

Policy Paper

Towards a new tax consensus:
Embracing progressive taxation

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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.

Tax and political economy – the missing link

Tax is at the core of every political debate. It can make and break governments. And yet, as recent evidence has all too clearly demonstrated, most of that debate is about issues of significance to those affected but of little overall long term consequence. The pasty tax, granny tax, charities tax and other debacles arising from George Osborne's March 2012 budget revealed political incompetence but all were peripheral to the debate that is needed on taxation in the UK.

As was recently said to me in an off-the-record meeting by a senior official from a major international regulator, there has been no real debate on tax policy anywhere for more than thirty years. That commentator was right. And there is good reason for that explanation of the missing link in the necessary debate that must now take place on our future political economy. The explanation has been the hegemony of ideas that the Washington Consensus represents. That consensus opposes progressive taxation: it is its opposition to the idea that has closed down debate on this and other issues of tax policy.

The Washington Consensus and tax

The term 'the Washington Consensus' was created by the economist John Williamson to describe the policy measures that developing countries were required to implement in exchange for development assistance from the Washington DC based International Monetary Fund and World Bank. Those policies were considered by Williamson to be ten in number¹, not all of which related to taxation². As Williamson himself noted with regard to tax³:

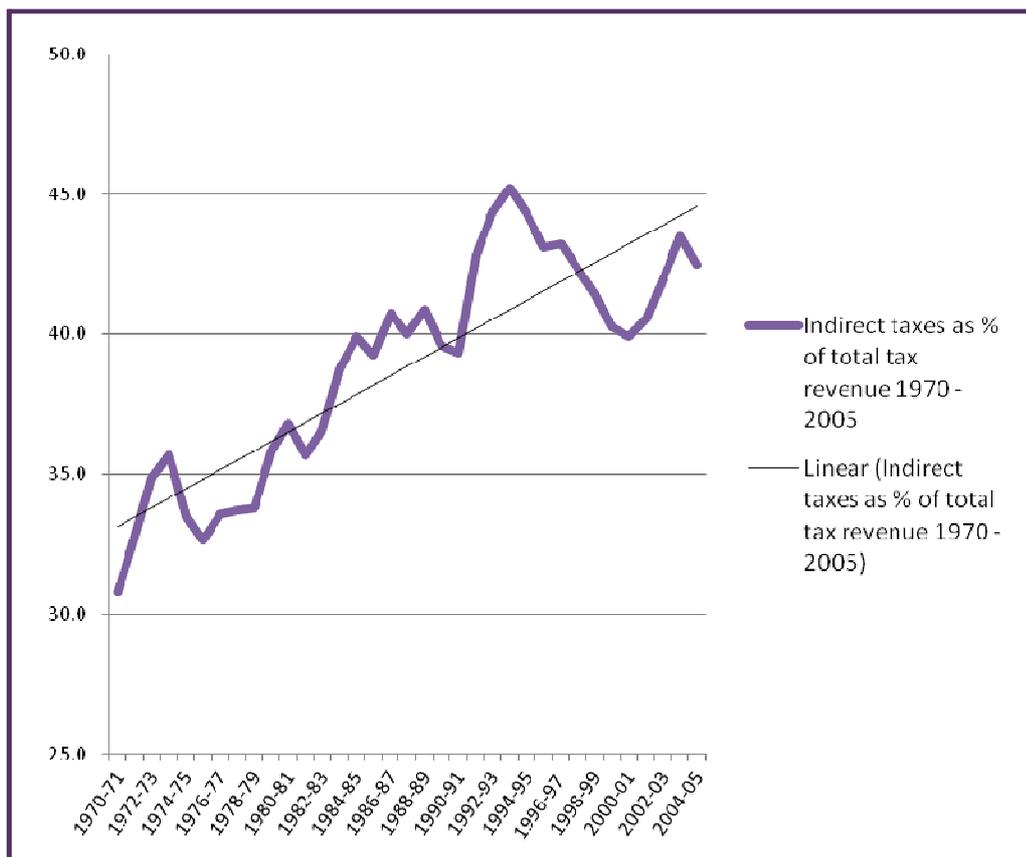
Tax reform involves broadening the tax base and cutting marginal tax rates. The aim is to sharpen incentives and improve horizontal equity without lowering realized progressivity. Improved tax administration (including subjecting interest income on assets held abroad – flight capital – to taxation) is an important aspect of broadening the base in the Latin context.

However, such apparently benign thinking, which in the context of the Washington Consensus was mainly meant to apply to developing countries, has had malign consequences. The logic of the Washington Consensus has become the accepted basis for almost all taxation policy, to the extent that debate on the subject has become stuck in a paradigm that no seems to have been willing to challenge. That paradigm embraces the following logic:

1. There will be no increases in personal taxation rates;
2. Corporate tax rates will be cut to stimulate growth;
3. Tax simplification, which removes allowances and reliefs, is welcome;
4. Indirect taxes, such as those on consumption like VAT, alcohol, tobacco and fuel taxes are the new basis for revenue raising;
5. Tariffs on trade are bad and should therefore be reduced as far as possible;
6. Tax competition is beneficial.

Some indication of the resulting shift in taxation is shown by the following graph, reflecting the proportion of total taxes collected from indirect tax sources from 1970 to 2005, with national insurance being ignored⁴:

Diagram 1 - Indirect taxes as % of total UK tax revenue 1970 - 2005

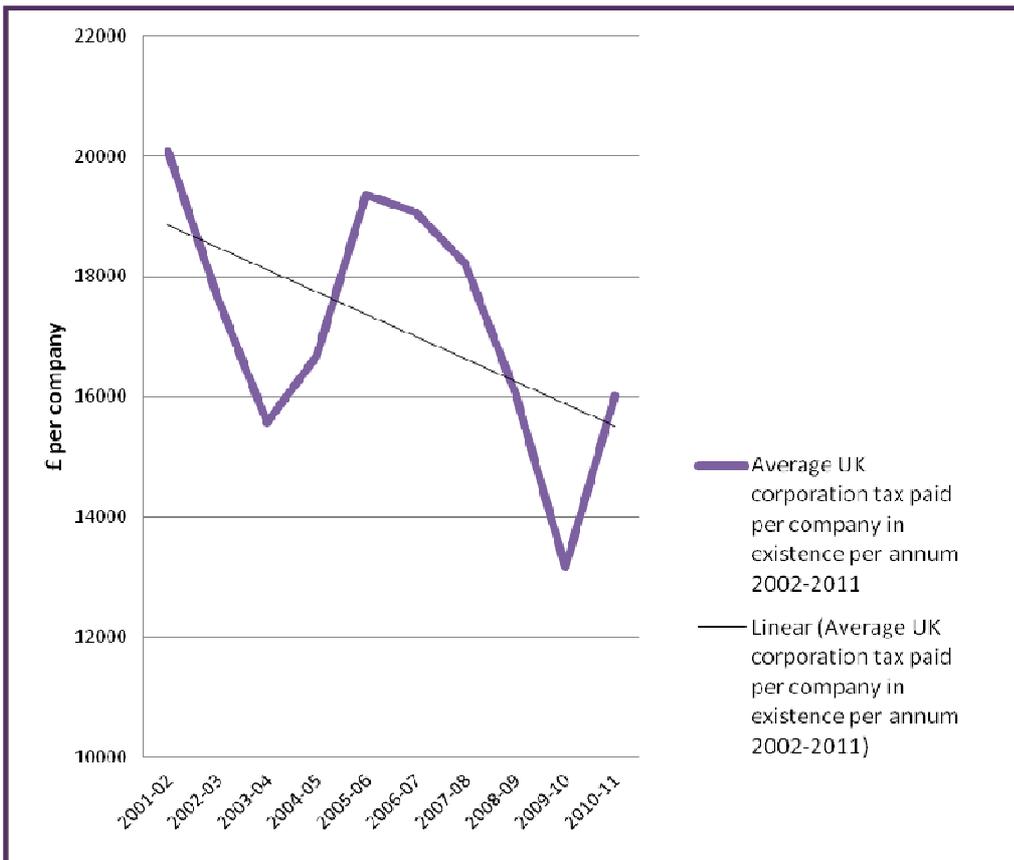


The consequence of that shift is all too apparent. It can fairly be said that under the influence of the Washington Consensus the burden of taxation has shifted.

