

Glossary of key terms

Administrative burden

The time, paperwork, and procedural friction required to claim a benefit, comply with a rule, or obtain permission. Administrative burden is not evenly distributed: people with flexible jobs, spare time, and professional help carry it lightly; people with rigid hours, limited literacy, or unstable housing carry it heavily. In practice, administrative burden functions as an unlegislated filter. It reduces take-up of benefits, delays investment, and quietly advantages large firms and organised groups over small firms and isolated people. When a policy needs constant forms, audits, renewals, and appeals to “work”, it has built a second policy: a tax on attention.

Adverse selection

A selection problem that arises when one side of a transaction knows more than the other, and the better-informed side can choose in ways that harm the less-informed side. In insurance, for instance, people who know they are higher risk are more likely to buy coverage, raising average costs and pushing premiums upward. If premiums rise, lower-risk people exit, worsening the pool again. The key point is not morality but sorting. Where information differs and choice is voluntary, the mix of participants changes—and the mix often drives the result more than the headline rule.

Allocation

The assignment of scarce resources—land, labour, capital, time—across competing uses. Allocation is the central, unavoidable problem of economic life, even when it is disguised behind moral language. Every subsidy, ban, tax, and licence shifts allocation by changing pay-offs. A policy that claims to “help” one group usually reallocates resources from other uses and other groups. The hard work is to ask: allocation toward what, away from what, and with what long-run effects on entry, innovation, and resilience?

Appraisal bureaucracy

A bureaucracy built to value assets or classify activities so that taxes, benefits, or obligations can be applied. It arises whenever the tax base is hard to price, the category boundaries are contestable, or exemptions proliferate. Appraisal does not merely measure; it invites

argument. People respond by hiring specialists, lobbying for carve-outs, and restructuring behaviour so that a favourable classification is obtained. The cost is not only administrative spend but misdirected effort: talented people shift from producing value to negotiating labels. When appraisal expands, discretion expands with it.

Asset

A resource with expected future benefits: a house, a share, a business, a machine, a patent, a trained skill, a reputation, a contract right. An asset is not the same thing as cash. Many assets are valuable but illiquid, meaning they cannot be turned into cash quickly without sacrifice. Treating assets as if they were cash invites policy errors: it encourages forced sales, undervaluation, and “paper” taxes that require real liquidation. A clean habit is to ask of any asset: how is it valued, how is it sold, how stable is that value under pressure, and who bears the cost when liquidation is forced?

Avoidance

Legal rearrangement of behaviour to reduce tax or regulatory exposure. Avoidance differs from evasion: the former uses permitted structure; the latter hides facts. Avoidance is not a footnote; it is a behavioural response to incentives. If the rule is complex, avoidance becomes more rewarding. If the rule relies on disputed definitions, avoidance becomes an industry. In policy debates, avoidance is often treated as a moral inconvenience rather than a predictable outcome. The better habit is mechanistic: if a rule creates large gains from reclassification, people will pay for reclassification—and the cost of that activity is part of the policy’s bill.

Base erosion

The shrinking of the taxable base as people change behaviour, move activities, or reclassify income and assets to reduce liability. Base erosion is why first-year revenue estimates are often an illusion: they assume a frozen world. In reality, higher rates and narrower definitions increase the reward to avoidance, relocation, and timing games. Base erosion does not require villainy; it requires arithmetic. When the base erodes, governments often respond with more complexity, which can erode trust and broaden privilege. A robust design asks not only “what rate?” but “what base survives after the response?”

Behavioural response

The change in actions that follows a policy change. It is the missing term in most political economics. Raise the price of hiring, and firms hire differently. Subsidise a purchase, and sellers price differently. Cap a price, and supply responds. Behavioural response is not a side effect; it is the main effect. Ignoring it produces “arithmetic theatre”: a world where people continue as before to keep the spreadsheet tidy. The key discipline is to ask: what behaviour is rewarded, what behaviour is punished, and what clever substitutes become newly attractive?

Bottleneck

A capacity constraint that limits throughput even when money is available. Bottlenecks appear in housing (permitting, zoning, labour shortages), energy (grid connection, planning), ports (cranes, berths), and healthcare (staffing, facilities). Bottlenecks are why subsidies can raise prices instead of raising output: demand can be financed faster than capacity can be built. When policy fights bottlenecks with cash alone, it often funds bidding wars rather than production. The correct diagnosis is physical and procedural: what is the scarce input, and what blocks its expansion?

Burden bearer

The person or group that ultimately carries the cost of a tax, regulation, or policy—often not the person who writes the cheque. The burden bearer is identified by incidence analysis: who can exit, who can pass through, who has alternatives, and who is constrained. Firms do not “pay” in the way people imagine; costs are typically shared among workers, consumers, and owners depending on conditions. A serious policy asks: after behaviour changes, where does the burden settle? If the burden bearer cannot be described, the policy is still a mood.

