Green Party

Briefing

Cuts: the callous con trick

June 2010

Finance for the Future

Summary

“There is no electoral mandate for any party to impose cuts of the scale and type now proposed”

“A government really can spend to save when in a recession”

“The way to pay for the legacy of deficit the banks created is by raising fairer taxes”

This report has one simple message to convey – that the coalition’s cuts aren’t needed and that fairer taxes and the Green New Deal are.

The implication of the Office for Budget Responsibility report issued on 14 June 2010 is that over the next five years the government’s share of GDP in the UK economy will fall from 24% of all economic activity to 21%. That’s a cut of 12.5%.If true the total fall in government spending would amount to £100 billion a year by the end of that period.

The Institute for Fiscal Studies has suggested immediate cuts of £34 billion in spending are needed if this programme of cuts is to get under way and achieve its aim by the end of the planned parliament.

But as this report argues, none of this is necessary. There are two reasons for this. First, as Lord Keynes once predicted, and as the economies of the USA and UK when facing recession in the 1930s proved, a government really can spend to save the economy when in a recession. The evidence of this is already clear during this recession: borrowing is smaller and unemployment is lower than forecast because of the measures taken by the last government to stimulate the economy. This report argues that a Green New Deal should be the basis for continuing that programme of support for our economy to make sure we come out of the recession better equipped for the future we’re going to face.

And it argues that the way to pay for the legacy of deficit, most created by the banks because we had to bail them out, is by raising taxes on the best off in society and on companies, not by cutting spending.

That’s not to say there are no cuts and no efficiencies to be had in government spending. Of course there are. But it wasn’t government spending that caused this crisis: it was finance that caused this crisis. And there is no electoral mandate for any party to impose cuts of the scale and type now proposed.

The evidence to support these arguments is, we argue, very strong. The case for investment in the Green New Deal and the evidence to demonstrate how it will repay its own cost during a recession has already been made in the reports that the Green New Deal group has produced[i].

This report concentrates on how to pay for the deficit. And as a result this is a report about tax – and how it can get us out of the deficit we're in.

Caroline Lucas MP
Leader of the Green Party

Richard Murphy FCA
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Background to a crisis

"Cuts will be viewed as punishment of the innocent for the sins not just of the guilty, but of the rescued and now bonus-receiving guilty"

The UK faces a financial crisis.

We have been in recession. It seems very likely we will shortly be in recession again. The expected round of government spending cuts will ensure this is the case.

In our opinion cutting now will make things worse; fairer taxes are the alternative we propose.

There is good reason for choosing tax to deal with the deficit. As the Financial Times' Martin Wolf has pointed out, cuts 'will be viewed as punishment of the innocent for the sins not just of the guilty, but of the rescued and now bonus-receiving guilty'[ii]. Tax can do the exact opposite: those who created the crisis can be made to pay for it. That is what we propose.

That is vital because it is not just a case of the guilty getting off scot free: as the Green New Deal group has shown the 'innocent' will pay not just by suffering worsening public services but also via a rise in unemployment[iii].

The Chartered Institute of Personnel and Development warned in June 2010 of 750,000 public sector job losses over the next five years and of an unemployment level of close to 3 million during this Parliament. What they failed to take into account was the private sector consequences of such job losses, which will, we think push the total unemployed to nearer 4 million[iv].

This is the result of the Coalition's eventual desire to cut government spending by at least £60 billion a year. The plan is that cuts in public expenditure will provide 80% of the deficit reduction, and higher taxes a mere 20%.

Our argument is that this is misguided: all this deficit reduction could be achieved by tackling the more than £100 billion of taxes lost each year because of abuse of loopholes in the tax system, tax bills remaining unpaid and from illegal non-payment of tax.

We are not alone in thinking this. Professor John

Hills of the London School of Economics and Chair of the National Equality Panel, has used the latest figures from the Office for National Statistics on the effects of taxes and benefits on household income to consider the tax rises need to halve or completely eradicate the deficit, rather than putting in place the proposed level of cuts in welfare and services.

He has calculated that to raise half the Coalition's desired cuts of £30bn from across all taxes, VAT would go up from 17.5% to 19%, and income tax up from 20% to 21.7% whilst National Insurance, tobacco duties, car taxes and everything else would need to increase by the same proportion. To raise the full £60bn pledged by the Coalition over the parliament would cost twice as much, so basic income tax would go back up to 23% – the same rate it was the last time the Tories were in power.

Clearly, different mixes of different taxes are possible. We would prefer not to raise VAT, for example, because of its regressive effect. However, the point is this: paying for the deficit out of taxes is possible.

However, the question of fair tax rises rather than cuts was never put to the electorate. Given that the Liberal Democrats have now joined the Tories as ardent proponents of cuts being the source of 80% of all deficit reductions, it is now for all in political opposition in the UK to say where they stand in the cuts versus fairer taxes debate.

As Polly Toynbee has perceptively pointed out, once people have felt the cuts biting deeply by next year, then 'a wide consultation might well reveal people would rather pay more taxes, spread fairly, than see this slash and burn. But no one has put the case.'[v]

That then is exactly what we seek to do in this report.

In doing so we throw down a challenge to Labour's aspiring new leaders to come clean on their views on this utterly crucial choice.

This is the question of our time. It defines where people stand. Let the debate begin.

The Coalition's soothing lies

"Despite the Coalition's claim that there will be no front line cuts to services it is rapidly becoming clear that a great many such services are already facing the axe."

The Liberal Democrats, in playing the role of apologists for the Cameron / Osborne pain machine have asserted that the Coalition's cuts will not be as destructive as those in the Thatcher era. It is difficult to see how this could be. Her cuts, starting in 1981 were set against a very different background. As Larry Eliot of the Guardian newspaper, and a member of the Green New Deal group has said:

"The budget hawks like to cite Geoffrey Howe's draconian 1981 budget as evidence that fiscal tightening is perfectly consistent with economic growth. So it is, providing there is scope for an over-valued pound to depreciate and for excessively high interest rates to be cut. So it is, provided that tumbling oil prices raise the real incomes of consumers and cut costs for businesses. All these things happened in the early 1980s; none of them are likely to occur now. The pound has already fallen by 25%, interest rates are at 0.5% and oil prices show no sign of falling much below $70 (£48) a barrel."[vi]

The reality is that beyond cutting some flagship high cost projects like Trident and ID cards there are no soft cuts to be had now: they'll all cause pain.