There has been another shift that is harder to detect within the tax system, but which has nonetheless been present. Although looking at raw data suggests that the amount of corporation tax paid has been broadly static over the last decade or so, this does not reflect a substantial net increase in the number of companies operating in the UK economy or the net increase in their share of GDP.

This issue needs further exploration but this graph may be telling:

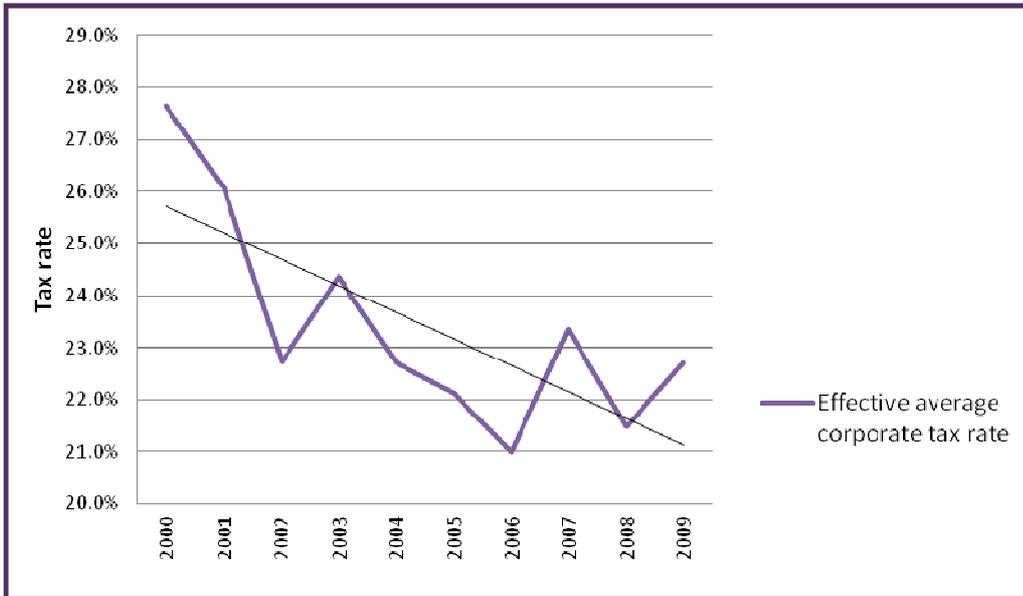
Diagram 2 - Average UK corporation tax paid per company in existence per annum 2002-11



Sources: Companies House data for companies in existence at the start of each year and HMRC data on corporation tax yield by year.

The trend is marked, and downward. Although, as noted, there is more work required on this data the picture appears to be clear, and that is that on average the trend in corporate profits is downward. This trend is also found in my work on the corporate tax gap, prepared for the TUC⁵ as shown here:

Diagram 3 - Effective Corporation Tax Rates of FTSE companies 2000 - 2009

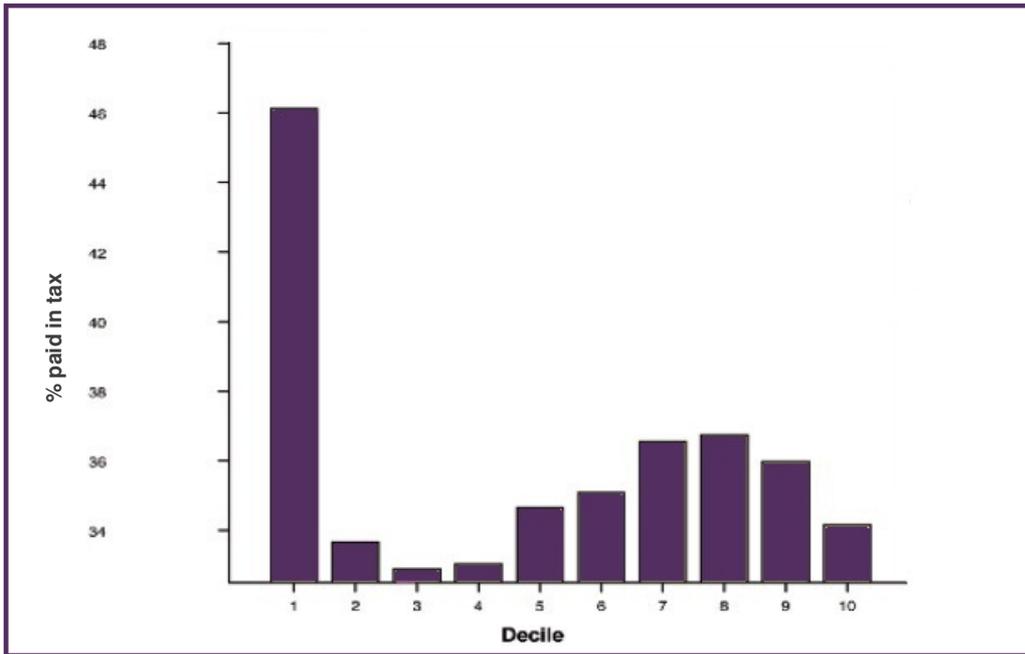


Source: Author's research on top 50 FTSE companies

The effective tax rates of large corporations are falling. As a result of these combined shifts from direct to indirect taxes and because of the fall in corporate taxes, the UK tax system is clearly regressive.

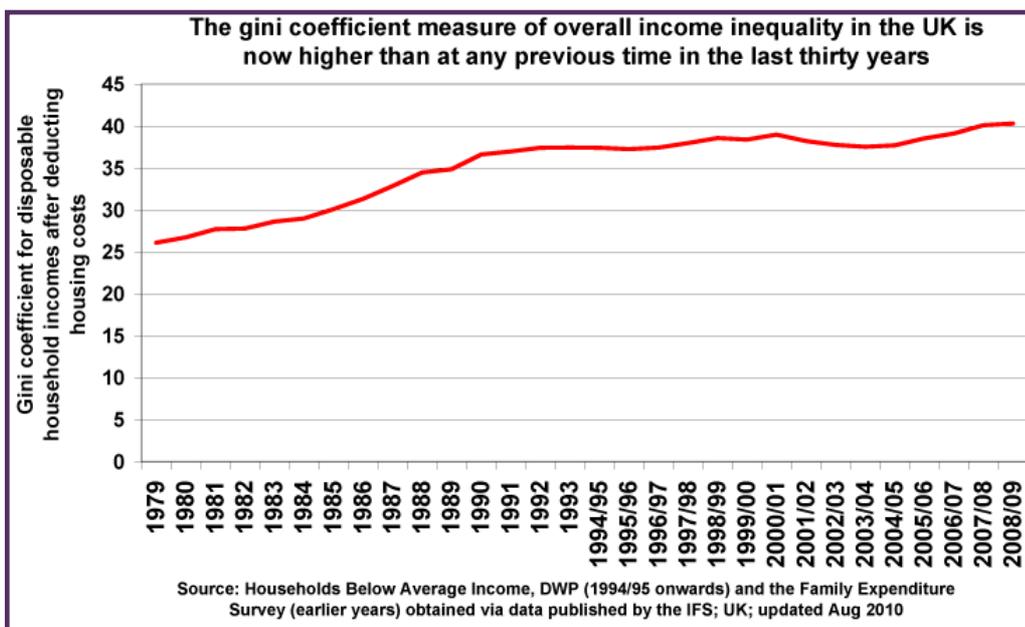
This has been demonstrated in the work of David Byrne and Sally Ruane:

Diagram 4 - % of Gross Income paid in Tax by Decile for All Households⁶.