Capital

Produced means of production (machines, tools, software), financial claims that fund them (shares, bonds), and the accumulated resources that support future output. Capital is not a synonym for “rich people”. It is the stock that makes labour more productive and wages higher over time. Policies that punish capital formation can look pleasing in the short run while reducing future income growth. It is worth keeping the distinction sharp: attacking capital as a symbol is easy; maintaining capital as a productive base is hard, and it matters most to those with the least savings.

Capital formation

The process of building and maintaining capital: investment in plant, equipment, skills, research, and infrastructure. Capital formation is sensitive to expected returns, stability of rules, and the cost of delay. A policy that introduces uncertainty, raises the cost of exits, or forces liquidation can reduce capital formation even if it raises revenue initially. The consequence is slow and dispersed: fewer new firms, weaker productivity gains, and thinner wages over time. Capital formation is where second effects hide. It is also where many policies do their quiet damage.

Capital gains

The increase in an asset's value over time. A capital gain becomes taxable in many systems on realisation—when the asset is sold—rather than as it accrues. This creates lock-in: people delay selling to avoid the tax, which can trap capital in less productive uses. Taxing capital gains is often justified as fairness, but the relevant mechanism is reallocation. If selling is punished, the movement of capital toward better uses slows. The question is not whether gains “deserve” tax, but what happens to investment decisions and dynamism when exits are taxed heavily.

Capture

Rulemaking shaped by incumbents to exclude entrants or protect rents. Capture is not always crude bribery. It can occur through consultation processes dominated by the largest firms, through complex compliance schemes that small firms cannot afford, or through licensing regimes presented as consumer protection. Capture is easiest when the benefits are concentrated (incumbents know what they want) and the costs are dispersed (the excluded do not even know what they missed). The signature of capture is a rule whose public rationale is safety or fairness, but whose practical effect is to raise barriers to entry.

Cash

Liquidity in its pure form: money available for immediate use without conversion. Cash is not wealth. Wealth is often held in assets whose value is uncertain and whose sale is costly. Confusing cash with wealth is a favourite policy mistake: it produces taxes that require forced sales and benefits that assume money can summon supply. In household terms, cash pays rent and groceries; assets are long-run security. In state terms, cash flow funds programmes; assets are the productive base. The distinction is not pedantic; it determines who can survive shocks.

Compliance fixed costs

Costs of meeting a rule that do not scale down with size: reporting systems, legal advice, audit readiness, privacy compliance, safety certification, licensing paperwork. Fixed costs are why rules that sound neutral can crush entrants. A large firm spreads the cost across millions of customers; a small firm cannot. The result is fewer competitors, less experimentation, and greater market concentration. When someone praises a regulation because “good firms will comply”, the question is: comply at what fixed cost, and who is excluded by that cost before they begin?

Cost

The resources sacrificed to obtain something: time, money, effort, risk, and foregone alternatives. Cost is not price. Price is what you pay in the market; cost includes what is not priced, including delay and risk. Cost is also not value: a thing can be costly and worthless, or cheap and valuable. Public debate often treats costs as merely budgetary, as if anything not on the ledger does not exist. A disciplined approach counts opportunity cost—what else could have been done with the resources used here—and counts the cost created by induced behaviour, not only the cost written on the government line item.

Credential inflation

A rise in formal requirements for jobs that once relied on apprenticeships, work history, or demonstrable competence. Credential inflation shifts selection from skill to signalling. It delays entry into work, raises debt burdens, and narrows pathways for people whose talents are practical rather than academic. The second effect is a thinning of ladders: fewer entry rungs, more waiting years, and a widening gap between “qualified” and “capable”. Credential inflation can be driven by risk aversion, regulation, professional gatekeeping, or social status competition. The test is simple: does the credential predict competence, or merely endurance and conformity?

Credit

Access to purchasing power now in exchange for a promise to repay later. Credit is not a free lunch; it prices risk and expects discipline. Policies that forgive debts or cap risk pricing change tomorrow’s willingness to lend. The cost then appears as tighter credit standards, higher rates, and exclusion of marginal borrowers. This is why debt jubilees are not merely transfers; they alter the future credit market. A credit market is a trust market. If policy treats promises as optional, lenders respond by making credit scarcer and harsher.

Deadweight loss

The economic loss created when a tax or regulation reduces mutually beneficial trades that would otherwise occur. It is “deadweight” because it does not become revenue or benefit for someone else; it simply disappears as activity that never happens. Deadweight loss is often invisible: the job not created, the business not started, the investment not made. This is why it is politically neglected. It is also why it matters. Policies that appear to “make someone pay” can, through deadweight loss, reduce total opportunity—particularly for entrants.