And despite the Coalition's claim that there will be no front line cuts to services it is rapidly becoming clear that a great many such services are already facing the axe. The TUC in its CutsWatch programme[vii] has already identified cuts to housing, transport, road safety, help for the unemployed seeking to find work, help for regions with high unemployment, free school meals, police recruiting, crime prevention, care services, adult education, help for children with learning difficulties, school building, and many more.

The focus of the cuts is clear: Michael Gove, the Education Secretary, has stated that he is scrapping plans by Ed Balls, his predecessor, to extend free school meals from next term to 500,000 of the very lowest paid. The Child Poverty Action Group said that it was "stunned" by the move, which would have lifted 50,000 children out of poverty at a stroke[viii].

“Those in greatest need ultimately bear the burden of paying off the debt…”

Coalition minister Bob Neill MP

And, even more starkly, the Communities Minister Bob Neill was drowned out by uproar from Labour benches in the House of Commons when he said “Those in greatest need ultimately bear the burden of paying off the debt…”[ix]. The sad truth is, this was not a mistake, he was replying to a claim from Labour MP David Blunkett who had said “those in greatest need will inevitably take the biggest cuts” and Bob Neill confirmed that was, indeed, the Coalition government’s intention.

It is clear that the Coalition Government is underpinned by the mutual desire of the Conservatives and Liberal Democrats for a Plan for Pain.

Our claim is that this should not and need not be the case.

The Green New Deal- the real way out of the crisis

"The Green New Deal programme proposes massive and sustained investment in energy conservat-ion and renewable energy generation"

Drawing inspiration from Franklin D. Roosevelt's New Deal launched in the wake of the Great Crash of 1929, the Green New Deal programme proposes massive and sustained investment in energy conservation and renewable energy generation.

This, we argue, is the only way to provide huge numbers of jobs in the places where people actually live in the UK whilst in the process countering the deflationary and job cutting policies increasingly being introduced throughout Europe by governments obsessed with returning us to an age of austerity.

In contrast with the Coalition government's Plan for Pain The Green New Deal's first step will be to train a vast "carbon workforce" to tackle every building in the UK making them energy efficient as well as fitting renewables such as solar photovoltaics, where appropriate. The aim is fourfold.

First, we want jobs in the UK, now.

Second we want to secure our future energy supply – and if we are to have any hope of shifting to a more sustainable economy, it cannot be carbon based.

Third, we want to make the UK a leading exponent of green energy – and create a vital new source of exports in the process.

Fourth we want to clear the deficit – and this can only happen without pain, indignity, poverty and suffering if there is investment in the Green infrastructure our country so desperately needs. That is what the Green New Deal seeks to deliver.

To achieve this programme will require the allocation of public and private funds to foster economic activity that protects the environment. We think this is investment in our present and our future. But not just our energy future: our economic future too. By saving on future energy costs, and the import of oil, gas and coal, the Green New Deal protects the value of the pound.

"The Green New Deal generates jobs and business opportune-ities – and we would want people to grab these with open arms."

And, by building opportunities for exports, it sustains us into the future – a future it seems that no one else is planning for.

In the process the Green New Deal generates jobs, but a lot more besides. It creates business opportunities – and we would want people to grab those opportunities with open arms.

It also creates new opportunities for safer havens for savings. The Green New Deal could be underpinned by "Green Bonds" issued to pension funds and private investors, the return on them being paid for from energy savings. These bonds could then provide the basis for our future pensions – at a time when there is doubt about how these can be funded.

And it also brings centre stage a fairer tax system to reverse current inequalities by concentrating on tackling tax evasion and avoidance and making the rich pay their fair share towards the cost of the social glue that makes for a civilised society.

The Green New Deal approach provides an economic system that ensures both a secure future for our citizen's and environmental sustainability.

Why The Coalition's Cuts Won't Work

Look after the unemployment, and the budget will look after itself.

John Maynard Keynes, January 1933

When Japan – or Canada or Sweden – tightened in the 1990s, a buoyant world economy could absorb excess domestic supply. There is no world economy big enough to offset renewed contraction in Europe and the US. Concerted fiscal tightening could, in current circumstances, fail: larger cyclical deficits, as economies weaken, could offset attempts at structural fiscal tightening.

Martin Wolf Financial Times June 8 2010

"The proposed cuts programme of the Coalition government will tip the nation into a deep recession"

The proposed cuts programme of the coalition government will tip the nation into a deep recession by increasing unemployment, reducing tax receipts as a consequence (which of course reduces the capacity to clear the deficit) and by limiting government investment. This is particularly true when the whole of Europe- the UK's biggest export markets is engaged in similar demand reducing 'age of austerity' cuts.

We must learn from the lessons of the 1930s. Following the success of the New Deal in the early 1930s Roosevelt was wrongly persuaded in 1936 that the US economy was strong enough to withstand cuts in public spending.

The budget for 1937 was slashed and the US economy promptly went back into recession.
At the end of 1937, the New York Stock Exchange suffered its worst day since 1929. The Dow Jones dropped 40 per cent between August and October, and industrial activity fell more sharply than at any time in US history. In the last four months of 1937, more than two million people lost their jobs, followed by a further two million in the first three months of 1938. If unemployment had continued to rise at that rate throughout the year, the country could have lost almost two-thirds of the jobs created by the New Deal's work programmes since 1933.

The wider population was left in no doubt of the brutal consequences of cuts in public expenditure. As a result on 14 April 1938, Roosevelt submitted a large spending and lending programme to Congress amounting to US$3.75 billion, as well as measures to expand credit. The result was dramatic: by the end of that year, employment had risen by two million, factory jobs by 26 per cent and steel production by 127 per cent. And the deficit fell as a result[x].