This is also reflected in changes in the UK's Gini coefficient, as shown here:

Diagram 5—The UK's Gini Coefficient⁷



The higher the Gini coefficient the greater is the inequality in a community. The Washington Consensus era has seen a marked increase in inequality in the UK.

This is, perhaps, unsurprising. The ideal Washington Consensus tax system is a flat tax system. There is significant misunderstanding on the issue of flat taxes. According to the UK Treasury⁸ in 2005, flat taxes are 'tax structures that have a single positive marginal tax rate'. Technically this could cover income tax, corporation tax on company profits, VAT and even national insurance. However, the term flat tax usually refers to a replacement for the existing income tax rules incorporating an increased personal allowance and a single tax rate. Some countries, such as Slovakia have however tried consistent income tax, corporation tax and VAT rates⁹, in their case setting these at 19% each for a time. This is, however, uncommon.

What is also true, and consistent with the principles of the Washington Consensus, is that flat tax proponents also suggest that all tax laws should be re-written to significantly change the tax base on which tax is charged. Whereas in the existing income and corporation taxes it is all income (less expenses) that is charged to tax, under a true flat tax regime only two sorts of income are taxed, namely wages and the cash surpluses of businesses. The rest of income is untaxed.

In practice such 'pure' flat tax reform has been rare, and has almost always been diluted shortly after introduction because of its impracticality but the focus of this drive is always the same and it is a desire to create tax systems that prioritise consumption taxes and not income taxes. The impact of such ideas cannot be ignored, and they are of great significance in the UK where, for example, the Mirrlees review on the future of UK taxation prepared by the Institute for Fiscal Studies¹⁰ (IFS) has proposed what is in many respects a flat tax system. So, for example, the IFS proposed that much of savings income and many capital gains should be tax free; that VAT should be

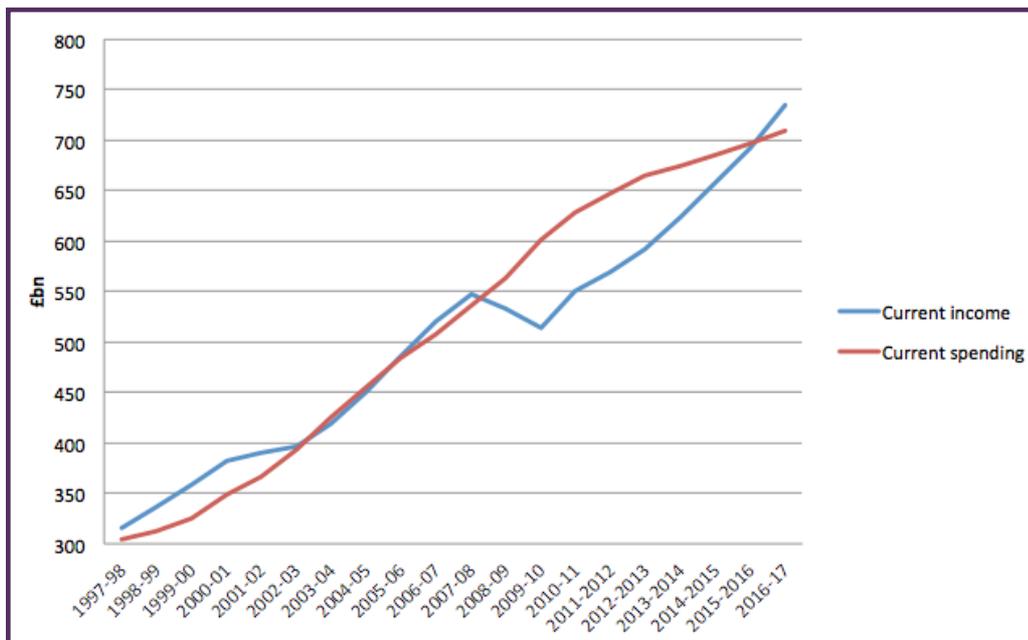
charged consistently on a much wider range of goods and services including food and many other items considered essential¹¹ and that corporate taxes on income should be replaced with a cash flow tax on companies that behaves much like a VAT. That tax would also be bound to have lower impact than the existing corporation tax on company profits as the normal rate of return on a company's share capital would be tax free under the IFS proposal.

This IFS prescription may not quite be flat taxation, but when the IFS also propose the combination of income tax and national insurance (which would hit pensioners, for example, very heavily) the implications are very clear: a regressive tax system where the poor would pay an even greater part of their income in tax than at present is the chosen direction of travel for the UK tax system as recommended by the IFS. This is clearly based on the Washington Consensus idea of taxation, with all the implications for income redistribution in favour of the rich that have been apparent for the last thirty years, and yet it is coming from the supposedly 'leading independent think tank on tax' in the UK that lends it an air of plausibility it does not deserve.

The Washington Consensus does not work

There is another very good reason why that credibility is not deserved, which is that the Washington Consensus tax paradigm has clearly not worked. The collapse in government revenues in the aftermath of the financial crash of 2008 showed how weak the Washington Consensus inspired revenue-raising model was. The following graph, which has been prepared from UK Treasury data for actual or anticipated tax receipts and current government spending (excluding investment), clearly demonstrates this issue:

Diagram 6—Government Income and spending in current prices 1997—2016



As is obvious, income and current spending were very closely aligned from 1997 to 2007. The crash of 2008 forced them out of step, and as is obvious, it was not spending that went wrong; it was a lack of income that gave rise to the borrowing that the government has undertaken from 2008 onwards.

The tax gap

That lack of income was, of course, missing tax. In no small part that was due to the existence of the ‘tax gap’. This phenomenon – which is the difference between the tax the government should be paid in a year if all taxpayers settled their liabilities owing in accordance with H M Revenue & Customs’ interpretation of tax law and the actual amount collected in practice – is enormous. H M Revenue & Customs say the gap is £35 billion a year¹². I have estimated the gap to be £95 billion a year in work undertaken for the TUC¹³ and PCS¹⁴, on top of which another £20 billion or so of debt is outstanding at any point in time and overdue for payment¹⁵. As I have argued in a paper to

be published by PCS in May 2012:

The government has now admitted that tax avoidance in this country takes place on a scale that makes all their past estimates look ludicrously low. Indeed, so keen are they to admit that tax avoidance is prevalent that they might even be challenging Tax Research's estimate as too low sometime soon! What [recent research] also shows is that the government's estimate of tax evasion is likely to wildly understate the scale of that problem.

The research in question, by me for the Group of the Progressive Alliance of Socialists & Democrats in the European Parliament¹⁶, shows that the loss to tax evasion in the EU might exceed €850 billion a year and to avoidance might be €150 billion a year, or a total of €1 trillion a year. The data is as follows:

Table 1 - Loss to tax evasion in the EU

Country	GDP 2009 Euro'm	Size of Shadow Economy %	Tax burden - EU 2009 %	Gov't spending as proportion of GDP %	Size of Shadow Economy Euro'm	Tax lost as a result of Shadow Economy Euro'm
Bulgaria	36,000	35.3	28.9	37.3	12,708	3,673
Romania	122,000	32.6	27	37.6	39,772	10,738
Lithuania	27,000	32	29.3	37.4	8,640	2,532
Estonia	15,000	31.2	35.9	39.9	4,680	1,680
Latvia	18,000	29.2	26.6	38.5	5,256	1,398
Cyprus	17,000	28	35.1	42.6	4,760	1,671
Greece	230,000	27.5	30.3	46.8	63,250	19,165
Malta	6,200	27.2	34.2	44.8	1,686	577
Poland	354,000	27.2	31.8	43.3	96,288	30,620
Italy	1,549,000	27	43.1	48.8	418,230	180,257
Slovenia	36,000	26.2	37.6	44.3	9,432	3,546
Hungary	98,000	24.4	39.5	49.2	23,912	9,445
Portugal	173,000	23	31	46.1	39,790	12,335
Spain	1,063,000	22.5	30.4	41.1	239,175	72,709