Demand

The willingness and ability to buy goods or services at different prices. Demand is not mere desire; it is desire backed by purchasing power. Subsidies increase demand by increasing purchasing power. If supply cannot expand, higher demand mostly raises prices. This is the central logic behind homebuyer grants and subsidised services without expansion: the subsidy becomes seller income. Demand policies are often politically irresistible because they are visible and immediate. The better habit is to ask: what happens to quantity supplied, not only to spending capacity?

Dispersed costs

Costs that are spread thinly across many people, often appearing as small price rises, lower quality, slower growth, or longer waits. Dispersed costs are politically undercounted because no single person feels the full weight and no single group has an incentive to organise against them. This is the political advantage of many bad policies: concentrated benefits produce applause; dispersed costs produce silence. Economic judgement involves tracing dispersed costs back to their source. The fact that a cost is hard to notice is not evidence it is harmless.

Elasticity

A measure of responsiveness: how much quantity demanded or supplied changes when price, income, or policy changes. High elasticity means people can adjust easily; low elasticity means they are stuck. Elasticity matters because it determines incidence. If demand is inelastic, consumers bear more of a tax through higher prices. If supply is inelastic, producers bear more through lower returns. In housing, short-run supply is often inelastic because construction takes time and permission. This is why subsidies raise prices. Elasticity is not a mathematical ornament; it is the lever that determines who pays.

Entry rung

The first step into work, skill, and stable income: the job that trains, the apprenticeship that forms habits, the small contract that builds reputation. Entry rungs are easily destroyed by well-meant rules that raise the cost of hiring the unproven. Minimum wages, rigid hiring and firing rules, and credential requirements can all reduce entry. The damage is quiet: it appears as non-employment, delayed adulthood, and lost skill formation. A society that treats entry as a luxury produces a permanent outsider class. A society that protects entry produces dignity without speeches.

Equity

A word with multiple meanings that should not be used without specification. In finance, equity means ownership shares in a firm. In policy debate, it often means fairness. These are not the same. When the book uses “equity”, it should either mean ownership shares or it should be replaced with the intended concept: fairness of rules, equal treatment, equal opportunity, or targeted redistribution. Ambiguity in this term invites sloppy arguments. If a sentence can be read as either “shares” or “fairness”, it should be rewritten.

Fiscal illusion

The appearance that benefits can be provided without real costs because the costs are delayed, hidden, borrowed, or shifted onto others. Fiscal illusion is easier to maintain when the public debate focuses on who is charged rather than who ultimately pays. Borrowing can spread cost over time, but it does not erase cost. Money creation can move the burden into inflation and risk premia. Complex taxes can shift the burden into prices, wages, and compliance. Fiscal illusion is popular because it preserves the pleasant part of policy and postpones the unpleasant part to later governments and diffuse groups.

Fixed supply

A condition where supply cannot respond quickly to increased demand. Housing under tight zoning and slow permits is a classic case. When supply is fixed, subsidies to buyers largely become higher prices paid to sellers. The same logic applies to any capacity-limited market: childcare slots under staffing constraints, medical appointments under limited practitioners, energy under grid bottlenecks. Fixed supply turns financial help into price pressure. The proper remedy is to remove constraints on expansion, not merely to finance more bidding.

Free at the point of use

A service that charges zero price to the user at the moment of consumption. Zero prices change behaviour. They increase demand and often produce queues and rationing unless supply expands or triage is introduced. When queues appear, waiting becomes the price. Waiting is then paid in time, stress, and lost income—costs that weigh heavily on people with little flexibility. “Free” is therefore not a simple virtue. It is a design choice that shifts payment from money to time and influence. The test is whether the system can expand supply or manage demand honestly.

Human capital

Skills, knowledge, habits, and health that raise a person’s productive capacity. Human capital is formed through education, training, work discipline, mentorship, and stable environments. It is not formed by certificates alone. Policies that delay entry into work, inflate credentials, or weaken family stability can erode human capital even if they raise measured spending on education. Human capital is central to the ladder: it determines whether people can convert opportunity into competence and competence into income. A society that neglects human capital ends up arguing about redistribution because production disappoints.

Illiquidity

The condition of being hard to convert into cash quickly without a substantial loss. Many assets are illiquid: private businesses, property, art, stakes in partnerships. Illiquidity matters because policy often pretends it does not exist. A tax on illiquid wealth forces sale or borrowing. Forced sale depresses prices and can destroy productive arrangements. Forced borrowing changes risk and incentives. Illiquidity also affects households: an asset-rich, cash-poor person cannot pay bills with valuations. A serious tax or benefit design respects liquidity constraints rather than treating them as excuses.

Incidence

Who ultimately bears the cost of a tax or policy after behaviour changes. Incidence is not assigned by legal responsibility. A tax “on landlords” can be paid by renters through higher rents if supply is constrained. A tax “on companies” can be paid by workers through lower wages or by consumers through higher prices, depending on competition and elasticities. Incidence is where policy stops posturing and starts confessing. It demands mechanism: who

can exit, who can substitute, who is stuck. Any tax debate that does not discuss incidence is a debate about stationery.