Today these lessons from Keynes and Roosevelt are being drawn upon by economic commentators ranging from the Financial Times' Martin Wolf through to the 2008 Nobel prize winner for economics, Paul Krugman. As he has said this month, the only explanation for the current demand for cuts is political. It cannot be otherwise for as he says:

In short: the demand for immediate austerity is based on the assertion that markets will demand such austerity in the future, even though they shouldn't, and show no sign of making any such demand now; and that if markets do lose faith in us, self-flagellation would restore that faith, even though that hasn't actually worked anywhere else.

And this, ladies and gentlemen, is what passes for respectable policy analysis.

Paul Krugman, New York Times, June 2010[xi]

Public Sector Cuts Won't Even Save That Much

"If the UK government cuts the job of an employee earning £25,000 a year it may, after tax revenues lost and benefits paid are taken into account, save under £2,000 a year"

A significant part of all public services are supplied by UK resident people working to supply UK based services to UK based people for the benefit of the UK as a whole. This is an important point from an economic perspective: if there's one sector of the economy where jobs aren't exported it's the public sector.

It's important from another perspective too: in that case putting these public sector employees out of work does little or nothing to reduce overall government spending. These people do not go away if they are sacked in which case when there are very few private sector jobs for people made redundant (as at present) the only consequence of making UK based people redundant is to increase public spending on benefits whilst losing the tax these people pay. At the same time we lose the benefit of their productive capacity whilst they suffer all the social ills associated with unemployment. That makes about as much economic sense as shooting one's self in the foot.

Without denying the need for the government to review the need for efficiencies and to set appropriate priorities – something all governments should do continually – the reality is that if the UK government cuts the job of an employee earning £25,000 a year it may, after tax revenues lost and benefits paid are taken into account, save under £2,000 a year, whilst risking a loss in spending that could tip another person in the private sector into unemployment as well[xii].

The reality is that if the government seeks to cut about £60 billion of spending per annum by the end of the parliament then up to 65% of this will be lost to labour, because that is the share of total GDP that goes to pay wages. That means more than £37bn of labour costs will be cut in that case somewhere in the economy. With UK average wages being less than £25,000 per annum that's at least 1.5 million people who have to lose their jobs to make this equation work.

And the stark reality is that there will be no growth in the private sector to make good the deficit. There are three reasons for that: first every other government is going to be pursuing the same policy so the opportunity for export growth is virtually non-existent: all markets will be shrinking.

Second, as governments cut spending people will save more: indeed the latest Office for Budget Responsibility report on the economic prospects for the next five years suggests this will happen. This is because as safety nets are removed by government, on pensions, on unemployment, on health and incapacity people have to provide their own funds to self insure against these risks. There is nothing wrong with saving, but these savings are likely to be kept as cash in the bank, and not be redirected into productive activity. That is both inefficient and reduces spending, considerably, at the same time.

Third, the government is the biggest single customer for the private sector. It has to be: according to the Office for Budget Responsibility the government is responsible for about 24% of GDP[xiii]. When it is cutting spending the chance of the private sector growing is very small indeed.

In which case substantial increases in unemployment, significant increases in benefit payments, large losses in taxation income and almost no fall in deficits will result from the Coalition Government's Plan for Pain.

There's no North Sea to bail us out this time

"in the 1980's the Thatcher government was able to offset cuts in public expenditure with rising revenues from North Sea Oil and Gas"

There is another difference between this recession and the last significant recession, in the early 1980s.

The Deputy Prime Minister's assurance that the cuts this time won't be like Thatcher's in the 80s ignores the fact that as unemployment rose in the 1980's the Thatcher government was able to offset cuts in public expenditure with rising revenues from North Sea Oil and Gas.

North Sea revenues reached their apex during the Thatcher Government from 1981 to 1986. This coincided with the 1981 recession when unemployment rose to unprecedented official levels of 3 million, and remained stubbornly high until 1986, well into the economic recovery.

In paying the benefits for the unemployed and economically inactive during this period, the Thatcher government was helped enormously by North Sea Revenues for 1981 to 1986 inclusive of over £112 billion.

Now the opposite is true. As North Sea oil and gas supplies decline, present and future governments will experience declining revenues.

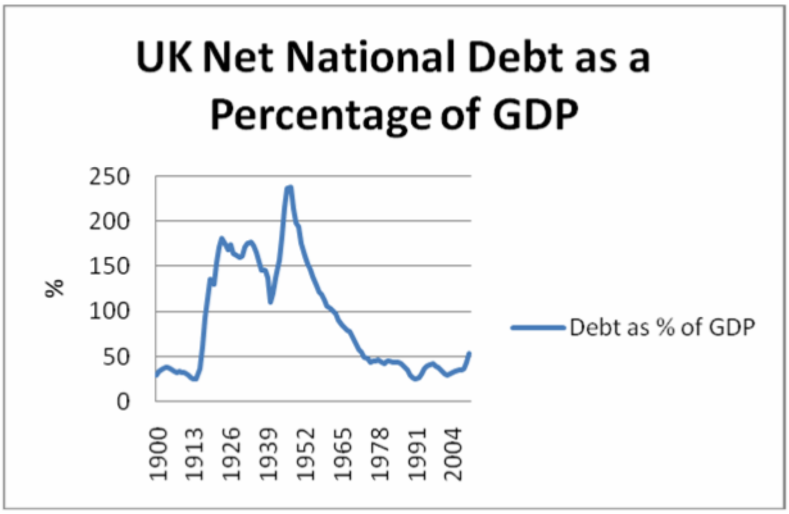
But that adds another pressing reason for investment in a Green New Deal now.

Debt is not the huge issue it's claimed to be

"The UK government has almost always been in debt. There is nothing new in that"

It is very important at this point to note three things.

The first is that the government being in debt is not the huge issue that it is now claimed to be. The UK government has almost always been in debt. There is nothing new in that. It has also been proportionately much more in debt that it is now, as this graph of net debt (that is, after allowing for the value of assets owned such as, for example, nationalised banks) shows:



Source: http://www.ukpublicspending.co.uk/uk_national_debt_chart.html

It is also really important to note that even if this sum increases as the deficit accumulates during the current financial crisis no one forecasts it reaching levels seen as recently as the 1960s – when we were still paying for the war and the cold war that followed it – and when the UK was generally considered to be prospering, despite the debt.

