Funding the Future

How much can the Institute of Economic Affairs get wron...

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How much can the Institute of Economic Affairs get wrong about tax? In the blurb for a new book it is publishing, written by its long-time associate Dr Eamonn Butler, it says in the first line:

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* Taxation may be necessary to fund public services, but policymakers must consider its moral and economic costs.

As opening howlers go. that's a good one. Tax never funds government spending. Money creation by a central bank does that. It has to in a fiat-money economy or there could be no government-created money in existence. Tax then exists to control inflation and for social purposes. Publishing a primer on tax in which you reveal you do not understand what tax exists to do is pretty good going for a supposed educational charity.

But then, this is not about education at all. As the IEA notes:

In An Introduction to Taxation, economist Dr Eamonn Butler investigates the moral case against excessively high taxation.

Most charities exist to relieve poverty. The IEA goes out of its way to prove it is all about increasing the concentration of wealth. For example:

Butler is particularly critical of capital gains tax, which reports indicate the new Labour government could increase in a forthcoming budget. He says taxing capital gains discourages savings and investment, resulting in lower productivity, wages, and growth.

Most of these claims are totally unproven. All abolishing CGT would, for example, actually do is reduce the tax rate on the wealthy, and cut government tax revenue, which the IEA claims must then be matched by reduced government spending. Increasing wealth for a few whilst denying services to the many is the very transparent agenda in this book, and never more so than when the IEA says:

The book challenges the notion that progressive income taxes are always fair or beneficial. Butler points out that high marginal rates on top earners can reduce tax revenue through avoidance or decreased economic activity. A study found that raising the top income tax rate would reduce total GDP by almost three times the revenue raised.

The argument here is that of the utterly discredited Laffer curve. How can they still be banging on about that when the effect does not exist at any known tax rate, except, maybe that on moving from universal credit into work?

And finally, they note:

The book concludes by exploring alternatives to taxation for funding essential government services, such as user fees, private provision, and better utilisation of state assets.

So, privatisation and US-style healthcare, which is utterly inefficient and fails to provide a service to vast numbers of people, is their prescription.

It is time the IEA was put in the museum for obsolete thinking.