Incentives

The reward and penalty structure embedded in rules, prices, and institutions. Incentives do not depend on virtue; they depend on pay-offs. People respond to incentives whether they approve of them or not. This is why moral arguments alone cannot design policy. When a subsidy increases demand, it incentivises sellers to raise prices if supply is constrained. When compliance fixed costs rise, they incentivise consolidation. When debt is forgiven, it changes future lending terms. The practical question is always: what behaviour is made easier, what behaviour is made harder, and what alternative behaviours become newly profitable?

Indexation

The linking of wages, benefits, or contracts to an inflation measure. Indexation is often proposed as protection, but it can also harden inflation into persistence by embedding automatic price adjustments. If many contracts are indexed, inflation becomes a loop: prices rise, indexed payments rise, demand stays stronger, and price pressure continues. Indexation can be sensible in narrow contexts, especially where long contracts would otherwise produce unfair surprises. It is not, however, a substitute for restoring monetary stability or addressing supply constraints. Indexation manages symptoms; it does not cure the underlying scarcity.

Inflation

A general rise in prices, typically driven by money and credit conditions relative to output, though supply shocks can alter prices as well. Inflation is not a personality trait. It is a condition produced by policy and circumstance. When inflation is framed as “greed”, the proposed remedies tend to be price controls and scolding, which do not address the source and often create shortages. Inflation also reallocates: it transfers from savers to debtors and punishes those on fixed incomes and stable wages. The best diagnostic question is not “who is profiteering?” but “what changed in money, credit, supply capacity, and constraints?”

Investment

The sacrifice of resources now to gain greater output later. Investment includes building capacity, training staff, maintaining equipment, and developing new products. Investment is sensitive to rule stability, expected after-tax returns, and the cost of delay. Policies that raise

uncertainty or force liquidation can reduce investment even when they claim to target idle wealth. In the long run, investment is wages. Not literally, but causally: investment raises productivity, which raises the ability to pay. A policy that is popular today but reduces investment is a policy that taxes tomorrow's pay packets.

Ladder

The path into competence, ownership, and stable income. The ladder is built from entry-level work, apprenticeships, accessible housing, predictable rules, and the social networks that connect effort to opportunity. The ladder is not guaranteed by slogans about fairness. It is widened by lowering barriers to entry and by increasing supply of the things people need to start: jobs that train, homes that can be built, licences that are not protection schemes, and education that builds competence rather than gatekeeping. A society can tolerate unequal outcomes if the ladder is open. It cannot tolerate a ladder quietly removed.

Levelling

Policies that reduce outcomes without expanding entry. Levelling can look like justice when it targets visible wealth or high incomes, but it often harms the ladder if it reduces investment, increases bureaucracy, or shifts attention from competence to political distribution. Levelling is distinct from enforcing fair rules. Fair rules keep competition honest; levelling often seeks to compress results regardless of how they were earned or what they fund. The test is practical: does the policy widen entry, or does it merely rearrange the ranking while making it harder to climb?

Liquidity

The ability to turn an asset into cash quickly without large loss. Liquidity matters for households (paying bills), for firms (meeting payroll and investing), and for markets (keeping spreads tight). A tax that forces liquidation is a liquidity policy whether or not it admits it. Liquidity also matters for incidence: when people cannot adjust easily, they bear more burden. In markets, liquidity supports price discovery; a tax on transactions can reduce liquidity and raise the cost of capital. A serious policy respects liquidity constraints rather than assuming every asset is a bank account.

Liquidity trap

In this book's context, a regime where an annual tax on wealth forces repeated conversion of assets into cash, turning ownership into a series of taxable events. The trap is not about central banking; it is about compelled liquidity. If valuation is uncertain and the asset is illiquid, the owner must sell, borrow, or restructure to pay. Forced sales can depress prices and punish long-term investment. Borrowing changes risk. Restructuring invites avoidance and lobbying. The mechanism is clear: when tax demands cash from illiquid wealth, the tax reaches into the productive base.

Lock-in

The tendency to hold an asset longer than is economically efficient because selling triggers tax or loss of benefit. Lock-in is a classic behavioural response to capital gains taxation, but it can also appear in housing and benefits programmes. The effect is misallocation: resources remain in lower-value uses because the act of moving them is punished. Lock-in reduces dynamism and slows reallocation toward new firms and better ideas. It also tends to advantage incumbents, who can afford to wait. The test for a policy prone to lock-in is whether it taxes movement rather than underlying value creation.

Marginal tax rate

The tax rate applied to the next pound earned. Marginal rates drive behaviour more than average rates, because they determine whether extra effort is worth it. High marginal rates can encourage substitution toward leisure, relocation, or avoidance strategies, depending on options available. This does not mean that high marginal rates are always wrong; it means they have mechanisms. In debates, marginal rates are often treated as moral judgments rather than incentive structures. The correct question is not whether a rate "sounds fair", but how it changes the choices of people who can adjust and how it affects the base over time.