And it is also important to note that the UK is selling all the debt it offers to the market at present without problem and that a wide range of economists suggest that will always be the case. This is because, as some economists point out, so long as a government has control of its own currency then it need never default: it controls the means to create the mechanism for payment[xiv].

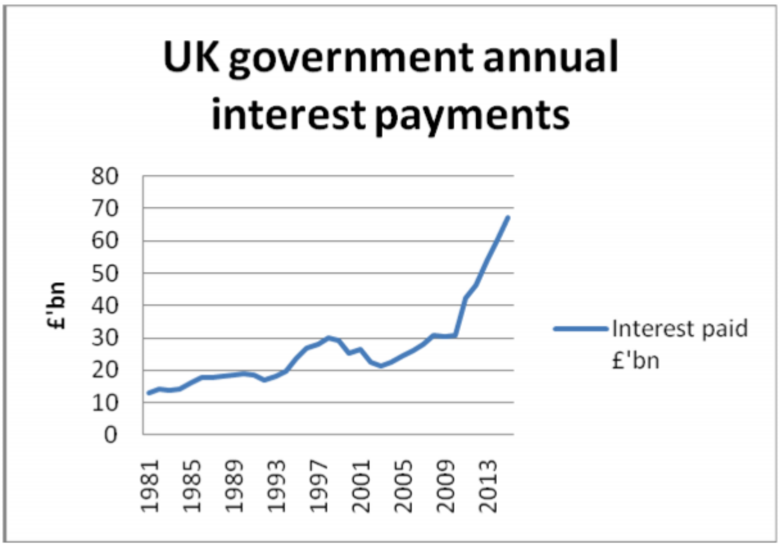
“the real issue of concern is not the absolute amount of the debt: the issue is one of the cost of the debt – that is how much the government has to pay each year in interest on this debt”

Put simply, if the government really does have to repay the debt it can, in extremis, print the money to do so. The reality is that is unlikely to happen – given the apparent appetite of the markets for UK government debt any such situation where pressure to repay exceeded apparent government capacity to do so is highly unlikely to occur. As such the risk of inflation arising from this debt is also very low.

It s also true that this debt is long dated – the average period for repayment of UK government debt is currently fourteen years, whilst 90% of it is owned in the UK[xv] – meaning that the vast majority of those to whom it will be repaid, if and when it is, will want sterling when repayment occurs, reiterating the point that the government really cannot default as a result.

In that case the real issue of concern is not the absolute amount of the debt: that can be dealt with over time when debt repayments fall due if the UK economy has been returned to its customary strength by that time – as a Green New Deal would help to ensure. Rather the issue is one of the cost of the debt – that is how much the government has to pay each year in interest on this debt.

Annual debt payments (actual data to 2009 from HM Treasury and forecasts thereafter from the Office for Budget Responsibility) have been and are predicted to be as follows:

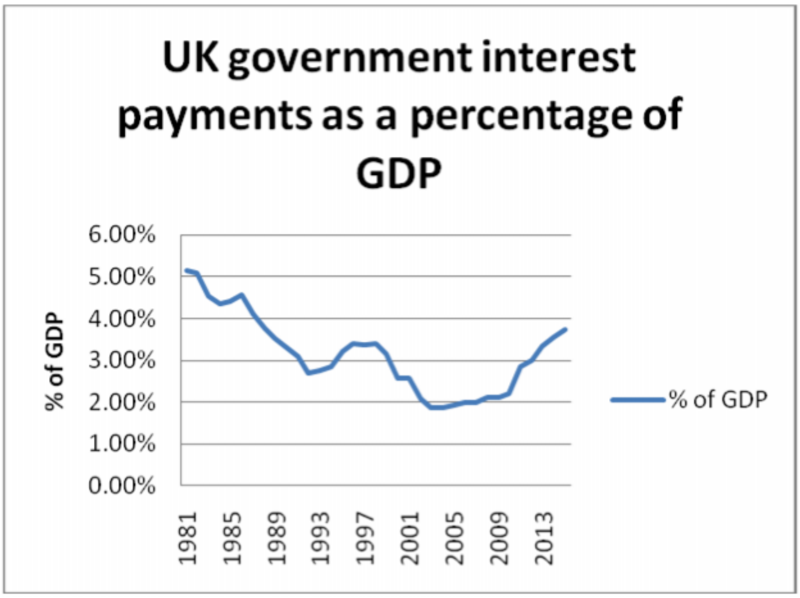


The payments from now on look as though they sky rocket. This is the message the coalition “as a proportion of GDP this interest cost is entirely manageable – as past data shows”

“The reality is therefore that debt is an issue of importance – but nothing like the biggest issue of importance that we face”

government want people to hear.

This, however, is not the whole story. If the interest payments are compared with UK GDP – our total national income which shows our capacity to pay them - a very different picture emerges:



The percentage of national income that interest payments represents is now rising, certainly, but in no small part because by 2015 the Office for Budget Responsibility believe that interest rates will have risen, so fuelling the cost. And as a proportion of GDP this interest cost is entirely manageable – as past data shows. Indeed, in 2015 it will be lower as a proportion of GDP than it was during the entire time that Margaret Thatcher was prime minster.

The reality is therefore that debt is an issue of importance – but nothing like the biggest issue of importance that we face.

The real issues that we face are threefold. The first is the lack of demand in the economy. The Green New Deal would substantially address that issue, and pay for itself from the employment and business revenues generated and from the long term savings in energy costs. The second issue is the collapse in government revenues that is noted above. And the third issue is the demand for cuts in government spending now.

As this analysis shows there is no need for such cuts. The deficit is affordable, both now and in the long term. Indeed, trying to get rid of it is the one unaffordable option we have.

Rebalancing the books – tax or cuts?

“Once unemploy-ment falls action will be required to begin rebalancing the govern-ment’s books”

In the short term, we believe the most important thing is to tackle unemployment, and this is best addressed by new investment in a Green New Deal. In times of unemployment such investment pays for itself.

Once unemployment falls, however, action will be required to begin rebalancing the government’s books.

