

Dan Neidle's tax proposals are all about perpetuating e...

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The issues that I have raised with [Dan Neidle's tax proposals](#) appear to continue to attract interest. In particular, there are some commentators who seem to be of a neoliberal persuasion, who seem to think that the suggestion that the normal rate of return on capital should be exempted from tax, whether received as in income or gain, is entirely appropriate.

As a result of these comments, and out of curiosity, I went back to read the arguments in the Mirrlees review, published by the Institute for Fiscal Studies in 2011, on why they thought that this was appropriate. I have not revisited the issue for a while, although I recall not making myself very popular with my interventions at its launch event.

The arguments are published over a number of pages [in chapter 13 of that review](#), which is on the taxation of savings. The discussion on capital gains merely refers to that discussion to justify the continuation of the approach with regard to that tax.

Finding a quotation that best summarises the thinking of the authors on this issue, which is consistent with that of Sir James Mirrlees himself, is a little hard because the justification is not terribly focused. However, this might do, from page 284:

The case for exempting the normal return to savings from taxation is likely to depend on, among other factors, the reasons that people save in the first place. Many do so in order to consume at one period of their lifetime rather than another. By sacrificing consumption today, saving is a way of generating future income and, like other forms of investment, there is a case for exempting the normal return. The taxation of the normal return to savings distorts the timing of lifetime consumption and labour supply. A timing-neutral tax system would not create such distortions, and there are a number of tax systems that achieve such neutrality.

This elaboration might also help:

A consumption tax does not create distortions in the timing of consumption, while a comprehensive income tax does. This is because the latter reduces the after-tax rate of

return relative to the pre-tax return, and because the rate of return the consumer receives determines the effective price of future versus current consumption. Since one of our objectives is to avoid distorting intertemporal choices, at least for a large fraction of the population, we explore three possible routes to savings taxation that maintain neutrality over when consumption occurs.

I also happened to think that this clarification is important:

In spite of a vast body of research on the appropriate taxation of savings, we recognize at the outset that economic theory does not provide an unequivocal recommendation on the issue of optimal tax design. We, therefore, rely in part on broadly-attractive concepts, such as tax neutrality, in framing our analysis. We view neutrality as a constructive benchmark in understanding the issues surrounding the design of savings taxation. There is potentially a rich array of ways in which individuals differ with regard to saving behaviour based on underlying preferences and opportunities. In the absence of such detailed knowledge, it seems sensible to begin from this benchmark and look for justifications for deviating from it.

What becomes very clear from this discussion is that, in a fashion entirely consistent with most neoclassical/neoliberal economic discussions of taxation, the authors are seeking to ensure that tax should not, in any way, alter the decision-making that might take place in what they presume to be an economically efficient marketplace that does, according to their assumption, optimally allocate resources within society over time.

What most especially amuses me about this is the flawed reasoning. Because, they say, there is no evidence for any tax system being optimal, they assume that what they think should be in existence according to their economic theory is what ought to be in existence: this is the naturalistic fallacy in full force.

To provide support for this suggestion, this is from the introduction to a paper by arch-neoliberal economists [Greg Mankiw and others](#) on optimal taxation theory. This draws heavily on the work of Sir James Mirrlees:

We begin with a brief overview of how economists think about optimal tax policy, based largely on the foundational work of Ramsey (1927) and Mirrlees (1971). We then put forward eight general lessons suggested by optimal tax theory as it has developed in recent decades:

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Optimal marginal tax rate schedules depend on the distribution of ability;

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The optimal marginal tax schedule could decline at high incomes;

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A flat tax, with a universal lump-sum transfer, could be close to optimal;

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The optimal extent of redistribution rises with wage inequality;

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Taxes should depend on personal characteristics as well as income;

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Only final goods ought to be taxed, and typically they ought to be taxed uniformly;

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Capital income ought to be untaxed, at least in expectation; and

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In stochastic, dynamic economies, optimal tax policy requires increased sophistication.

Three observations necessarily follow.

Firstly, Dan Neidle and those whose work he builds upon assume that unfettered markets will produce the best outcomes for society so long as they are not interfered with. This is despite the fact that, as they admit, they cannot find certain evidence of this, and despite the glaringly obvious evidence that this has most definitely not been true for decades, if it ever happened.

Secondly, if they make this assumption despite the very obvious evidence that it is appropriate, then they are making the profoundly political judgement that the current allocation of resources within society is appropriate, just, and to be perpetuated even if, as is apparent to absolutely any observer, this is both manifestly unfair and produces disastrous economic outcomes, as climate change amongst other things proves. Far from being neutral, as they claim, this assumption is, in fact, massively biased.

Thirdly, those adopting this approach also necessarily make another assumption, which is that government when making use of one of the powers that ultimately evidences its existence, which is the right to impose taxation, must not use political choice when doing so, but must instead reflect market outcomes and presume they are efficient, even though it is glaringly obvious that the conditions for such efficiency have never, will never and can never exist. That decision is not, then, rational on their part. It is, instead, another profoundly political judgement that suggests that they do not believe that the government has the right to reallocate resources within a society, with which I

profoundly disagree.

It is, I suggest, absolutely vital to understand these foundations of the proposal that Dan Neidle is making because doing so justifies everything that I have suggested about them, which is that they are neoliberal and have every intention of maintaining the existing power structure within society, which is so deeply inequitable. There can, therefore, be no possible justification for the use of these proposals by any government that is concerned with the population of the UK and for a fair allocation of resources within it. They should, instead, be dismissed as the profoundly right-wing dogmatic proposal that they represent, which has the sole purpose of perpetuating existing power and economic and political structures within our society, which is the allegation I have laid against Dan for promoting them.

If you want tax justice, reduced inequality, sound logic, or reasoned argument, Dan Neidle is not the person whose tax policy proposals you need to consider.