Misallocation

Resources placed in uses that produce less value than plausible alternatives. Misallocation can be created by price controls (goods go to those with time or influence), by subsidies in fixed supply markets (money chases scarcity), by capture (resources flow to protected incumbents), and by credential inflation (talent is sorted by paper rather than competence). Misallocation is often invisible to those receiving the benefit, because they see only their own gain. Its cost appears as lower growth, weaker innovation, and frustrated entry. A policy can be generous and still create misallocation. Kindness does not repeal arithmetic.

Moral hazard

The tendency for people to take more risk when they are protected from the consequences. Insurance creates moral hazard; that is why it uses deductibles, monitoring, and pricing. Policy can create moral hazard when it repeatedly rescues certain behaviours, industries, or borrowers without changing the incentives that produced the risk. The result can be more fragile arrangements and louder demands for future rescues. Moral hazard is not an accusation; it is a predictable response to altered pay-offs. The test is whether protection is designed with discipline or whether it becomes an entitlement to be careless.

Opportunity cost

The value of what is forgone when a choice is made. Opportunity cost is the best antidote to “free” talk. Money spent here cannot be spent there. Time used for compliance cannot be used for production. Political attention devoted to theatre cannot be devoted to reforming bottlenecks. Opportunity cost also matters for individuals: years spent collecting credentials can be years not spent building skills and experience. In policy, opportunity cost is often ignored because the forgone outcome is hypothetical. Yet it is real. It is the unseen alternative that does not occur.

Optics

The surface appearance of a policy or corporate action, often used as a substitute for mechanism. Optics are politically potent because they are easy to communicate. They are also dangerous because they can reverse causality. Buybacks, for example, are often framed as extraction because the cash return is visible, while the firm’s reinvestment opportunities and capital structure are less visible. Policies built on optics tend to punish what is seen and ignore what matters. The test is whether the argument would still hold if the visible sign were removed and the underlying incentives remained.

Pass-through

The shifting of costs from the legally responsible payer to others through prices, wages, or returns. Corporate tax pass-through is a central example: firms may raise prices, reduce wage growth, or cut investment depending on competition and bargaining. Pass-through is not a choice made in a vacuum; it is constrained by market conditions. In some contexts, pass-through is limited; in others, it is substantial. The point is to analyse rather than assume. A tax

intended to fall on one group often spreads. The real question is: through which channel and onto whom?

Price

The money amount paid for a good or service. Prices are signals and rationing devices. When prices are allowed to move, they coordinate supply and demand by rewarding production and discouraging consumption at the margin. When prices are capped, rationing still occurs—only now it occurs through queues, shortages, and informal markets. Prices are also information: they incorporate dispersed knowledge about scarcity, risk, and preference. This does not make every price “just”, but it does mean prices do work that policy must replace if it suppresses them. Replace the signal, and you must build another signal.

Price cap

A legal maximum price. Price caps are often motivated by a genuine desire to protect consumers, especially during shocks. The hidden assumption is that supply will not change. The behavioural response is predictable: suppliers reduce quantity, reduce quality, or exit; new supply is discouraged; and rationing appears. The second effect is misallocation: goods go to those with time, luck, or connections. The burden falls on new entrants and the poor, who cannot navigate the informal systems. The better test is availability and quality. A cheap price with empty shelves is not affordability.

Price discovery

The process by which markets incorporate information into prices through trading, competition, and adjustment. Price discovery is not financial ornamentation. It determines how capital is allocated and how risk is priced. When transaction taxes widen spreads and reduce liquidity, price discovery deteriorates. The result is a higher cost of capital and more fragile markets, which ultimately affect savers and workers. In policy rhetoric, trading is often dismissed as “speculation”, but the trading that tightens spreads and corrects mispricing is part of the infrastructure of investment. If you tax the mechanism that reveals prices, you do not get fewer mistakes; you get slower correction.

Productivity

Output per unit of input—often per worker hour. Productivity is the deep source of wage growth over time. Policies that raise the cost of investment, block entry, or misallocate

resources tend to reduce productivity growth. The harm is slow and therefore politically easy to ignore. It shows up as stagnant wages, higher prices for essentials, and a bitter politics of distribution. Productivity is often treated as a technocratic concern. It is not. It is the difference between a society that can afford generosity and a society that argues over scraps. A practical education system is a productivity system.

Queue as price

When monetary price is held down, demand exceeds supply, and waiting becomes the rationing device. The queue is then the real price, paid in time and inconvenience. Because time is not evenly held, queues are regressive: people with flexible schedules and spare time do better; people on hourly wages do worse. Queues also create secondary markets—favours, informal payments, and influence. A queue is not a harmless inconvenience. It is a policy choice that shifts payment from money to time and power. If a service must be rationed, the honest design question is how and at whose expense.