There are two options for rebalancing government income and spending. The first is that government spending can be cut and the second is that taxes can be raised. Of course, a mix is possible, but the policy choice that has to be made is which of these should be utilised or if both in what combination and when. That is the whole current economic debate in a nutshell.

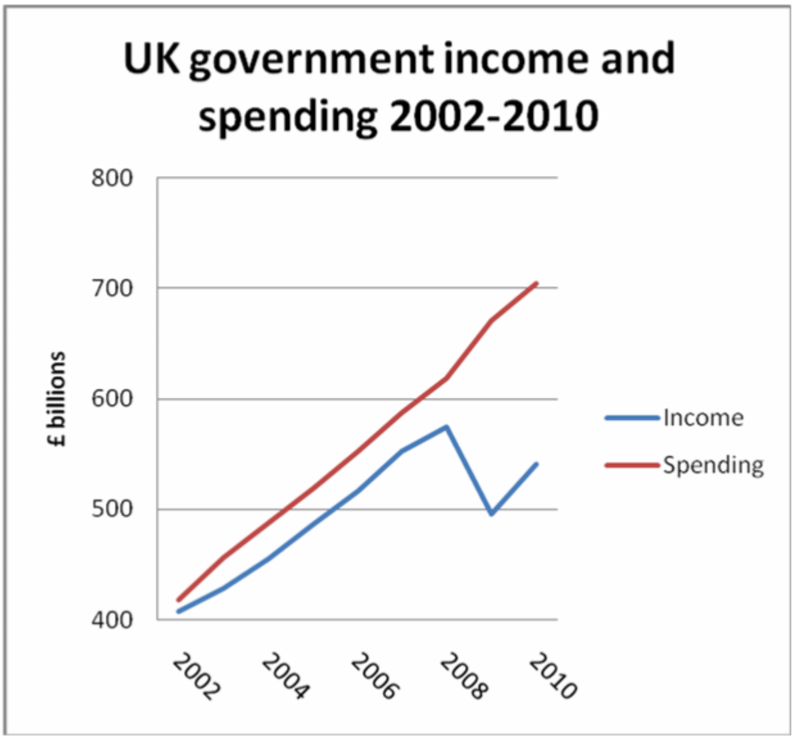
“Our response is unambiguous: any move towards re-balancing the govern-ment’s books must not be done by cutting spending; it must be done by restoring tax revenues”

Our response is unambiguous: any move towards re-balancing the government’s books must not be done by cutting spending; it must be done by restoring tax revenues.

There is good reason for this: the current deficit in government spending did not arise because spending was out of control. It arose because government income collapsed, as this graph shows:

“It is the collapse in government income due to the economic slowdown that has created the government debt problem on the scale that now faces us”

“It is the recession, and the recession alone that has created the debt crisis”

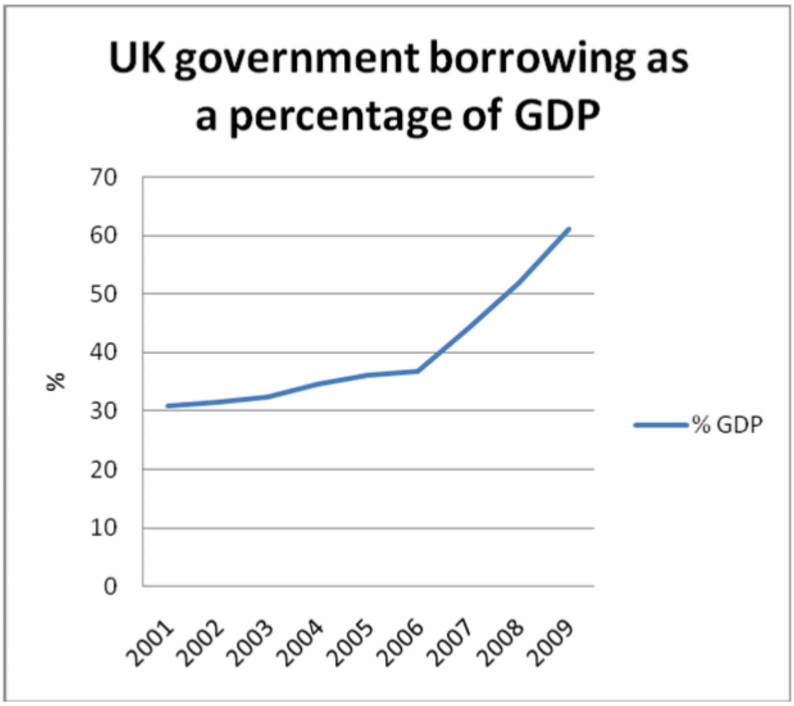


Source: HM Treasury web sites for planned income and expenditure from the budget for each year noted.

Modest, wholly manageable deficits (a deficit simply being an excess of expenditure over income) were run until 2007, which were well within EU guidelines for borrowing. Thereafter it is the collapse in government income due to the economic slowdown that has created the government debt problem on the scale that now faces us.

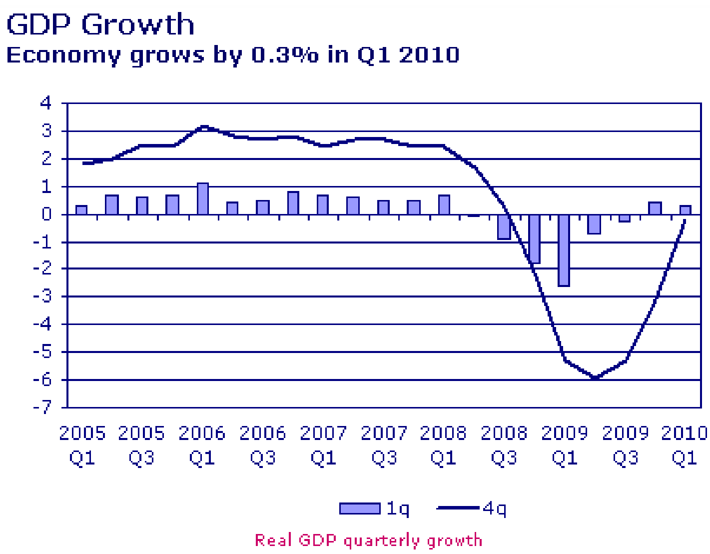
It is therefore, the recession, and the recession alone that has created the debt crisis: all debt arising prior to that point being the consequence of growth in the economy.

