

iea

17:43

12%

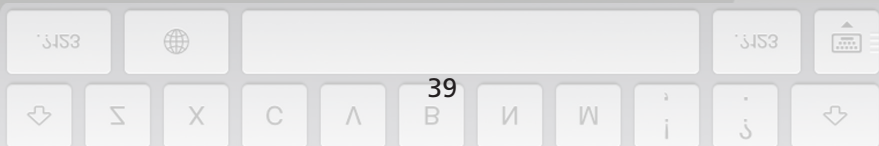


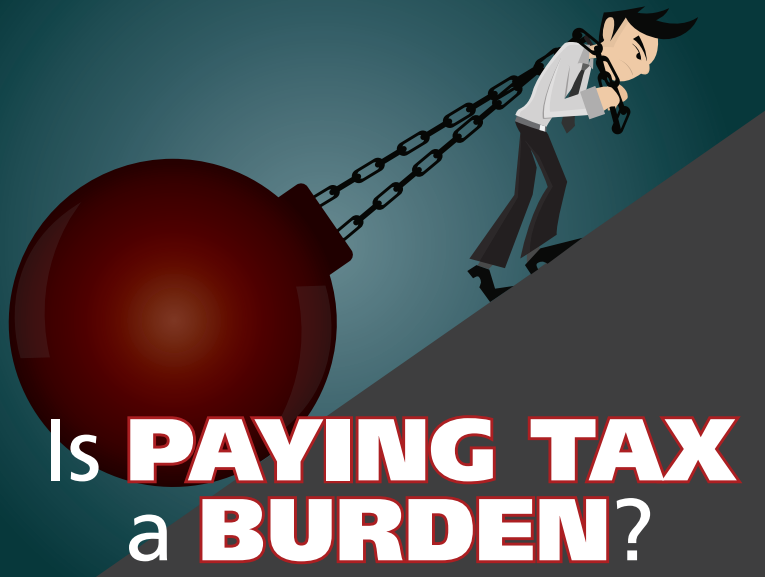
idealog

bringing you the
best of the **IEA** blog

www.iea.org.uk/blog

Previous Next





Is **PAYING TAX** a **BURDEN?**

Myth busting is a risky business. If the myth you try to bust is in fact an important truth, you end up looking silly.

Ha-Joon Chang, the Cambridge University economist, ran this risk in *The Guardian* with an article entitled "The myths about money that British voters

Dr Chang is not the first person to have expressed this view of taxation but I hope he is the first academic economist to do so. It involves two serious errors.

First, spending money on a takeaway curry or Netflix actually is a burden. Suppose I buy a takeaway curry for

JAMIE WHYTE TAKES A RENOWNED ECONOMIST TO TASK

should reject".

The last of his myths is that "tax is a burden".

Many of us certainly feel that paying tax is a burden. Where are we going wrong in our thinking?

Dr Chang explains thus: "But would you call the money that you pay for your takeaway curry or Netflix subscription a burden? You wouldn't, because you recognise that you are getting your curry and TV shows in return. Likewise, you shouldn't call your taxes a burden because in return you get an array of public services..."

\$10. One good thing has happened. I have got myself a curry. But something bad has also happened. I have lost \$10 that I could have spent on something else.

Of course, since I chose to buy the curry, I must figure that I had no better use for that \$10. But this does not stop spending \$10 from being a burden. If the curry had cost only \$1, I would have been \$9 better off. The burden would have been \$9 lighter.

Dr Chang must behold people who shop around for low prices with utter dismay. If only they realised that

paying for things is not a burden!

His second mistake lies in failing to see the fundamental difference between buying a curry and receiving services, such as healthcare and education, that are funded from your taxes.

To see what the difference is, imagine a man with a gun knocked at your door and presented you with a new laptop computer and demanded \$1,000 in payment. If you don't pay, he tells you, he will lock you in a metal box for a year.

Would this be a burden to you? If you were planning to buy precisely this kind of laptop computer, and planning to buy it right now, and could not have found it a better price than \$1,000, then you might not be too upset.

But this is unlikely. There is a good chance you didn't want a new laptop now. You might have planned to use the \$1,000 to buy a new suit or to go on holiday. Or, if you did want a laptop, you probably wanted a different model.

Though taxes are now rarely collected by armed men arriving at your door, they are still extracted by the threat of imprisonment and, if you resist, violence. The services we get from the taxes extracted from us are thus compulsory purchases.

