

Policy Paper

Towards a new tax consensus:
Embracing progressive taxation

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Richard Murphy is a UK chartered accountant.

Having been senior partner of a practicing firm of accountants and director of a number of companies he shifted towards a research focus for his work when he helped found the Tax Justice Network in 2002.



Richard now directs Tax Research UK and writes, broadcasts and blogs extensively on tax, economics and related issues in political economy, the latter at www.taxresearch.org.uk. His blog has been ranked the number 1 economics blog in the UK for most of the last year.

Richard is an adviser on tax policy to the TUC and also advises PCS on tax related issues. In those roles he has been credited with creating much of the current UK debate on the tax gap, tax avoidance and tax evasion; a debate that started with the publication of his seminal TUC pamphlet, 'The Missing Billions', in 2008.

Richard has been a visiting or research fellow at a number of UK universities and is joint author of 'Tax Havens, The True Story of Globalisation', Cornell University Press, 2010 and sole author of 'The Courageous State', Searching Finance, 2011. He is now working on a new book – 'The Joy of Tax'.

Executive Summary

For more than thirty years the politics of the UK and most other western democracies has been dominated by a notable and consistent adherence to a single consensus on tax issues. That persistent policy approach has been built around what has been described as the Washington Consensus. That agenda, which translated neoliberal thinking into policy prescriptions, had powerful implications for the political economy of tax.

The Washington Consensus decreed that top rates of income tax should be reduced, corporation tax rates should be cut, capital controls that prevented the use of tax havens should be eliminated, indirect taxes such as VAT should be increased and their scope broadened whilst the use of tax revenues for social purposes, such as benefit payments should be restricted.

The impact of the Washington Consensus on UK taxation is easy to identify. Over a period of thirty years top rates of income tax have fallen from 60% to 45%, corporation tax rates will have more than halved, the use of tax havens by UK based multinational corporations is now officially sanctioned and even encouraged by tax law whilst VAT is at its highest ever rate.

The impact on UK society is also easy to identify. Inequality in the UK has risen. The share of national income paid to labour has fallen; the share to profits has risen. Wage differentials have increased. Investment in our tax system has been reduced, to the benefit of tax avoiders and, inevitably, tax evaders. Those outcomes have all contributed to a now persistent narrative that the government has no choice but cut public services, pensions, benefit payments and investment in our collective futures when that has always been the chosen policy objective of the Washington Consensus. We have as a result a more divided society; a society that has seen the impact of the 2008 financial crisis grossly unequally shared and we now face massive and unnecessary austerity programmes from a government that is deliberately seeking to deliver the 'small government' that the Washington Consensus prescribes.

None of this is inevitable. It is the result of the adoption of a particular political ideology. If we want progressive taxation, which is a policy objective incompatible with the Washington Consensus then we can have it, but, and the point cannot be stressed sufficiently, not without creating an alternative political paradigm. I call that new paradigm the Tax Justice Consensus. That consensus would need to be built on very different assumptions to the Washington Consensus.

I suggest that new consensus might embrace the following:

1. Progressive taxation playing a pivotal role in addressing inequality;
2. Barriers to the effective taxation and distribution of wealth being removed;
3. Taxation helping sustain family relationships whilst promoting gender equality;
4. Taxation policy facilitating the creation of sustainable employment in sustainable businesses that have access to the capital needed to deliver long term security;
5. Taxation policy holding government to account for the delivery of sustainable public services;
6. Taxation policy assisting the process of holding global capital to account both internationally and locally so that it contributes to the common good;
7. Capturing the information needed to enable the effective decision making required on the allocation of resources, which information is seen as a public good;
8. Taxation policy tackling the supply side incentives for corruption, most especially in tax havens / secrecy jurisdictions;
9. Tax policy being integrated and coordinated internationally to deliver

a race to the top in delivering effective policies to tackle inequality, poverty and in promoting a genuine level playing field in market competition;

10. Tackling the free flow of financial capital that undermines the stability of world markets, nations and the well-being of the vast majority of people (the gainers being a tiny minority of rent seekers). On the other hand, the flow of productive capital that encourages the creation of real wealth, whether through work or the creation of human capital, sustainable ecologies and the promotion of learning, must be encouraged.

As is clear, important as progressive taxation is in this agenda – and it is absolutely fundamental to it – it will not be a policy capable of being pursued in isolation.

The reality is that the history of social justice is to be found written in the tax laws of most countries. When ordinary people have flourished the tax laws of their states have recognised that inequality is a global and national harm, and progressive taxation has resulted. When governments have been committed to open and accountable relationships with business working together in a mixed economy where all can enjoy the benefits of wealth creation tax laws have been used to define the parameters and methods of operation of markets, domestically and internationally. When the free flow of capital was considered less important than the rights of the working person to enjoy the rewards of their labour there were constraints on the use of tax havens in tax systems. And when globalisation in the neoliberal idiom has come to the fore so have tax havens, regressive tax systems and corporate tax regimes that favour multinational corporations over local companies, large companies over small and those companies willing to hide their affairs out of sight in some of the world's shadiest places over those willing to be accountable. We need to recognise and build on these understandings in our thinking on political economy.

As this paper makes clear, there are clear economic and social arguments for progressive taxation. The counter-arguments are weak. However, the gains for society that progressive taxation can deliver are dependent upon creating a new social consensus. Tax could be the means for building that 21st century economic consensus and this paper sets out a research and policy programme that could create that agenda.

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