This finding is reiterated when the recorded annual debt patterns are plotted (debt being the cumulative amount borrowed to fund government deficits) as a proportion of GDP to remove the distorting effect this otherwise has. The following graph shows that government borrowing grew only slightly as a proportion of GDP – the total income of the country – until 2007:



Source: Office for National Statistics
http://www.statistics.gov.uk/pdfdir/psf0510.pdf

That growth in borrowing was, again, well within all recognised reasonable and manageable limits recognised worldwide. It is the recession, and the recession alone, that has boosted the ratios by causing income to crash – and GDP to crash too – which does, of course, automatically inflate the ratio of borrowing to GDP and make things look worse than they might actually be. For the record, the impact of the recession on GDP has been as follows:



"At the moment the gap between income and spending is more than £150bn a year"

Source: http://www.statistics.gov.uk/cci/nugget.asp?id=192

The record is therefore clear: it is the crash in income that is the problem that has to be tackled now, not an excess of spending. That though is not to deny that there is a deficit, and that it will grow for the time being and that at some time, when unemployment falls, steps towards rebalancing government income will be necessary. At the moment the gap between income and spending is more than £150bn a year. The challenge will be to ultimately reduce that gap.

And that's where the choice between tax and cuts is crucial.

Fair taxes – the solution to all our problems

"more than £100 billion a year is lost because of abuse of loopholes in the tax system, tax bills remaining unpaid and from illegal non-payment of tax"

We repeat that we are unambiguous: we are sure the UK can still afford the level of public services it enjoyed until 2007 but that the condition for doing so is that, bar inevitable and ongoing reviews of government policies to ensure they are appropriate and efficient, the necessary steps to rebalancing the government's income must be met by increased, but fairer taxes.

There are two parts to this process – and we stress they are complementary, but different.

Tackling tax abuse

Taken together, more than £100 billion a year is lost because of abuse of loopholes in the tax system, tax bills remaining unpaid and from illegal non-payment of tax.

Of course not all these abuses can be stopped. No tax system is perfect. But, while some of this revenue would be absorbed by the modest additional resources needed to implement the measures required to collect these taxes, by taking action on these issues we believe that substantial additional tax revenues could be made available to the public purse, whilst simultaneously achieving greater social justice.

There are three steps required to tackle this problem.

"In November 2009 HM Revenue & Customs estimated that there were £28 billion of

The first is to collect the taxes that are actually due to the government. In November 2009 HM Revenue & Customs estimated that there were £28 billion of outstanding taxes owing to it, of which at last £11 billion were unlikely to ever be paid. Greater efforts in tax collection could, as a result, pay rich dividends.

We do not for a moment suggest that this will raise revenue by £28 billion a year: it won't. The figure quotes is a cumulative failure to collect tax on time – but that figure does represent a component in the overall deficit that has to be borrowed from the market instead as a

outstanding taxes owing to it"

"Action on tax avoidance, collection and evasion is, we suggest, needed immediately in the interests of social justice"

"a programme that could generate more than £60bn a year could be created for the UK"

consequence. If a one off effort to collect tax now could raise £10 billion of the £28 billion tax now outstanding and continued efforts could bring in £3 billion of tax each year that might otherwise either not be paid at all or be paid seriously late then we believe that over 5 years tackling this issue could contribute £25bn to the deficit reduction programme – and that is a significant sum.

The second step in this programme is to take action to close down tax avoidance that exploits loopholes in our tax system. In 2008 the TUC estimated that there was £25 billion of tax avoidance per annum in the UK. The figure has been disputed – most recently by a coalition government minister who on one hand claimed this sum represented legitimate use of loopholes and was not, therefore, avoidance and who then on the other hand said the government was determined to stamp out tax avoidance, leading to serious doubt if he really understood what he was talking about[xvi]. It has also been challenged by a Big 4 firm of accountants – but only because they said that there really was no such thing as tax avoidance at all[xvii]. We accept the TUC view that there is serious tax avoidance in the tax system – and that this is particularly problematic in big corporate businesses. That is why many of the legislative proposals to raise more tax noted below are aimed at these issues.

The third step in the process of collecting tax due is to tackle tax evasion. In March 2010 one of the authors of this report estimated that tax evasion – the illegal non-declaration of taxes due to HM Revenue & Customs – cost the UK £70 billion a year.[xviii] Again this figure has been challenged by ministers[xix] but the number appears considerably more credible than HM Revenue & Customs' own estimate that whilst £11.5 billion of undetected VAT is evaded – out of total revenues arising of around £80 billion each year – just £3.1 billion of undetected direct taxes such as income tax, corporation tax and national insurance are evaded each year out of total revenues of over £300 billion a year.

Of course, the precise amount of tax evasion will never be known – by its very nature it will never be recorded properly – but this report suggests that tax evasion must be the target of serious effort by HM Revenue & Customs now as part of the deficit recovery programme. If, as detailed in the appendix to this report the 20,000 tax officers who have been made redundant by HM Revenue & Customs were re-recruited to tackle this issue and that of debt recovery noted above the real costs would be modest because this would affectively take 20,000 out of unemployment but the next tax yield could be considerable. We cautiously estimate £12 billion a year of tax revenue could be raised in this way – or £60 billion in all over five years, making a massive contribution to deficit reduction.

Progressive tax reform

Finally, as detailed in the appendix to this report, there is an enormous range of additional taxes available that would make the UK's tax system fairer. We believe that making the system fairer is essential whatever happens in the economy. The tax system we have is unjust and needs reform.

The tax changes we propose would ensure those with the greatest capacity to pay tax could carry more of the burden of addressing the economic crisis the UK faces whilst the taxes of those who simply cannot afford to pay more could be eased. Such an approach also stands to reduce the high social costs of inequality borne by the taxpayer.

We have identified the additional taxes that could be raised into three groups – taking account of their ease of introduction.