Rationing

The allocation of scarce goods by a method other than price—often by quotas, queues, eligibility rules, or political discretion. Rationing always exists when supply cannot meet demand. The question is which rationing method is used and who is advantaged by it. Price rationing favours those with money; queue rationing favours those with time and connections; discretionary rationing favours those with influence. None is morally pure. A serious policy acknowledges rationing and designs it openly rather than pretending it is absent. Denying rationing tends to produce the worst version: rationing by chaos.

Real wages

Wages adjusted for the cost of living. Inflation can raise nominal wages while real wages fall. Policies that increase demand without increasing supply can produce precisely that outcome: more money chasing the same goods, with households feeling poorer despite “higher pay”. Real wages are where many policy stories end, because they capture lived constraint without drama. When discussing “help for workers”, the question is: does the policy raise productivity and supply capacity, or does it merely raise money flows and prices? Real wages depend more on production than on proclamations.

Redistribution

The shifting of resources from some people to others through taxes, transfers, and public services. Redistribution can be justified on many grounds, including compassion and social stability. The economic point is that redistribution changes incentives and behaviour, and it has administrative costs. It also competes with reforms that widen entry, which can reduce the need for redistribution by raising competence and opportunity. Redistribution is not a substitute for a ladder. It can be a support when the ladder is functioning. When redistribution becomes the main tool, it often signals that entry has been blocked and growth has disappointed.

Regulation

Rules governing behaviour, production, and exchange. Regulation can prevent fraud, enforce contracts, and protect safety. It can also become a barrier to entry when it is written for incumbents or when compliance fixed costs are high. The question is not whether regulation is good or bad in the abstract, but whether it targets a clear harm with proportional cost and minimal exclusion. Good regulation is specific about the failure it addresses—fraud, monopoly, information imbalance, safety risk—and it is designed to avoid capture. Bad regulation speaks in large virtues and produces small monopolies.

Rent

In economics, rent is income earned beyond what is needed to keep a resource in its current use—often produced by monopoly, legal privilege, or scarcity protected by rules. Rent is not the same as rent paid for a flat. Rent-seeking is the pursuit of these excess gains through lobbying, legal complexity, and restriction of entry. When a profession requires licences beyond competence needs, it can create rents. When zoning bans building, it creates land rents. When compliance costs rise, incumbents may gain rents by excluding competitors. The proper enemy of fairness is often rent protected by law, not wealth earned by meeting demand.

Rent control

A cap on rents. The intended benefit is obvious: lower headline prices for current tenants. The hidden assumption is that landlords will supply the same quantity and quality of housing. Behavioural response follows: less maintenance, fewer new units, conversion to other uses, and selection of tenants by non-price methods. The second effects are shortages and misallocation: people stay put even when their housing no longer fits, and newcomers

struggle. The burden falls on future renters, the young, and the unconnected. The better test is availability and quality. A city cannot rent-control its way into more homes.

Risk premium

The extra return required to compensate for uncertainty and danger. When policy increases unpredictability—through sudden taxes, unstable rules, or arbitrary enforcement—risk premia rise. Higher risk premia mean higher borrowing costs, lower valuations, and reduced investment. This is one channel through which “tax the paper” policies hit real activity. Risk premia also rise with crime and disorder. Capital is cautious. It avoids risk when it can. That avoidance is not a moral statement; it is a pricing statement. When risk premia rise, the poorest areas are often hit first through lost jobs and degraded services.

Risk pricing

The practice of setting prices—interest rates, insurance premiums, contract terms—according to risk. Risk pricing can look harsh because it does not flatter anyone, but it is the mechanism that keeps credit and insurance available. If risk pricing is capped by law, supply shrinks or moves informal. The marginal borrower or the high-risk region then loses access. The alternative is not kindness; it is rationing. The honest policy choice is whether to subsidise risk explicitly (and admit the cost) or to force suppliers to pretend risk is low (and accept shortage). Lying about risk is an expensive habit.

Scarcity

The condition that wants exceed resources. Scarcity is not an ideology; it is the starting point. Public debate often treats scarcity as negotiable if the desire is noble. Yet scarcity reappears as queues, rationing, inflation, or falling quality. Scarcity is why “free” programmes need triage, why subsidies in fixed supply markets raise prices, and why price caps create shortages. The adult move is not to deny scarcity but to design under it: expand supply where possible, ration honestly where necessary, and avoid policies that pretend constraints have vanished. Scarcity is not an insult. It is a fact.

Second effects

Consequences that arrive after the first, visible effect. The first effect is what a policy advertises: a cheque, a cap, a promise. The second effects are how the world responds: supply exits, quality drops, avoidance rises, investment slows, entry shrinks. Second effects are often

delayed and dispersed. That delay creates political temptation: claim the applause now and let the bill arrive later. Economic judgement is the discipline of counting second effects and naming who pays. A policy that looks compassionate in the first month can be cruel in the third year. The second effect is where truth tends to live.