Country	GDP 2009	Size of Shadow Economy	Tax burden - EU 2009	Gov't spending as proportion of GDP	Size of Shadow Economy	Tax lost as a result of Shadow Economy
Belgium	353,000	21.9	43.5	50	77,307	33,629
Sweden	347,000	18.8	46.9	52.5	65,236	30,596
Czech Republic	145,000	18.4	34.5	42.9	26,680	9,205
Slovakia	66,000	18.1	28.8	34.8	11,946	3,440
Denmark	234,000	17.7	48.1	51.8	41,418	19,922
Finland	180,000	17.7	43.1	49.5	31,860	13,732
Germany	2,499,000	16	39.7	43.7	399,840	158,736
Ireland	156,000	15.8	28.2	42	24,648	6,951
France	1,933,000	15	41.6	52.8	289,950	120,619
Netherlands	591,000	13.2	38.2	45.9	78,012	29,801
United Kingdom	1,697,000	12.5	34.9	47.3	212,125	74,032
Austria	284,000	9.7	42.7	49	27,548	11,763
Luxembourg	42,000	9.7	37.1	37.2	4,074	1,511
	12,271,200	22.1	35.9		2,258,223	864,282

Importantly, I have highlighted the ‘flat tax’ states in the EU in this table. Flat tax is not, of course, the only reason why these states have, in many cases, large shadow economies but what is also clear is that flat taxes have not tackled that issue either. That is partly because the prescription is biased towards taxes where evasion is prevalent. Despite claims to the contrary by the Washington Consensus, VAT and consumption taxes are not efficient and if UK tax gap evidence prepared by H M Revenue & Customs is to be believed, VAT is the tax most persistently abused by tax evaders in the UK, with rates of abuse averaging in excess of 13% on average per annum¹⁷ – and that in a well regulated economy.

That level of loss to tax evasion exceeds EU wide healthcare budgets, to put it in context¹⁸. Research using a similar methodology by me for the Tax Justice Network in 2011 suggested the loss to tax evasion in 145 countries for which sufficient data was available (covering about 98% of the world’s population) amounted to about US\$3.1 trillion a year. The average size of the shadow

economy that existed to evade tax, and not for other criminal purpose, amounted to about 18% of an average country's GDP.

What might be concluded is that we have a tax system that has been radically transformed over the last thirty or so years, with a resulting significant shift in the tax burden onto individuals occurring as a result of increased indirect taxation of consumption but that the model in question has not proved robust. It failed in the face of a financial crisis whilst the emphasis on VAT, which appears amongst the easiest of taxes to evade, may have helped create a substantial world-wide tax gap.

The Washington Consensus model of tax policy may have been accepted as the model for taxation policy for a generation or more but the evidence that it has failed is widespread. Inequality has risen as a result, and that is in no small part because of the commitment to reducing tax rates and the emphasis on regressive taxes such as VAT rather than on progressive taxes such as income tax.

The time to debate an alternative taxation policy has arrived. When even the OECD recognises that this is the case, as it did in 2011, action is required¹⁹. As they have said:

Despite the substantial gains of high-income earners in some countries, income taxes played a relatively minor role in moderating trends towards higher inequality. The reason is that trends towards lower income taxes, on the one hand, and more progressive taxation, on the other, had opposite effects on redistribution and partly cancelled each other out. Finally, because of their relatively flat-rate structure, social security contributions redistributed very little. Where contribution ceilings were in place they may even have been regressive.

The whole issue of tax policy, and with it progressive taxation, is open for discussion.

What is tax?

Dictionary definitions of tax offer little insight into the subject that is very useful for the purposes of this discussion of the subject. I therefore offer the following definition of tax:

A tax is a payment due by law from (or to) a person, corporation or other legally recognised entity to (or by) an authority that is itself a government or has powers granted to it by a government to levy charges or make payments in accordance with the law of a jurisdiction to which that person, corporation or other entity is subject, with that charge being levied (or that payment being made) without consideration of the underlying economic value of the goods or services offered in exchange for its settlement, with legally imposed penalties being due for non-payment in the event that this shall arise.

There are a number of important issues implicit in the definition that need highlighting.

The first is that tax is not, necessarily, a sum due to government. If taxation is to be properly understood it is impossible to divorce the issue of taxation from what is often called the benefits or welfare system, where payments are due to an individual. The references to this aspect of taxation are in brackets in the definition simply to make them easier to highlight and the definition easier to follow, but doing so does not diminish their importance. The fact that this possibility of tax having what is in effect a negative value – indicating a payment from the government to a person who is still considered a taxpayer nonetheless - is implicit in this definition, and means that tax cannot be considered in isolation of that benefits system if we are to address all the issues that a new tax consensus demands.

Secondly, this recognition moves the concept of tax beyond it being a payment for services, which has been the logic used by those seeking to opt out of the tax system through either tax avoidance or tax evasion on the grounds that they claim that they make no use of the services in question. Tax is not a contractual payment for services supplied; it is what a lawyer might call the consideration in the social contract between the people who

make up a society and their (hopefully) democratically accountable government that acts as the agent of the people of a jurisdiction to implement social policy. That is a fundamentally different view of tax to that implicit in the Washington Consensus.

Third, this understanding of tax recognises the limitations of the market. Tax is not a transaction whose value determined by the value of the goods or services exchanged (assuming markets are capable of determining such value anyway). Tax as described here is more akin to a 'membership fee'. As the US Judge Oliver Wendell Holmes, Jr. once said "Taxes are the price we pay for a civilized society"²⁰. More recently, John Cridland, Director General of the UK's Confederation of British Industry said in April 2012 "Companies completely accept that paying taxes is part of doing business. It gives them their broader license to operate, and enables them to play a full role in society – and be recognised for doing so"²¹. This idea of a licence to operate again reflects an obligation to pay that is not related to a market value for the consideration due.

Fourthly, and importantly, it recognises that there is a legal backstop to this obligation.

However, it is in combination that these issues have to be seen: this is not a divisible definition. It is a definition that stands together. In that case this is not about it being possible to see tax as a legal obligation with a social override: the social obligation to pay is implicit within taxation and the relationship that tax represents is one that is implicitly social, reciprocal and dynamic. Without that understanding tax is reduced, as has been the case for many years, to mere consideration of the interpretation of legislation. Again, John Cridland of the CBI implicitly recognised this in his same speech in April 2012 when saying "business has been slow – or perhaps even reluctant – to enter the public debate on tax policy." That is because there has been no such debate. It is only when it recognised that tax is more than a necessary legal payment that such debate becomes possible.

What is tax for?

I argue that there are five reasons to tax²². Tax is used to:

1. Raise revenue;
2. Reprice goods and services considered to be incorrectly priced by the market such as tobacco, alcohol, carbon emissions etc. and by providing tax reliefs e.g. for childcare;
3. Redistribute income and wealth;
4. Raise representation within the democratic process because it has been found that only when an electorate and a government are bound by the common interest of tax does democratic accountability really work²³;
5. Reorganisation of the economy through fiscal policy.

These might be called the 5 Rs of taxation.

It is readily apparent that simply recognising these themes suggests a very different worldview from that implicit in the Washington Consensus.

This view of tax embraces fiscal policy. Implicitly that idea, encompassing a belief that government might also run deliberate deficits (and, it is stressed, surpluses) when managing the economy implicitly breaches the first assumption that John Williamson suggested underpinned the Washington consensus, which he said was²⁴:

Fiscal policy: Governments should not run large deficits that have to be paid back by future citizens, and such deficits can only have a short term effect on the level of employment in the economy. Constant deficits will lead to higher inflation and lower productivity, and should be avoided. Deficits should only be used for occasional stabilization purposes.

The 5 Rs of taxation explicitly reject that notion. In accepting the case for repricing goods and services and wealth the 5 Rs also reject Williamson's

ninth of the ten underlying premises of the Washington Consensus, which requires:

Deregulation: abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudential oversight of financial institutions.

The repricing that much tax undertakes is done so on ethical grounds, but not those noted. So, for example, alcohol is not taxed for safety reasons, and nor is tobacco, whilst oil taxation existed long before environmental considerations came into play. The Washington Consensus assumes markets reach the right solutions; the 5 Rs of taxation do not.

