debate with some right wing commentators on the issue of tax crime, and why they think it should not be tackled. The exchange is here but began as a result of discussion on my work on tax evasion, here.

The argument being rebutted is that of Tim Worstall - that we should not tackle tax evasion because to do so would reduce GDP. He says the existing rate of evasion is optimal and we should not address it as we are at an equilibrium state where we can afford this level of crime.

I utterly reject that argument.

I also reject the argument of those who challenge my rejection - who say there is such an equilibrium rate.

I argue that is absolutely untrue. There is no such equilibria. What there are instead are economists and those influenced by them like Worstall who believe in cost- benefit analyses that suggest there are such equilibria. But because they have believed that for so long they now actually think the equilibria exist and that we should positively promote them. They have made their model into the terrain - when it is at best a very imperfect model to start with. That explains so much of the predicament we are in. We are seeking something that is simply not there. No wonder economics os going in the wrong direction.

I deal with this issue at some length in the Courageous State, so I am not going to do so in depth here. As I explain there, the difference between my attitude and that of neoliberals comes down to a very different peception of the mathematics of the decision making processes used:

To begin, it must be stressed that the difference between this thinking and that of Keynes which gave rise to the previous period of political consensus is really fundamental. The difference is, perhaps, best explained in easily accessible form by Robert Skidelsky in his book 'Keynes: The Return of the Master'. As he makes clear,

neoliberal economics is based upon the belief that everything about the world is measurably probabilistic. What this means is that neoliberal economists believe that, first, we know everything that might happen in the future. Second, they believe that we can attach to each event that might happen in the future a probability that it will occur. So, for example, such economists might say that in 2024 I might move house and the probability of this occurring is 15%. The result is that these economists think that the future is entirely predictable.

However, real life experience shows such a belief is obviously wrong, and Keynes pointed out why. As he argued, the number of circumstances where we can make the predictions neoliberal economists think possible are remarkably limited. He said the future is not probabilistic as they suggest in most cases: it is actually uncertain. That means we simply do not know what might happen, let alone with what probability

To summarise briefly: the difference between the risk which is assumed to underpin all future behaviour in neoclassical economics (including it must be stressed, neo-Keynesian economics) and the uncertainty that is assumed to exist around all future behaviour in truly Keynesian economics is that in neoclassical economics it is assumed that all future possibilities are known. Keynes said that that is wrong: the future is uncertain and we simply cannot predict what might happen.

Which, in other words, means we cannot predict an equilibrium as the destination to wards which we are travelling because no one knows whether there is such a thing or what it looks like.

As a result the argument that there is an equilibrium rate of crime is also wrong.

But worse the claim that we can decide what that is assumes we know all there is to be known and can correctly allocate risk to each component. I say we can't do that, so we use ethical judgement instead. As a matter of fact that is the case, as I know from witnessing real decision making. The alternative is though that in Worstall's world he's decided that having £1 in £8 in the UK economy untaxed due to crime is optimal. And he's implicitly decided foregoing the services that tax would pay for is optimal. And he's implicitly decided that the resulting shift in the income distribution to criminals is also optimal.

What a very nasty decision making process.

Now of course, I accept that a decision will be taken to allocate resources to crime that accepts that not all crime will be solved.But quite explicitly it's not taken for the reason Worstall notes. It recognises there are conflicting goals subject to ethical judgement - plus a certain pragmatism that some crime will effectively remain unknown and unknowable - and therefore insoluble and therefore with present resources be an irreducible problem. This is not a statement of optimality: it is reluctant acceptance of a problem as yet insoluble. But that's the real significance: this

point is reached using a very different decision making process as a result that is explicitly ethical when neoliberalism is not. And recognising the sheer nastiness of the neoliberal decision making process is a first stage to realising how utterly corrupted the neoliberal economic model is, and how important it is that we replace it.