The first group could be introduced at any time with little or no consultation needed and all are technically easy to deliver. These might, even after granting additional tax reliefs to those on lowest income in the UK, raise more than £26 billion per annum. All could be in operation from 2011 onwards.

The second group of tax changes would take time to introduce and would take time to reap benefits, but all can be costed as they now stand. This group is especially targeted at tax avoidance and it is suggested they might raise more than £21 billion if individually implemented, but since some complement and overlap each other a more cautious total of £15 billion per annum is suggested here as a likely tax recovery.

Finally, a range of options requiring further research is suggested and these would, inevitably take at least three years to introduce. It is suggested these taxes could raise at least £15 billion in extra tax revenue.

Taken together then potential additional revenues are:

Measure	Revenue raised (average, per year by end of five year period)
Tackling non-payment of tax	3
Tackling tax evasion	12
New taxes that could be introduced now	26
New taxes to be introduced within 3 years	15
New taxes to be introduced by the end of a five year parliament	15
Total	71

What is clear is that if the aim were to clear the deficit by the end of this parliament then this could be entirely achieved by progressive tax changes.

Conclusion

"£60bn is enough to rebalance the government's income equation.

And this can be done without any cuts at all"

What is clear is that there is an alternative to cuts in public spending.

£60bn is, by most estimates, sufficient additional revenue, once the economy has been stabilised, to rebalance the government's income equation.

And all this can be done without any cuts at all, as we have shown.

Appendix – how to raise more tax

1. Tackling tax evasion and non-payment of tax.

There are five ways of tackling tax evasion and non-payment of tax. They are:

Policy proposal	*Time scale for implementation*	*Likely revenue impact*
Stop HMRC redundancy programme	Immediate	Immediate cost less than £10 million a year at marginal cost to HM Treasury of keeping staff. Revenue raised included in estimate for tax evasion and enhanced tax collection noted below.
Keep all local offices threatened with closure open	Immediate	Minimal – most of the offices are on non-cancellable PFI rent agreements so cost savings for closure are minimal. Revenue raised impact will be seen in enhanced local debt recovery and improved tax compliance.
Aggressively collect tax due.	Immediate	Tax is not an afterthought. Nor is tax an optional payment. Paying tax is a core obligation of all individuals and all businesses. **Collecting tax due is vital if the tax system is to be credible. We estimate an initial target for tax to be recovered should be £10 billion of the £28 billion now overdue, followed by £3 billion of extra recovery each year thereafter or £25 billion over a five year period.**
Recruit 20,000 new staff at HMRC to: • Train as tax inspectors to tackle tax avoidance and evasion	Over the next three years	Marginal cost of each additional employee whilst there isn't full employment is unlikely to exceed £5,000, when their pension costs per annum , their tax paid and net benefits saved

• To enhance service to taxpayers • Reduce fraudulent claims for payment made to HMRC • Recover debt owing		are taken into account[vi]. **Benefits estimated to be** £12 billion of additional tax collected by preventing tax evasion each year. That is a total from tackling tax evasion of £60 billion over five years.
Reopen local tax offices	The next three years	Small cost – many offices are already available to HMRC under PFI schemes and are currently vacant. The benefit will arise from placing tax at the heart of the community – based on the message that paying tax is the right thing to do if we are to build the society we all need and want.

More details on these proposals and why they have been costed as they have been are available in the report, Tax Justice and Jobs (see bibliography).

2. Tackling tax avoidance and raising additional revenues

Suggestions about how to tackle tax avoidance and raise additional revenue split into three groups. These are:

1. Implementable straight away with no consultation required, not least because this will prevent tax avoidance taking place;

2. Implementable after a reasonable consultation period to ensure that the policy is as effective as possible

3. Implementable after further research is undertaken on the necessary mechanisms to create the tax.

Grouping the possible changes under the above headings results in the recommendations in the following table. In each case a link is provided to the course of further information on the proposal.

Implementable straight away with no consultation required

Recommendation	*Approximate*	*Source of further*

	Impact	*information*
50 per cent tax on all income over £100,000	£2.3 billion	Compass, In Place of Cuts
Taxing all capital gains at a taxpayers highest marginal income tax rate	£2 billion	Compass, In Place of Cuts
Prevent anyone earning more than £100,000 a year claiming more than £5,000 a year in tax reliefs above their personal allowance	£14.9 billion	Compass, In Place of Cuts TUC, A Socially Just Path to Economic Recovery Green New Deal Group, The Cuts Won't Work (variations on the theme available in each)
End tax relief for employers on all salaries and benefits provided in kind that results in an employee having total income from related employments exceeding ten times median UK earnings in a year (about £220,000 at present)	£2.4 billion	TUC et al – Taxing Banks
Limit the time period for the carry forward of bank losses	£5 billion	TUC et al – Taxing Banks[vii]
Reintroduce 10 per cent tax band to help those on lowest incomes	£11.5 billion of refunds	Compass, In Place of Cuts
Uncap national insurance contributions and make them payable on investment income	£9.1 billion	Compass, In Place of Cuts
Additional 10 per cent tax on bank profits	£2.2 billion	Tax Research LLP[viii]
Limit ISA tax relief to funds invested in new Green projects alone	Neutral	Green New Deal Group, The Cuts Won't Work
Net Total after cots of reintroducing 10p tax band	**£26.4 billion**	

Implementable after a reasonable consultation period

Introduce a General Anti-Avoidance Provision	Up to £5 billion pa	Association of Accountancy and Business Affairs' Code of Conduct on Taxation
Change the legislative basis for interpreting UK tax law so any action contrary to the spirit rather than the letter of tax legislation can be challenged in court	Included in above estimate	AABA Code of Conduct on Taxation