That might also be true of the requirement to redistribute. This could be considered to be in conflict with Williamson's second remise which required:

Redirection of public spending from subsidies (especially what neoliberals call "indiscriminate subsidies") and other spending neoliberals deem wasteful toward broad-based provision of key pro-growth, pro-poor services like primary education, primary health care and infrastructure investment

Using the tax system to redistribute wealth does not do that: that form of redistribution tackles poverty at its root. The pro-growth policies that the Washington Consensus argued for instead are actually about building the platform on which big business can make profit with their external costs being born by the state. There is nothing about redistribution of the proceeds of wealth in that Washington Consensus statement at all; it is merely about the obligation of states to deliver healthy, trained and compliant workforces to the factory, mine, office or shop door. Again, the 5 Rs offer a very different perspective. And in that sense they, together with the definition of tax noted above suggest that another consensus on tax might be possible.

However, whilst the case for market failure is widely recognised because of market's failure to recognise externalities; the case for fiscal policy has a well

documented history and the case for democracy is, I think unassailable; the case for redistribution has almost been forgotten in tax policy. The Washington Consensus implicitly rejects it, but the case for it cannot survive in simple opposition to that fact. It has to be made. It is to that case that I turn next.

The case for progressive taxation

A progressive tax system is one where, overall, the amount of tax a person pays as a proportion of their income increases as that income rises. The explicit object of progressive taxation is to redistribute income or wealth or both.

It is important to note that this does not mean that all the components of a tax system have to be progressive. There is a good case for a sales tax in any tax system, and these tend to be regressive in nature. The regression then has to be counterbalanced by, for example, a progressive income tax or a strong benefits system that ensures that the poorest do not lose out as a result of the impact of that sales tax on their well-being.

The case for progressive taxation rests on a number of assumptions. These might be summarised as follows:

The case for necessity

This argument rests on the easily observed and widely understood fact that there are ranges of basic needs that any person must meet if they are to exist in the society of which they are a part.

People have to eat and be clothed; be warm where the climate requires it and, of course, have shelter. They also need access to a significant number of basic resources to engage with the world around them and the more prosperous overall a society is, the greater the level of material need a person has to meet to survive. So, for example, a little over a decade ago a mobile phone was a luxury. Now it is so basic a form of human interaction it is hard for a great many people, and for almost any young person, to integrate into society without one.

These needs have to be met before a person can themselves afford to contribute to the communal needs that society must provide. This means

anyone on low income should, as far as possible, have as low a rate of tax as possible so that the first goal of ensuring that all who live in a community can integrate into its social interactions can be fulfilled. This requires that either those on low income are not taxed at all, or have low rates of tax charged on their income so that they can afford these essential goods and services for themselves or their families.

The natural corollary of the inability of those on low income not being required to pay tax is the inevitable consequence that others on higher income will clearly have to, as a matter of fact, pay more as a proportion of their income than those on low incomes do. Progressive taxation has, therefore, in some way to be a feature of all tax systems bar poll taxes, which are inherently unjust as a consequence.

The case for affordability

It would be easy to confuse the case for necessity with the case for affordability when it comes to progressive taxation but they are not the inverse of each other.

The case for necessity makes it clear that there is a case for everyone having an element of tax-free income so that the basic essentials of life can be afforded before tax is due. That argument does not, however, then require that there be progressive tax rates when those bare essentials can be afforded. The case for affordability does that.

In my book 'The Courageous State'²⁵ I argue that there are four states a person can be in. The first is absolute need. This is the state where their life is imperiled by the lack of essential means of sustenance.

Next there is a situation of need: the person's life is not imperiled by lack but it is clear that they have less than is required to ensure they can integrate

into and enjoy the benefits of the society in which they live.

When sufficiency to participate in society has been achieved a person moves into a state of wanting: at this point a person has choice over what and how they consume because all basic needs have been met. They now have the chance to use their discretion to acquire those resources and means of support, whether material, emotional, intellectual or purposeful that can help them achieve their potential as a human being.

Finally, they can consume to excess, which is a state only possible with regard to material goods (we can't over-consume our intellect, for example – we can simply discover parts of it we did not know we had). At this point I argue that consumption causes harm, as the Green movement would agree.

These four states clearly suggest that there is a case for progressive taxation. It is obviously true that no tax should be due when a person is in absolute need. When in relative need the situation changes, not least because different personal circumstances will dictate that differing levels of income may well have a significant bearing on the amount of income a person really needs before they reach the point where relative need moves to a position of relative surplus where wants can be addressed. For that reason taxes need to be due by people in this situation, but allowances, benefits and other assistance needs to be available to ensure that those in this situation get relief when appropriate to ensure that their need is reasonably met despite taxation charges. This is precisely why the flat tax notion of a single fixed allowance for all people is very obviously inappropriate.

What is also inappropriate is the belief that those in need can meet all the costs of the provision of the services they need from the community in which they live: by definition that cannot be true. In that case there is need for a progressive change in taxation as the state of being able to meet wants is

reached. This can either be delivered by increased rates of taxation, withdrawal of allowances and reliefs and even a combination of both. This combination is, again, necessary because people's circumstances differ. To claim there is a point in the income scale where by definition need has definitely been met and the satisfaction of wants is now possible is obviously wrong. This will vary from individual to individual and from family to family. Complexity has to exist to reflect this fact. Whatever happens, it is clear that when wants can be satisfied there is a need to pay more tax too. And, as I also argue in *The Courageous State*, this is not just an obligation, it is also for many a payment that they feel obliged to make. Contrary to the libertarian perception of the human being, the natural state of humankind is to be empathic. As such the payment of higher rate tax is accepted by many as being a social necessity to ensure that we can live in community with each other. I explore some of the economics in the book.

Finally, when consumption is excessive there is clearly a case for penal rates of tax to deter consumption. This is a case of tax repricing market failure in a form not usually recognised. That tax can be by form of a high rate of consumption tax on items generally or only purchased by those with high levels of income, but there is no reason why it should not also be imposed by higher rates of income tax on income levels where there can be little doubt that all reasonable wants can be and must have been met.

The result is a very clear case for progressive taxation.

The case for indifference

The case for progressive taxation on the basis of the taxpayer's indifference is based on the logic that as a taxpayer's income increases, their marginal welfare gain from each additional sum earned falls. This is, of course, a

straightforward expression of the economic principle of diminishing marginal returns for which there is reasonable logical as well as analytical support.

The corollary of that decreasing marginal value of each additional sum earned is that the marginal loss of value to the taxpayer from taxation paid also diminishes as income rises. It is therefore possible to argue that if the marginal value of each sum paid in tax were to be equalized in perceived value terms across income ranges there would have to be a progressive taxation system to ensure that the equivalent marginal loss to those on higher incomes was similar to that of those on lower incomes.

The result is an obvious case for progressive taxation.

The case for taxing rents

As a person's income rises the chance that part of it, at least, derives from unearned sources or from rents (in the economic as well as in the popular sense of the term) increases significantly. According to H M Revenue & Customs²⁶ a person with income of £10,000 in 2009-10 tax year is likely to have £585 of investment income included in that sum. A person earning £500,000 is likely to have £151,000 included in that sum and a person earning £1,000,000 plus will have an average of £689,000 of investment income. In that case – using the broad economic definition of rent – it is likely that rents comprise a significant part of the income of those with the highest earnings but that they do not of those with low earnings.

It is important to remember that rents are in market based economic theory a sign of market imperfection that allows a person to charge a price above that which a perfect market would charge and as such rents fall within the category of activity needing to be taxed to correct market imperfections due to externalities that the market is unable by itself to properly price.

The result is that a higher rate of tax is logically due either on investment income, where most (but not all cases, senior executive pay being an exception) of those rents are likely to be found or, to cover the exceptions, on high incomes in general. The latter seems likely to be more equitable and therefore progressive taxation is appropriate for higher levels of income.