Signalling

Actions taken to convey information when direct measurement is difficult. Credentials are signals: they may indicate competence, but they may also indicate endurance, compliance, and social sorting. In markets, prices are signals. In labour markets, work history and references are signals. Signalling becomes wasteful when everyone must buy a costly signal merely to stay in place. That is credential inflation in a sentence. A policy that raises the cost of signalling without improving actual competence creates waste and exclusion. The test is whether the signal predicts performance or merely screens by patience and resources.

Social capital

Trust plus networks plus norms enabling cooperation. Social capital reduces transaction costs: fewer guards, fewer lawyers, fewer elaborate contracts, less suspicion. It also improves opportunity: weak ties—acquaintances and associations—carry job leads and practical guidance. Social capital does not appear in budgets until it collapses, at which point costs rise everywhere. When associations decline and people become isolated, labour markets become harsher and safety nets carry more weight. Social capital is therefore an economic input. It can be strengthened by stable local institutions, order, and shared expectations. It can be eroded by disorder, volatility, and relentless bureaucratic friction.

Spillover costs and benefits

Effects of an action borne by people who did not choose the action and may not be compensated. Pollution is a spillover cost; vaccination can be a spillover benefit. The phrase “externalities” is often used here, but it tends to become a blank cheque. The disciplined approach is to specify the mechanism: who is affected, how, and through what channel. Not every disliked outcome is a spillover. Some are simply trade-offs. When spillovers are real, policy can aim to price them or regulate them—but it should still count behavioural responses. Even spillover policies can be captured or misdesigned.

Subsidy

A payment or benefit that reduces the private cost of an activity. Subsidies can be direct (cash grants) or indirect (tax relief, cheap credit, guarantees). Subsidies increase demand for the subsidised activity. If supply can expand, subsidies can increase quantity. If supply is constrained, subsidies raise prices and transfer value to sellers. This is the logic of homebuyer grants in supply-restricted housing markets. Subsidies can also create dependency and lobbying, because once created they become a target for preservation and expansion. The best test for a subsidy is whether it buys more supply or merely bids up scarcity.

Supply

The quantity producers are willing and able to provide at different prices, given costs, constraints, and expectations. Supply responds to incentives and to bottlenecks. If permitting delays are long, supply is slow even if demand is strong. If price caps restrict returns, supply exits. If risk is mispriced by law, supply retreats. Supply is often the boring side of policy—planning, construction, training, maintenance—but it is where living standards are made. A politics that focuses only on demand will discover, repeatedly, that money does not conjure capacity. Supply expansion requires permission, time, and predictability.

Tax base

The set of things being taxed: income, consumption, transactions, property, wealth, profits. The base matters as much as the rate. A narrow base invites avoidance and lobbying; a base that is hard to measure invites appraisal bureaucracy; a base that requires liquidation punishes investment. Many tax debates argue about fairness while ignoring base design. Yet base design determines administrative burden and incidence. A “tax on the rich” that hits pension funds through equity repricing is a base problem. A transaction tax that widens spreads is a base problem. The question is: what is being taxed, how does it change behaviour, and who ultimately pays?

Tax wedge

The gap between what a buyer pays and what a seller receives after tax. A larger wedge reduces the volume of trade. In labour markets, a wedge between employer cost and worker take-home pay can reduce hiring or participation. In investment markets, a wedge on transactions can reduce liquidity and raise the cost of capital. The wedge is the mechanical representation of how taxation interferes with exchange. The point is not to abolish wedges—

states must fund themselves—but to recognise that wedges have behavioural effects. If the wedge is placed on entry and movement, the ladder weakens.

Throughput

Flow capacity: how much can move through a channel per unit time. Throughput applies to ports, rail, roads, planning offices, courts, grids, and even labour markets. A society can have abundant money and still have low throughput if permissions are slow, infrastructure is constrained, or processes are clogged. Low throughput raises costs by adding delay, uncertainty, and waste. In housing, throughput is reduced by permitting delays and veto points; the result is scarcity and high prices. Throughput is where “time is a tax” becomes literal. Increase throughput and many social problems soften without theatre.

Time as tax

The idea that delay functions like a tax by raising costs and reducing feasible projects. Permitting delays, planning appeals, slow approvals, and bureaucratic uncertainty all increase carrying costs and deter investment. The tax is not paid to the treasury; it is paid in foregone output, higher prices, and fewer opportunities. Time taxes are politically convenient because they do not show up as a rate. They also produce capture, because incumbents can wait while entrants cannot. In housing and infrastructure, time taxes are among the most destructive policies precisely because they appear as caution and “process”.

