

Housing benefit and higher taxes

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Sir, The squabble between Treasury and IFS economists on the distributional impact of fiscal consolidation is typical of the technocratic calculations which now substitute for thought. If a 100 per cent tax rate were levied on the upper percentile and a zero tax rate on the bottom percentile, would the latter be better off given the disincentive impact of such a regimen? More relevant considerations relate to tax legislation. The greater the complexities, the more resources are devoted to tax avoidance.

That social policy can be financed only through progressive taxation is contradicted by the small proportion of revenue raised at higher rates. Progressive taxation penalises uneven flows of income; it tells against more risky investments; it sets an incentive for work to be done by amateurs as against hiring professionals; it discourages saving; and it tells against capital accumulation. The only case for progressive taxation is to offset a disproportionately heavy burden placed upon low-income households by indirect taxes. In setting the top rate at the proportion of total national income taken in tax, those paying that rate would pay in excess of the tax share of national income. This would acknowledge the argument that justifies an element of progression and create a non-arbitrary limit to the degree of progression.

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