The case for social equity

The argument that more equal societies are more successful societies has been convincingly made for most on the left of the political spectrum by Richard Wilkinson and Kate Pickett in their book 'The Spirit Level'²⁷, although it has to be said few on the right of the political spectrum seem to agree with their reasoning. Their finding is that more equal societies do better for everyone in them, even the better off. What is more, as they have noted, most people (even in the USA) want to live in more equal societies²⁸. Progressive taxation reduces inequality by redistributing incomes. It delivers better outcomes for all as a result.

The case for fiscal stimulus

As the data noted in the case for taxing rents shows, the best off in any society, almost by definition, have substantial savings and many have significant unearned income. Those events are linked: it is their savings that provide the income that they receive without expending physical effort. This form of wording is deliberate: I have chosen not to refer to what is commonly called 'investment income'. It is mistake to say that the unearned income of most people comes from investments: in economic terms savings and investment are not the same thing, at all. Most (but not all, it is agreed) of this income will be earned passively e.g. as interest earned on cash deposits, rents from housing, dividends on shares issued many years if not decades ago, and so on.

The difficulty with this in a time of economic downturn (as now) is that saving is behaviour that reinforces the downturn in the economic cycle by withdrawing funds from the active economy. This is the unfortunate consequence of what Keynes called 'the paradox of thrift'. Whilst it may be wholly rational for each individual to save during a period of economic downturn the consequence is that they withdraw demand from the economy by doing so and as such only exacerbate the downturn that caused them to save in the first place.

There is an obvious answer to this: to discourage saving in such periods the rate of tax has to increase and since those with most savings income are the well off this implies it is their rate of tax alone that should increase. The result is a need for more progressive taxation in an economic downturn to encourage savings to be spent.

The case for growth

There is a second reason for taxing high earnings the most, related to the case for fiscal stimulus but with a different motivation. It is that those on lower incomes, inevitably, spend more of that income on immediate consumption than do those with higher earnings or who are wealthy, who are much more inclined to save as they have met all their needs, and many, if not all, of their wants. Having an income distribution biased to those with high incomes is therefore counterproductive to growth because redistribution from those with high income to those on average and low incomes will result in higher overall levels of consumption in society (and, logically, higher overall levels of well-being as a result).

It should also be stressed that this will not have any material impact on funds available for investment. Investment is not dependent upon the availability of savings but is instead dependent upon the availability of credit and whilst

there is, it is accepted, some limited relationship between the two it is just that i.e. limited. Whilst we have a banking system in its current form such redistribution will not limit funds for investment purposes.

There is, therefore, a strong case for progressive taxation if growth is the goal of economic policy.

The case for services rendered

Finally for now (although this list is not comprehensive), there is a case for progressive taxation on the basis that many of the services provided by the state are in fact of greatest benefit to the most well off, contrary to what they usually claim.

It is the best off who have most to benefit from law and order, the courts system that protects their property and contract law that upholds their claim to wealth.

It is the best off who collect the rents earned by companies (in whose shares they save) that result from the state supplying those companies with employees who are trained, healthy, insured against loss arising from their employment and who have a basic pension whatever their employer does.

It is the wealthiest who travel most and use the arts, sports and other facilities to greatest extent.

The wealthiest get the greatest benefit from public transport subsidies.

The bank accounts of the wealthy were what were saved from loss when the banks were bailed out.

The whole infrastructure of financial regulation protects the wealthiest to a large degree.

As the Green Alliance have argued recently²⁹, it is the wealthiest who enjoy most of the £40 billion of annual tax subsidies for savings.

And the wealthy have as much right of access to education, healthcare, state pensions and even the state safety net if all goes wrong as anyone else. They even get bus passes!

It can be argued that the case for progressive taxation is based on the greater return they get than most from the state.

The counter arguments

This is not the place to offer extensive counter arguments to the case for progressive taxation, but some of these counter arguments have to be, briefly, acknowledged and dismissed.

a. Progressive tax revenues do not raise tax

This argument is made time and again, not least by the current Coalition government who have for the first time included Laffer curve³⁰ arguments in Treasury reports³¹. The argument, in summary, is that as tax rates increase the work rate of those with high earnings reduces as they substitute labour for taxed work so that the overall tax yield falls.

There is little evidence to support this hypothesis at current UK tax rates, or indeed at rates somewhat above them. The best evidence at present is presented in a paper by Thomas Piketty, Emmanuel Saez and Stefanie Stantcheva³² published in November 2011. The argument that those authors present is a simple and yet highly effective one. They say that the example that the UK Treasury and, incidentally, the Institute for Fiscal Studies use is wrong. There is not, they argue, and as is commonly said, a single reaction to

tax increases (or decreases). They say there are three:

- (1) reduced economic activity,
- (2) tax avoidance,
- (3) demand for higher pay by those with the ability to secure them.

They argue that Laffer is, in a sense, right and that reducing economic activity is the sole real limiting factor on optimal top tax rates. However, their evidence is that tax avoidance is so prevalent (as has been found with the UK's 50p tax rate) and that the ability of the top 1% to increase their income is so strong the true Laffer effect is swamped by these other factors and that if only tax avoidance could be curtailed and income renegotiation by the highest earners could be curtailed then effective tax rates could be much higher than at present. They are, in effect saying that the Laffer effect is not seen until, very high rates of tax apply. As a result, in the range of currently likely tax rates the Laffer effect is not an issue of concern and that if tax avoidance was tackled tax yields would always rise with increasing tax rates. In other words, what we are seeing at present is tax gaming at work, not a real economic effect.

b. Wealthy people will leave the country reducing tax yields and taking 'talent' from the UK

It seems there is no debate on tax where a variant on this argument is not made. Unfortunately for those making, as the Tax Justice Network in a recent literature review³³ on this issue showed, the academic support for the claim is noticeable only by the fact that all the evidence points to the fact that such migration is exceptional, and utterly immaterial.

c. High taxes lead to capital flight

Capital flight happens when wealth is moved out of a country.

First of all, it has to be accepted that there is some evidence that this is true. However, that is because of avoidance and evasion, often involving tax havens with the funds in question 'round tripping' back in to the state from which they supposedly departed. In that case the answer, of course, is that better anti-avoidance and anti-evasion systems are needed to identify who are undertaking this activity plus greater cooperation with other jurisdictions on information exchange rather than give in to this tax abuse.

d. Higher taxes are a disincentive to work

It's always been an odd argument that taxing the poor reduces their income and so encourages them to work harder but taxing the rich by reducing their income encourages them to work less.

It so happens that there may be some income substitution by the rich when tax rates rise precisely because they have already met all their needs, and quite possibly a fair number of their wants. There are, however, good reasons not to worry about the likely impact.

First of all, as has already been noted, a significant part of the income of the richest in society is unearned. This is not impacted at all by work incentive rates. Yield on this will not be reduced as a result.

Second, as Piketty, Saez and Stantcheva note, it is much more likely that these people will negotiate pay rises and so take an increasing share of national income (as has been seen for more than 30 years) than reduce effort.

Thirdly, for those in employment the opportunity for leisure substitution for

work is unlikely to exist, contractually.

Fourth, for those in self employment or owning companies much of their income will be rents generated by their staff in any event, and so will be unaffected by such a change.

Lastly, there's no clear indication that a reduction in effort by some would be harmful. Despite claims to the contrary those on the highest level or earnings are rarely irreplaceable and if they opt for more leisure others will no doubt take their places. It is arrogance that leads them to suggest otherwise, but not economic fact.

Summary

No doubt there are other counter-arguments, but each can be dismissed in similar fashion. The result is that the case for progressive taxation is economically and socially compelling whilst the counter arguments appear to be related to maintaining status and claiming that tax avoidance can always be used to beat any government's wish to tax.

There is, however, a problem with introducing more progressive taxation. Such a move would challenge the current tax paradigm that the Washington Consensus has created. Unless that paradigm can be changed then progressive taxation cannot happen. The result is that there is a need for a need tax consensus as a pre-requisite to essential change in taxation law and practice.

