

AUSTERITY and its **ALTERNATIVES**



Corporate Tax in the UK

The triumph of 'austerity' over evidence (and what researchers should learn from it)

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tax justice
network

TJN has done more than any other organisation to put fiscal justice at the centre of the policy agenda. Tax issues should not be left to those who want to escape taxes! Changes will come when more and more citizens of the world take ownership of these matters. TJN is a powerful force acting in this direction.

– Thomas Piketty, economist

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Austerity was the result of right-wing opportunism, exploiting instinctive popular concern about rising government debt in order to reduce the size of the state. This opportunism, and the fact that it was successful (in its own terms), reflects a failure to follow both economic theory and evidence.

– Simon Wren-Lewis, economist

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Overview

1. Austerity: The consensus against
2. The UK's peculiarly tax-averse austerity
3. UK corporate tax: Paradigmatic triumph over evidence
4. Conclusions: Policy research or policy influence?



1. Austerity: The Consensus Against

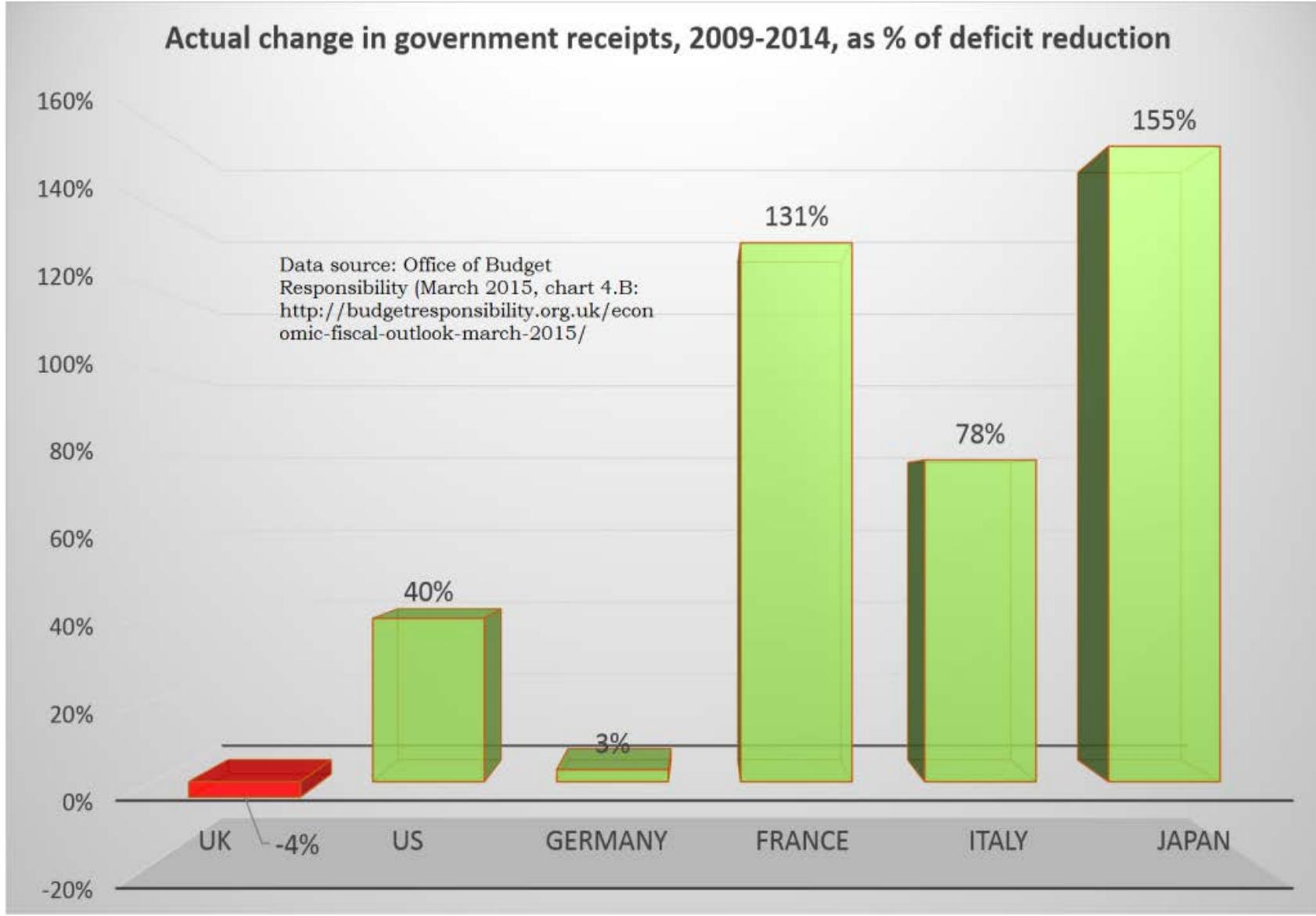
- Two claims:
 - Expansionary fiscal contractions (EFCs) are possible.
 - EFCs are desirable 'cos/when high debt ratio => reduced economic growth
- Consensus evidence is weak/opposing:
 - Alesina and various, 1995-/ ... But:
 - Mea culpas and retractions (IMF, 2010; Perotti, 2011)
 - Powerful new findings (esp. Jorda & Taylor, 2013)
 - Alesina et al (2015) – which per Taylor (2015) now joins the consensus
 - Reinhart & Rogoff (2010, 2012) ... But:
 - Errors (Hendoren, 2011)
 - Powerful new findings (esp. Pescatori et al, 2013)
- D. Cobham, 2016:
 - There is a serious question as to why politicians have often insisted on austerity...
 - [T]he immediate conclusion is that the fiscal austerity imposed in so many countries has no serious intellectual justification.



