On Tuesday 11th February 2014, The Economist's Society was honoured to welcome, Sir Richard Blundell, to speak on 'Empirical Evidence and Tax Reform: Lessons from the Mirrlees Review'. Sir Richard is the Ricardo Professor of Political Economy at UCL as well as Research Director at the Institute for Fiscal Studies (IFS). In addition, Sir Richard was previously the President of the Royal Economic Society, making him exceptionally well placed to share his insights on the characteristics of a good tax system, to what extent the UK tax system conforms to these ideals, and how taxes may be realistically reformed in the future.

Sir Richard began by outlining the principles of an effective tax system, suggesting that taxation ought to be neutral, by not unnecessarily discriminating between different goods, and progressive (higher taxes on the rich with redistribution) whilst always considering the marginal rate of tax to ensure adequate incentives. The UK's tax system, although by no means the worst offender, often fails to meet these standards. Indeed, Sir Richard noted that the UK tax and benefits system is poorly coordinated, with a lack of harmonization between income taxes, welfare benefits and corporate taxes. Indeed, there is a lack of neutrality between personal and corporate taxes, resulting in debt being favoured over equity – a cause of concern, as this encourages an excessive build-up of debt for firms and the economy as a whole. Furthermore, Sir Richard argued that the UK tax system did not achieve progressivity efficiently, giving the example of zero VAT on food, which actually benefits richer rather than poorer individuals more as rich individuals spend a higher nominal amount on food. However, I do not imagine that this tax treatment will change anytime soon given the political climate and the 'cost of living' crisis.

In terms of proposals for change, Sir Richard suggested that we ought to treat the tax system as a whole, creating a single integrated welfare benefit (much like the universal credit system Ian Duncan Smith is working on), with less aggressive means-testing as the disincentives to work at the margin can be severe. In addition, Sir Richard advocated aligning tax rates across employment, profits and dividends, thereby reducing the opportunity to shift taxable income to dividends or capital gains in an attempt to pay less tax. Furthermore, it was suggested that there should be a greater move towards neutrality where necessary, by broadening the VAT base as well as an ambition to achieve progressivity more efficiently through the direct tax and benefits system whilst taking into account the possible disincentives such a system can create.

One of the most interesting parts of the talk was Sir Richard's focus on the labour market and human capital, particularly his explanation of how the current UK tax system is overly complicated. For instance, there are overlapping tax rates, welfare benefits and tax credits, which imply that incentives at the margin are quite distorted and often difficult to understand. Indeed, if a single parent in the UK in 2011 increased their gross annual earnings from just under £5000 to just over £5000 by taking a job of more than 16 hours per week, they would increase their net income as a result of benefit changes from approximately £17,000 to just over £20,000. This is quite a large jump in net income and economic theory would suggest that there would be considerable 'bunching' at tax kink points. Bunching at kink points, he noted, is a neat way of assessing the size of reposnes to incemtives in the tax system. Sir Richard demonstrated this by displaying a graph of the 'Composition of income around the higher rate tax threshold' which showed clear 'bunching' around the higher rate tax threshold.

However, Sir Richard was keen to point out that 'information, stigma and salience matter', implies that there will be 'larger responses for large reforms that are well understood'. i.e. if an area of the tax code is poorly understood, it is unlikely to affect behaviour. Alternatively, if there is a social stigma surrounding a particular benefit, the take up may be low, despite many people being eligible for it.

Sir Richard also discussed employment rates between different age groups and genders across countries, noting how French (men and women) tend to work far less in old age than their British and American counterparts, perhaps because of tax rates, pensions, social norms or other factors. Surprisingly, the data showed that employment for women aged between 60 and 64 has held up very strongly during the Great Recession, even improving across the Euro area countries. The same story can said for men, expect in Spain, where male employment in the 60-64 age bracket has decreased. Sadly, employment for those aged 20-24 have plummeted since 2008, particularly severely in Spain, possibly because of a lack of demand, but also because of the minimum wage. On a brighter note, Sir Richard noted that 'wages grow stronger and longer over the lifetime for higher educated' and that 'human capital accumulation during work is shown to be complementary to education'. This is no doubt good news for UCL students.

The Laffer Curve, a cornerstone of supply side economics, showing the non-linear relationship between tax rate and tax revenue, was also discussed, in particular the Laffer rate. This should be thought as 'the revenue maximising rate'. It was interesting to hear Sir Richard compare the proposed Laffer rates by different economists in the public debate – unsurprisingly those associated with more left wing politics advocated higher rates than more libertarian minded economists.

To conclude, Professor Sir Richard Blundell's talk was intellectually stimulating, insightful and enjoyed by all those who attended. On behalf of the Economist's Society, I would like to extend our greatest thanks to Sir Richard for gracing us with his presence, time and expertise.