Transaction cost

The cost of making an exchange beyond the sticker price: searching, negotiating, contracting, monitoring, enforcing, and building trust. Transaction costs rise when trust collapses, when legalism expands, and when rules become unpredictable. High transaction costs favour large firms, because they can maintain legal departments and compliance systems. They harm small firms and ordinary people. Transaction costs are also why social capital matters: trust reduces the cost of doing business and living together. A society that inflates transaction costs through disorder or bureaucracy will feel poorer even if its formal income measures look stable.

Transaction tax

A tax on buying or selling assets, often framed as a way to target “speculation”. The hidden assumption is that only speculators pay. The behavioural response is reduced trading, wider

spreads, and lower liquidity. The second effects include worse price discovery and a higher cost of capital, which can reduce investment and wage growth. The burden falls on savers and companies, often through pensions and retirement portfolios. Transaction taxes also invite avoidance through shifting venues and instruments. The better test is whether the policy improves market integrity or merely punishes visible trading while leaving deeper problems untouched.

Two-tier system

A situation where an ostensibly universal service becomes stratified: those with money or connections obtain faster, better service privately, while those without are left with queues and lower quality. Two-tier outcomes often emerge when the public price is set at zero without sufficient supply expansion or triage. The rationing then shifts to waiting and influence. The political story remains “equal access”, but the lived reality becomes unequal access by a different currency. Two-tier systems are not always avoidable; scarcity forces trade-offs. The honest task is to design rationing and funding so that the poor are not trapped in the slow lane.

Unintended incidence

The burden that falls on people who were not the political target. It is the signature of policies designed for applause. A tax aimed at “the rich” can hit pension funds through valuation changes. A rent control measure aimed at “greedy landlords” can hit future renters through shortages. A compliance rule aimed at “privacy” can hit users through reduced competition and innovation. Unintended incidence is not mysterious; it follows from behaviour and constraints. The disciplined habit is to include at least one sentence in any policy evaluation naming who else gets hit. If no such sentence can be written, the analysis is unfinished.

Valuation

The act of assigning a price to an asset, often under uncertainty. Valuation is simple for liquid, publicly traded assets; it is contested for private businesses, property with unique features, art, and intellectual property. When taxes depend on valuation, disputes arise, and politics enters the valuation process through exemptions and definitions. Valuation-based regimes often create avoidance, because people can rearrange ownership and structure to affect valuations. Valuation also becomes cyclical: in downturns, valuations fall and forced sales

can deepen declines. The test for valuation-heavy policy is administrative realism: can it be measured cleanly without turning the state into an appraisal bureau?

Value

The usefulness or importance of a good or service to someone. Value is not price and not cost. A cheap item can be valuable; an expensive item can be worthless. Policy debates often muddle these terms because the muddle is convenient. If price is treated as value, then any high price looks like exploitation. If cost is treated as value, then any expensive programme looks virtuous. Clear language separates them. Price is an exchange ratio. Cost is what is sacrificed. Value is what is gained by the chooser. When arguments confuse these, they usually conceal a weak mechanism.

Wealth

The value of accumulated assets: property, shares, business ownership, savings, and rights to future income. Wealth is not income and not cash. Wealth can rise on paper without creating cash flow. It can also fall rapidly. Treating wealth as spendable cash produces policies that force liquidation and punish investment. It also produces political fantasies: “there is enough money if we take it”, as if valuations were piles of notes. Wealth matters because it funds investment and buffers shocks. The correct approach is to distinguish wealth (stock) from income (flow) and cash (liquidity), and to design policy with those differences in view.

Windfall

An unusually high return, often due to price spikes, scarcity, or shocks. Windfalls attract political attention because they look like free money. Windfall taxes assume that the extra return can be taken without affecting future supply. That assumption is often false, particularly in sectors where investment is risky and long-term. Taxing windfalls can reduce future investment, making future scarcity worse. The incidence then falls on consumers through higher prices or weaker supply. The better test is to ask what produced the windfall: genuine monopoly power, temporary scarcity, risk realised, or policy-created constraints. Different causes require different tools.

Zero price

A price of nothing at the point of use. Zero price is never neutral. It changes behaviour by removing the most direct rationing tool. Demand rises. If supply does not rise, rationing shifts

into queues, gatekeeping, and informal sorting. The cost is then paid in time, stress, and influence. Zero prices can be defensible where spillover benefits are large or where society chooses to pool risk. Yet they must be designed with triage, supply expansion, and honest limits. Otherwise the promise of “free” becomes a machine for waitlists—and waitlists are a tax paid by those with the least spare time.

“Better test”

A replacement question that avoids slogans by asking for measurable, mechanism-based evaluation. A “better test” forces clarity. It asks what the policy should be judged by once behaviour changes and time passes: availability rather than headline price, real wages rather than nominal pay, entry rather than reassurance, investment rather than applause, trust rather than mood. The “better test” is the book’s discipline distilled into a sentence. It does not guarantee agreement. It guarantees that disagreement occurs over mechanisms rather than over theatre.

Lesson line: A glossary is not decoration; it is a promise to argue with definitions, not with vibes.