A Tax Justice Consensus

If an alternative tax consensus – which I would suggest is a Tax Justice Consensus – is to be possible then its foundations need to be firmly stated if it is influence debate on political economy. Without that new consensus I argue that truly progressive taxation is not possible.

Such a consensus must be based on the idea that the history of social justice is to be found written in the tax laws of most countries. So, in the UK as tax base expanded so did the franchise. As women's rights changed so did their tax status. As social policy towards the family and children changed so too did their tax treatment. Most especially, as policy on wealth, redistribution and equality has changed so has the tax system, for better and worse. This is not the time to explore that historical association, but what is clear is that tax law reflects, mirrors and even on occasion influences the development of the society in which it is applied. Tax and the political economy are inextricably linked. So they will be if we want more progressive taxation.

Nowhere is this link between tax and political economy more apparent than in the market place. A key role of government – and one where it is hard to dispute the thinking of the Washington Consensus on this issue – is to defend private property rights³⁴. However, what the Washington Consensus clearly did was differentiate taxing and property rights. That will have to be challenged if change is to happen.

The Washington Consensus sees the right to property as paramount. Through its arguments for trade liberalisation, the liberalisation of imports, low tariffs, the liberalisation of onward foreign direct investment and the privatisation of state enterprises the Washington Consensus has made clear that it believes in markets where capital could roam freely subject to as little tax impediment as possible. That, however, is only one possible view of property rights, and one that assumes that the right to the property must be upheld by a state independent of the right of that state to tax the property in question.

An alternative tax consensus should challenge this view. There is, of course, a right to hold private unencumbered property, but that is a right that must exist only after all the encumbrances to that right have been fulfilled, and one of those encumbrances is the duty to pay tax owing as a consequence of the acquisition of that right, however it was acquired. In this view of property the right to acquire and own property is not independent of the duty to pay tax on that property, they are instead conditional, one upon the other. That understanding of property rights as a net entitlement to ownership after tax has been paid fundamentally changes the prevailing consensus view of property rights and the right to the free movement of capital and of the role of markets in generating property and wealth.

I would stress here that property in this consequence can be any private property including the cash that represents person's income from work on which income tax has to be paid, or an asset such as a house on which property taxes are due, or a beer on which VAT is paid when it is bought or an inheritance from a (proverbial) long lost aunt on which inheritance tax is due before the bequest can be paid. All are private property, but all have a tax obligation attached to them of differing sorts.

This view of property rights³⁵ has a logical foundation. It is, after all, the exact same legislative process that defines both the law of property and contract and that permit the creation of corporations and trusts that also creates taxation law that imposes the charge to tax on that property, those contracts, on people and other entities. To consider them unrelated when seen in this way is illogical: as related products of legislature the claims that each represent in law must be conditional one upon the other. The result is that our right to hold property must of course be upheld by the law – but only when we have paid all the taxes due in the course of acquiring, maintaining, using, gifting or disposing of that right.

This understanding must also, inevitably, change attitudes towards what I call

secrecy jurisdictions. These were once more commonly called tax havens, but that is a term that has proved impossible to define. Secrecy jurisdictions are places that intentionally create regulation for the primary benefit and use of those not resident in their geographical domain. That regulation is designed to undermine the legislation or regulation of another jurisdiction. To facilitate its use, secrecy jurisdictions also create a deliberate, legally backed veil of secrecy that ensures that those from outside the jurisdiction making use of its regulation cannot be identified to be doing so. The use of secrecy jurisdictions may be defended by some, and certainly is by the proponents of the Washington Consensus as a consequence of their view that the right to hold property and the obligation to pay tax can be differentiated, with the state having a duty to uphold the former unrelated to its right to tax. When the two are, however, associated, then the perception of the role of secrecy jurisdictions changes completely.

Secrecy jurisdictions, in this understanding, exist to subvert legitimate property rights by providing the means for some to stake a claim to assets without accepting the consequent responsibility to pay the tax due as a result of their ownership of that asset. This can happen because secrecy jurisdictions disguise their ownership claim in an attempt to prevent the state that has rightful claim to the tax due, making claim for its settlement. In the process secrecy jurisdictions undermine the social contract at national level and prevent states from upholding justice. As a consequence secrecy jurisdictions do something more: they undermine market efficiency by promoting opacity and by providing escape routes from regulation. Progressive taxation is one such regulation. The result is asymmetric competition where the ability to subvert the law is more important than the ability to meet customer need when it comes to determining the winners in the market place. The impact on market behaviour, and the exercise of power within markets, is profound and is now seen in the predatory behaviour of many multinational corporations, one of whose abiding characteristics is now seen to be their extraordinary ability to avoid tax in the

UK and elsewhere, largely as a result of the use of secrecy jurisdictions³⁶.

The consequence of that behaviour that has permitted secrecy jurisdictions to operate at the core of the financial markets has been a shift of taxation from capital to labour, now seen worldwide and evidenced by increasing inequality in wealth and incomes, with consequent rising relative, and on occasion, actual poverty. This is the result of the right of the state to tax and the rule of law being imperiled by a culture of abuse, which is promoted and facilitated by an organised infrastructure of banks, lawyers and accountants servicing the world's financial elite. So corrosive is this behaviour that this infrastructure is now sufficiently large and corrosive to imperil democracy itself.

A new tax consensus will have, as a consequence, to embrace the following specific assumptions inherent in the definitions of tax, the 5 Rs of tax and the logic of conditional property rights noted above. These might be called the assumptions behind the Tax Justice Consensus:

1. Inequality is a global and national harm;
2. Democracy is a global and national good;
3. International cooperation is a global and national good;
4. Tax policies shape both the production and distribution of wealth and have direct influence on:
 - The nature of people's engagement with work;
 - Income distributions within and between nations;
 - Equality;
 - Family relationships;
 - Gender equality;
 - The use of resources;
 - Sustainability;

-
- State building;
 - The strength of democracy in the face of the challenge from global capital.

As such tax policy is not, and cannot ever be a matter for technical consideration alone, nor a matter of simple revenue raising. Tax policy is, on this logic, at the core of political economy.

Whilst the precise form of a new tax justice consensus has not yet been formulated what is clear is that it offers not just a different view of tax, but of those policy issues that underpinned the Washington Consensus and that it will, therefore alter our view of the following, at least, and maybe more besides:

1. The nature and role of the state;
2. The obligations of government;
3. The relationship between the citizen and the state;
4. The economic relationships between individuals, and the impact they have in a social context;
5. Communities and their rights and obligations;
6. The nature of property;
7. The right to tax;
8. The nature and regulation of and limits to markets;
9. The nature of companies and other entities created by law;
10. The obligation to account;
11. The right to privacy;
12. Migration in all its forms;
13. Sustainability;
14. Economic policy, its goal and management.

At no time in the last thirty years could review of this range of economic issues have been considered possible. That has changed now: the aftermath of the 2008 crash leaves us looking for new understanding on these issues. The Tax Justice Consensus can help create that understanding. In so doing it could and should have the specific goal of changing relationships in society, including wealth relationships. That is exactly what the Washington Consensus did. It sought, through a deliberately promoted policy of new economic thinking, think tank creation, research funding and media targeting to change the prevailing post-war economic consensus into a policy that would deliberately favour capital and its owners over labour. That policy succeeded. We have suffered more than thirty years of neoliberalism as a result.

That consensus is under challenge now. The Tax Justice Network, my own work, the work of the TUC and PCS on taxation issues, the UK Uncut and Occupy movements and the work of some good journalists have challenged the Washington Consensus view on tax. This has probably been most effective in the UK, but the ideas have spread throughout Europe, to the USA and beyond. The impact has been powerful, but the fight back has begun. In April 2012 the Director General of the CBI said³⁷:

Activist groups have raised the perfectly legitimate question of whether business pays its 'fair share' of tax. It's a good question, and it deserves a good answer. But it is not an easy answer to give because what people see as 'fair' lies in the eye of the beholder.

