

He does not say this, but it is also a dastardly paternalistic attitude that the government knows better than the people about how they should spend their money and when. They are better judges about when the need arises, be it over a lifetime or during a short period of years when a cherished child is put through a special school or given special help in order to achieve career goals that would not be possible otherwise. Mr. Brooks further states:

Given the enormous changes that can occur over a lifetime, brought on by family instability, economic insecurity, political change and other uncertainties, most people understandably make judgments about their relative economic well-being over a much shorter timeframe. Indeed, comparing the economic circumstances of two individuals over a one-year period is hard enough, let alone over a lifetime.

The second element of this equity argument is that because an income tax taxes the return to saving it discriminates between those who choose to consume in the present and those who choose to save and consume in the future. Again, ignoring the technical difficulties with this argument, the fairness intuition that underlies it is tenuous. Income earned from savings is rarely, if ever, simply compensation for deferred consumption. In many cases income from savings will be a mixture of income from property, human capital and luck. A successful investment in a complex, high-risk business venture, for example, frequently requires considerable managerial input as well as a fair measure of luck. Thus to the extent that what is loosely called income from property is really income from human capital and luck, it is not being double-taxed under an income tax. Also, even assuming that income from savings results primarily from the simple owning of property, holding wealth for most people has value not just as delayed consumption but is itself an act of consumption. It provides them with security, social prestige and power. This intangible consumption is preferred by many people over tangible consumption. But under a sales tax this act of consumption is not taxed.

(iii) To Improve Incentives to Work

A shift to consumption taxes, which will allow for a fall in income taxation, will lead to an increase in work effort, it is sometimes argued.

I have difficulty with this argument and so does he. He goes on to say:

With lower average and marginal income tax rates, workers will be willing to work longer hours of overtime, more willing to take on responsibility and risk, and might make different career choices. This argument obviously assumes that tax rates have some effect on the incentive to work. Theoretically, workers who bear a lower tax rate might either work less since they need less income to maintain their existing standard of living, or they might work harder since they are able to earn more after-tax income for each hour worked. The empirical studies done to date

are of little assistance in determining which of these offsetting income and substitution effects in fact predominates.

That is an important paragraph, because it deals with one of the moralizing assumptions and paternalistic assumptions, namely, that you can make people do as you wish through some form of tax. Liberals believe a little more in the free world; Tories only believe in the free world for the rich. I will read this paragraph again. It states:

A shift to consumption taxes, which will allow for a fall in income taxation, will lead to an increase in work effort, it is sometimes argued. With lower average and marginal income tax rates, workers will be willing to work longer hours of overtime, more willing to take on responsibility and risk, and might make different career choices. This argument obviously assumes that tax rates have some effect on the incentive to work. Theoretically, workers who bear a lower tax rate might work less since they need less income to maintain their existing standard of living, or they might work harder since they are able to earn more after-tax income for each hour worked. The empirical studies done to date are of little assistance in determining which of these offsetting income and substitution effects in fact predominates.

That means that there is no evidence to say that if you lower income taxes and substitute consumption taxes, people will work harder. It does not seem to make any difference. But even aside from this contentious issue, generally, unless workers suffer from some form of fiscal illusion when such a tax mix change is made, shifting the tax burden from income to consumption should have no effect on work incentives. A worker's total effective marginal tax rate does not change if the rate on earnings is lowered but the rate on the goods and services the worker purchases is increased by a corresponding amount.

• (1710)

In other words, it will be taken away from him in one way or another. If it is taken away under the label "income tax" or under the label "consumption tax", what is the difference? The government is putting the hand into the pocket of this worker and taking out the money.

Theoretically, workers who bear a lower tax rate might either work less since they need less income to maintain their existing standard of living, or they might work harder since they are able to earn more after tax-income for each hour worked. Theoretical studies show that there is no difference.

That is to say, workers are left with the same after-tax position whether a tax is collected on their earnings or on the goods and services they consume. Therefore, it is difficult to see why their work habits would change in response to such a shift.

All this, of course, is sheer flummery. It is to find a good excuse to shift the tax burden from the rich manufacturers who pay for the political campaigns of the Tories to poorer people.