Introduce a mandatory Code of Conduct on Taxation	Included in above estimate	AABA Code of Conduct on Taxation
Abolish the UK's domicile rule	£3 billion	TUC, A Socially Just Path to Economic Recovery
Introduce higher council tax bands	£1.7 billion	Compass, In place of Cuts
Introduce a 'Robin Hood Tax' on all foreign exchange dealing in sterling	£3.2 billion in the UK	Robin Hood tax campaign Budget Submission 2010
Reform rules on company residence so that companies cannot claim they've left the UK simply by holding their board meetings in another country	£1 billion at present, maybe more[ix]	TUC Pre-Budget report submission
Enhance the rules on controlled foreign companies so that intellectual property rights cannot be easily transferred to tax havens without tax being due	£1 billion at present, maybe more	TUC Pre-Budget report submission
Restrict the offset of interest against taxable income both for companies to reduce the incentive to overload companies with debt.	£1 billion at present, maybe more	TUC Pre-Budget report submission
Restrict the tax relief available to those borrowing to finance buy to let properties to create a level playing field between new owner occupiers and new landlords	£2 billion, cautious estimate	Tax Research LLP[x]
Demand that all tax havens in the world enter into Tax Information Exchange Agreements with the UK;	Up to £4 billion	Tax Research LLP, The direct tax cost of tax havens to the UK[xi]
Promote the use of new mechanisms for Automatic Information Exchange between all tax jurisdictions except those where human rights abuses are commonplace.	Included in above estimate	Tax Research LLP
Possible total	***£21.9 billion***	

Implementable after a period of further research*

Reform the basis of tax residence in the UK so that a person with a UK passport is liable for tax on their world wide income unless they live in a state with a tax system broadly equivalent to the UK's.	Not yet clear, but maybe several billion a year	
Radically reform the way in which small companies are taxed to both simplify current arrangements and prevent abuse. This would require the income of such companies to be treated as belonging to their shareholders, unless those shareholders are not resident in the UK, so preventing tax deferral by use of corporate structures.	£1.2 billion	Tax Research LLP, Small Company Taxation in the UK:A review in the aftermath of the 'Arctic Systems' Ruling Green New Deal Group, *The Cuts Won't Work*
Introduce a 'Robin Hood Tax' on all derivate, swap, bond and over the counter trading in the UK	£5bn, maybe much more	Robin Hood tax campaign, Budget Submission 2010
Reforming the tax relief for charities to stop abuse, increase the income of charities and to cut their administrative burden;	Neutral but significant admin savings	TUC, The Missing Billions
A 'bank debit tax' charging all payments from a UK bank account to tax at a tiny rate, and in the process replacing VAT, at last in part, with a more progressive tax based on a broader and therefore more progressive tax base	£4.2 billion	Compass, In place of Cuts
Introduce country-by-country reporting for all multinational corporations based in the UK, and demand it be introduced internationally by the International Accounting Standards Board and European Union so that multinational corporations will be required to account publicly for where they declare their profits and where they pay taxes,	Not yet known	Green New Deal Group, The Cuts Won't Work

including full disclosure with regard to tax havens and secrecy jurisdictions.		
Introduce an empty property tax	£5 billion	TUC, A Socially Just Path to Economic Recovery
Possible total	***In excess of £15 billion***	

*Because additional research would be needed to estimate the cumulative impact of these measures (since implementation of one set of policies would impact on both the scale of the total tax take, and some degree of continued avoidance would be inevitable) a total for these measures is not given here.

Links, References and Bibliography

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http://www.tuc.org.uk/touchstone/Missingbillions/1missingbillions.pdf

The Robin Hood Tax, London, 2010
http://robinhoodtax.org.uk/how-it-works/the-big-idea/

Endnotes

i See endnotes for references

[ii] http://www.ft.com/cms/s/0/31d8576e-74c6-11df-aed7-00144feabdc0.html

[iii] http://www.neweconomics.org/publications/cuts-wont-work

[iv] See http://www.taxresearch.org.uk/Blog/2010/06/18/4-million-unemployed-inevitable-say-tax-research-uk/ for more information and calculations

[v] http://www.guardian.co.uk/commentisfree/2010/jun/12/cuts-hit-poor-tax-rises-fairer

[vi] http://www.guardian.co.uk/business/2010/jun/14/lunatics-economy-cuts-frankin-roosevelt

[vii] http://www.touchstoneblog.org.uk/category/cuts-watch/

[viii] http://www.timesonline.co.uk/tol/news/politics/article7146447.ece

ix http://www.24dash.com/news/local_government/2010-06-10-John-Denham-Huge-cuts-to-CLG-budget-will-hit-the-poor-hardest

[x] http://www.guardian.co.uk/business/2010/jun/14/lunatics-economy-cuts-frankin-roosevelt

[xi] http://krugman.blogs.nytimes.com/2010/06/14/the-bad-logic-of-fiscal-austerity/?src=twt&twt=NytimesKrugman

[xii] The full workings of this argument are to be found here http://www.taxresearch.org.uk/Blog/2010/05/17/the-only-way-to-cut-government-debt-is-to-increase-government-spending-2/

[xiii]

http://budgetresponsibility.independent.gov.uk/d/pre_budget_forecast_140610.pdf

[xiv] http://www.levyinstitute.org/pubs/ppb_111.pdf

[xv] http://www.ft.com/cms/s/0/6bc012d6-733c-11df-ae73-00144feabdc0.html

[xvi]

http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm100616/halltext/100616h0008.htm

[xvii] http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/foot_review_deloitte.pdf

[xviii] References to the sources for all these estimates are to be found here http://www.neweconomics.org/sites/neweconomics.org/files/The_Great_Tax_Parachute.pdf

With regard to the appendix:

[xix]

http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm100616/halltext/100616h0008.htm

[vi] For details refer to Tax Justice and Jobs - see bibliography
[vii] The estimate is made here. UK companies reduced their total deferred tax liabilities in 2008 by £17 billion according to international accountants Deloitte. Not all of this would relate to banks and some losses will have been sued against profits in 2009, but the estimate is considered reasonable in the light of losses sustained by Lloyds, RBS, Northern Rock and others that were covered by tax bail outs and do not need to be relieved again.
[viii] http://www.taxresearch.org.uk/Blog/2007/09/18/banks-must-pay-for-giving-up-their-risk/
[ix] These estimates are provisional
[x] Currently unpublished research
[xi] Based on total estimated loss of £8.5 billion less estimate for that part attributable to non-domiciled people that cannot be double counted