That paying for something is burdensome, and that being forced to pay for something is even more burdensome, are facts you might expect a renowned Cambridge University economist to know. Which just goes to show how risky the myth busting game can be.

Dr. Jamie Whyte
Research Director
Institute of Economic Affairs
jwhyte@iea.org.uk



a **GENDER** item

Justine Greening, the women and equalities minister, is being criticised because she has rejected most of the 17 recommendations of the Women and Equalities Select Committee for 'addressing the structural reasons why women are paid 18 per cent less than men'.

Ms Greening, or the Treasury, has woken up to the fact that some of these measures would have a significant cost.

For instance Recommendation 6(c): 'The three months' non-transferrable paternal leave should be paid at 90% of salary (capped) for four weeks and then at the same level as Shared Parental Leave' and Recommendation 6(d): 'Payment of paternity leave should increase to 90% of salary (the same as maternity pay), capped for higher earners'.

Provisional estimates suggest that these measures would cost hundreds of millions of pounds.

Committee members are apparently outraged that these measures have been rejected. It is suggested that they are vital to persuade men to take on a bigger

share of childcare and thus let women return to work earlier and enable the gender pay gap to narrow.

But Ms Greening is right to reject these measures, which would have a trivial or zero effect on the pay gap.

Few of the recent measures have had a clear effect on reducing the gender pay

on individual and family decisions rather than the efforts of the government.

What would be needed to close the gender pay gap completely? Men and women would need to have the same qualifications, in the same disciplines, choose the same types of occupations have the same preferences between

LEN SHACKLETON ON THE GENDER PAY GAP

gap, which has fallen over time mainly as a result of factors such as the changing educational ambitions and achievements of women, changes in industrial structure (favouring brainwork rather than manual labour), changes in demography (fewer children, longer lives) and lifestyle changes (more single people, easier divorce, cohabitation).

I have no doubt it will continue to fall further, but politicians need to remember that this aggregate statistical artefact is not under their control. It depends

paid work and home work, take the same amount of time out of the workforce, have the same career plans and expectations and so on.

It is arguable just as likely that in a generation there will be a gender pay gap in favour of women as that there will be complete parity between the pay of men and women. What would our politicians say to that?•

Len Shackleton
Professor of Economics
University of Buckingham
len.shackleton@buckingham.ac.uk

Full version at:
www.iea.org.uk/sorry-ha-joon-chang-but-tax-really-is-a-burden/

Full version at:
www.iea.org.uk/the-gender-pay-gap-is-not-a-problem-it-is-the-result-of-free-choices/



ZIP IT!

I'm not convinced by Keynesian economics. But let's assume, just for ten minutes, that it could be proven, beyond the shadow of a doubt, that Keynesian economic policy recipes would have dragged the UK economy out of the Great Recession quickly and painlessly.

What would be the implication? Would this mean we should now give up on fiscal restraint and open the public spending floodgates?

Absolutely not. It would only show that in retrospect, it would have been better to do so during the recession. But even then, that would be water under the bridge.

Traditional Keynesians do not believe that a country can borrow itself rich. They do not believe that permanently spending money you do not have is the path to prosperity.

They believe that a government can spend its way out of a recession. They believe that during a

recession, the economy is in a state of shell-shock.

Consumers do not want to spend until employers start to hire, and employers do not

is growing and at the sort of levels of employment that exist in the UK, traditional Keynesians would argue that the government should aim

KRISTIAN NIEMIETZ SAYS THE LEFT SHOULD STOP BANGING ON ABOUT AUSTERITY

want to hire until consumers start to spend. And they believe that prices do not adjust in order to help the economy recover.

According to Keynesians, government spending can provide an initial shove to get things moving again.

But traditional Keynesians would concede that such a situation does not occur very often. It requires a specific type of recession. Their theory is not applicable to "normal" economic times.

In fact, when the economy

for a budget surplus.

Maybe there was a case for a Keynesian stimulus package in 2009. I don't believe it, but I can't definitely rule it out. But, this is history now. We are back in normal economic times.

This means that even under Keynesian assumptions, there no longer is a case for running a deficit. We should all be fiscal hawks now•

Dr. Kristian Niemietz

Head of Health and Welfare Institute of Economic Affairs

knemietz@iea.org.uk

Full version at:

www.iea.org.uk/why-the-left-needs-to-stop-banging-on-about-austerity/