

The Telegraph

The real problem is we are all over-taxed



ALLISTER HEATH

10 MARCH 2017 • 10:49PM



Chancellor Philip Hammond has stoked controversy with his raid on the self-employed

Simplicity is boring, and I for one welcome our ever more complicated and diverse world. It is becoming harder to classify workers into neat and tidy economic boxes, and thank goodness for that. Diversity allows flexibility and choice, and that means liberation for millions who are no longer forced to adhere to rigid norms. It also means a more adaptable, dynamic economy that is far more resilient to economic shocks and thus ensures lower unemployment.

But for those afflicted with a bureaucratic, controlling mindset – a condition prevalent on the political Left, but by no means restricted to it, as we have found out since the

Budget – such progress is a nightmare. They don't know what to think any more, and worry that a more decentralised economy will undermine their top-down control. Such people still haven't got over the fact that the unionised factories of yore, with their shift work and easy-to-organise workforces, are a thing of the past. The thought that the corporation itself is weakening, and often being replaced by looser contractual relationships, fills such folk with dread.

The big problem is that the welfare state has long relied on companies to do its work: to collect taxes via pay as you earn, to dish out benefits such as tax credits, and to deliver policies such as [the minimum wage](#). The reality is that a looser world makes more sense thanks to new technologies that allow individuals to co-ordinate themselves more cheaply and more easily.

The great economist Ronald Coase taught us that corporations are only the best vehicle for economic activity when the transaction costs of working in a hierarchical, closely managed organisation is lower than the costs involved in getting freelancers or independent agents to cooperate. But tech means that the economics have tilted at least a little away from the corporation, and more towards smaller firms, contractors and freelancers advertising their wares via platforms, and this is panicking our social-democratic establishment, who fear losing the last levers they still retain over our society and economy.

So they have enrolled the Government – including Philip Hammond, the Chancellor – in their quest to slow down change. Their strategy has been to point out the inconsistencies in current rules. Take the jobs market: some people are obviously employees, and others are pure self-employed freelancers.

But what of workers who rely primarily for their income on a platform like Uber? The drivers own their own cars, pay for their own operating expenses and choose their own hours; almost all of them are happy. But are they really, fully self-employed, or are they part of some third way which isn't (yet) recognised in law and in the tax code?

It is obviously true that the present classification makes little sense. But sometimes it's best not to change a broken system, for fear of making it even worse, and that is exactly [what Hammond should have realised before he decided to raid the self-employed](#). The problem isn't that the self-employed are "under-taxed" to the tune of £5.1bn a year, as many establishment economists have been saying. The problem is that employees are over-taxed to the tune of many more billions – overtaxed in the sense that a much lower overall tax rate, accompanied by a much smaller state, is, in my view, the only way Britain will prosper and thrive as an independent, free trading economy in the 21st century.

But until the day that the Government can drastically slash taxes at the same time as it radically simplifies the system – the model recommended by the 2020 Tax Commission, which I chaired – it would be better for it to do nothing. It should certainly not seek to undermine or campaign against self-employment, on the spurious grounds that it's an "inferior" form of employment.

It should not seek to extend the welfare state's net ever wider, showering the self-employed with more benefits. And the last thing it should do is plot to whack the likes of Uber with a 13.8pc payroll tax, which would be the logical (but job destroying

and price raising) outcome of any system that sought to tax “platform workers” like the employed. This is a Tory government, and it is high time it began behaving like one.

allister.heath@telegraph.co.uk