As a result of that he added:

The reason I wanted to speak to you today is that for too long, business has been slow – or perhaps even reluctant – to enter the public debate on tax policy. That needs to change. We want to defend robustly our record – and advocate pro-growth tax policies which are in everybody's interests.

And in May the new President of the Chartered Institute of Tax said³⁸:

We tax practitioners and tax directors need to help the HMRC side of the tax profession to get this right. This means that we must draw their attention to problems as they arise and push them towards getting it right. We should be robust - as we have been, for example, over business record checks - when we think they are not getting it right. But we should also support them when journalists, campaign groups and even, on occasion, politicians exaggerate their failings, and present the system as broken when it is not. Imperfect? Yes. Frustrating? Frequently. Over-complex? Undoubtedly. But not broken.

That is a clear statement of intent to challenge the new view of tax put forward by unions and others, and to do so to maintain the status quo that is now working very well for business³⁹.

Tax policy has also come to the forefront in the OECD of late with the appointment of a new director, and will be a new and major focus for its work⁴⁰.

All this may be coincidence; it may also be the start of a coordinated fight back against the success of the tax justice movement in an attempt to maintain the tax status quo that is now supporting the wealthy and multinational corporations very well: it is hard to tell as yet. What is clear however is that, if anything, tax is going to become an even stronger focus for debate on economic policy issues in the future than it has been in recent years. In that case if the case for reform, for progressive taxation and greater equality which has to be the basis for a more equal society and greater social mobility, is to have any chance of success then investment in the process of building a new tax consensus has to proceed, and at pace.

The basis for that programme, which needs elaboration, enlargement and evidential support has been outlined above, but what is also clear is none of this can have impact unless it can be formulated into policy that can deliver change. A policy agenda based on this consensus would, unsurprisingly, look

very different to the Washington Consensus policy agenda, focused as it is on supply side reform, liberalisation and the shrinking of the state and the idea that the individual must fend for themselves. The policy agenda that might result from a tax justice consensus might encompass the following issues:

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.

It is around these issues that a new tax justice consensus could be built that embraces the need for progressive taxation and it is around these issues that a new programme of work to build that tax consensus must now be constructed.

Notes

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¹ Based on Williamson, John: What Washington Means by Policy Reform, in: Williamson, John (ed.): Latin American Readjustment: How Much has Happened, Washington: Institute for International Economics 1989.

² See also John Williamson's speech at the Center for Strategic & International Studies, Washington, DC, November 6, 2002, available on line at: <http://www.iese.com/publications/papers/paper.cfm?ResearchID=488>

³ Quoted at <http://www.naomiklein.org/shock-doctrine/resources/part3/chapter8/washington-consensus>

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⁴ Source: H M Revenue & Customs archived statistics http://www.hmrc.gov.uk/stats/tax_receipts/1_1_final_apr06.pdf accessed 8.5.12

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⁵ See <http://www.tuc.org.uk/extras/corporatetaxgap.pdf> accessed 10-5-12

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⁶ Source: Table 2 in 'The UK Tax Burden: Can Labour be called the 'party of fairness?' David Byrne and Sally Ruane, Compass, London 2008, [http://clients.squareeye.net/uploads/compass/documents/Fairness%20Thinkpiece%2040%20REVISED_%20\(2\).pdf](http://clients.squareeye.net/uploads/compass/documents/Fairness%20Thinkpiece%2040%20REVISED_%20(2).pdf)

⁷ <http://www.poverty.org.uk/09/index.shtml> accessed 10-5-12

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⁸ Report not now available on line, but quoted in Murphy, R. 'A flat tax for the UK? the implications of simplification', ACCA, 2006 available at http://www.taxjustice.net/cms/upload/pdf/AACA_flat_tax_report_-_JUN_2006.pdf

⁹ Murphy, R for the ACCA as above

¹⁰ <http://www.ifs.org.uk/mirrleesReview>

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¹¹ See IFS press release from September 2011 at http://www.ifs.org.uk/pr/mirrlees_sept11.pdf

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¹² See <http://www.hmrc.gov.uk/stats/mtg-2011.pdf> accessed 8-5-2011

¹³ <http://www.tuc.org.uk/touchstone/missingbillions/1missingbillions.pdf>

¹⁴ <http://www.taxresearch.org.uk/Documents/PCSTaxGap.pdf>

¹⁵ See <http://www.hmrc.gov.uk/about/annual-report-accounts-1011.pdf> page 14 note 8.

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¹⁶ 'Closing the European Tax Gap: A report for the Group of the Progressive Alliance of Socialists & Democrats in the European Parliament' Tax Research UK, 2012, http://www.socialistsanddemocrats.eu/gpes/media3/documents/3842_EN_richard_murphy_eu_tax_gap_en_120229.pdf

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¹⁷ <http://www.hmrc.gov.uk/stats/mtg-2011.pdf>

¹⁸ ibid

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¹⁹ See <http://www.oecd.org/dataoecd/40/12/49499779.pdf>

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²⁰ http://en.wikiquote.org/wiki/Oliver_Wendell_Holmes,_Jr accessed 8-5-12

²¹ Speech on 19 April 2012, available here http://www.cbi.org.uk/media/1456727/john_cridland_speech_on_tax_and_british_business.pdf accessed 8-5-12

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²² The first four of these reasons to tax were created by Alex Cobham, then of Oxford University, now head of research at Save the Children. I added the fifth.

²³ Arguments in support of this idea, which is especially important in a development context, have been best developed, I think, by Mick Moore of the Institute for Development Studies at the University of Sussex. His IDS working paper 'How Does Taxation Affect the Quality of Governance?' develops the theme, amongst others. <http://www2.ids.ac.uk/gdr/cfs/pdfs/Wp280.pdf>

²⁴ As previously noted

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²⁵ See <http://www.searchingfinance.com/products/soon-to-be-published/the-courageous-state-rethinking-economics-society-and-the-role-of-government.html> Searching Finance, 2011

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²⁶ http://www.hmrc.gov.uk/stats/income_distribution/3-7table-feb2012.pdf

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²⁷ See <http://www.equalitytrust.org.uk/resource/the-spirit-level>

²⁸ See <http://www.newstatesman.com/society/2010/11/inequality-social-health-essay>

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²⁹ See http://www.green-alliance.org.uk/grea_p.aspx?id=6446 accessed 10-5-12

³⁰ For a perfectly good introduction to the Laffer curve see http://en.wikipedia.org/wiki/Laffer_curve

³¹ See page 51 at <http://www.hmrc.gov.uk/budget2012/excheq-income-tax-2042.pdf>

³² See <http://elsa.berkeley.edu/~saez/piketty-saez-stantchevaNBER11thirdelasticity.pdf>

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³³ see <http://taxjustice.blogspot.co.uk/2012/05/will-rich-people-desert-us-if-their.html> accessed 10-5-12

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³⁴ Williamson's tenth proposition

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³⁵ The influence of Liam Murphy and Thomas Nagel on this thinking has, of course, to be acknowledged. Their book *The Myth of Ownership: Taxes and Justice* (Oxford University Press, 2002) first developed some of these themes.

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³⁶ See, for example, a report in the Mail on Sunday on 14 April 2012 highlighting the tax not paid in the UK by US internet giants Apple, Amazon, Facebook, Google and eBay. <http://www.thisismoney.co.uk/money/markets/article-2129798/Big-internet-firms-paid-0-8pc-tax-UK-profits.html>

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³⁷ See http://www.cbi.org.uk/media/1456727/john_cridland_speech_on_tax_and_british_business.pdf

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³⁸ See <http://www.politics.co.uk/opinion-formers/chartered-institute-of-taxation-ciot/article/new-ciot-president-declares-tax-system-not-broken-and-danger>

³⁹ For more analysis of the CIOT claims see <http://www.taxresearch.org.uk/Blog/2012/05/15/why-is-the-chartered-institute-of-tax-in-denial-on-the-true-state-of-hmrc/>

⁴⁰ Based on conversations with the author in April 2012.

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