2. The UK's Tax Averse Austerity

- UK austerity has performed in line with the consensus view. National debt has risen; and growth has been anaemic. Wren-Lewis (2016) estimates a loss of around 4.5% of GDP (in level terms).
- Distribution impacts have been stark
 - Regressive across households (aside from Labour's 2010 top income tax rise)
 - Duffy (2015):
 - people living in (income) poverty made up 21% of the UK population, but bore 39% of the cuts;
 - people living with a disability made up 8% of the population, but bore 29% of the cuts
 - people living with the most severe disabilities made up just 2% of the population, but bore 15% of the cuts
 - Annesley, 2014 (and WBG): disproportionate burdens falling also on women.
- UN Committee on Economic, Social and Cultural Rights: reminded UK of its duties towards progressive achievement of rights, recommending a review in light of the fact that austerity measures "must be temporary, necessary, proportionate and not discriminatory, must not disproportionately affect the rights of disadvantaged and marginalized individuals and groups and respect the core content of rights". [+tax]
- Tax-aversion: a feature not a bug?



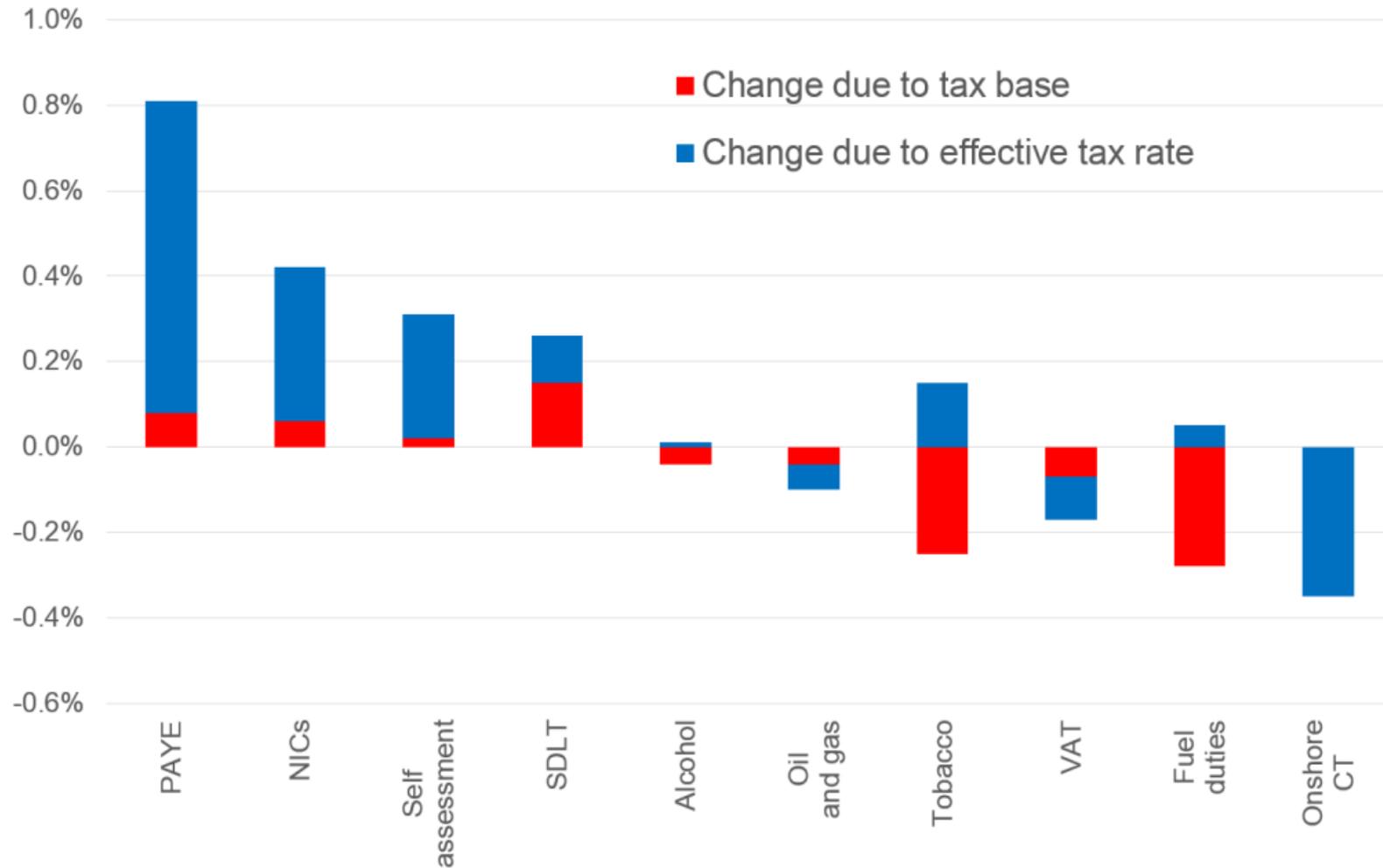


3. UK Corporate Tax

- Headline rate cut from 28% in 2010 over time to 18% (...15%?)
- Government's own analysis showed losses of £7.5bn p.a. by 2015; predicted another £2.5bn this parliament after allowing for 'behavioural change' (Laffer...)
- Office of Budget Responsibility predicted resulting increase in the corporate tax base of...



Sources of changes in the tax-to-GDP ratio (2014/15 - 2020/21), per OBR



4. Policy Research and/or Influence?

- If 'austerity' reflects a comprehensive defeat of research-based policy, how will researchers respond?
- To remain 'apolitical', 'neutral', is to take a political position: one which makes predictably bad policy more likely.
- Qs for researchers:
 - Not: 'What is the gap in policymakers' knowledge that, once filled, will lead to improved outcomes?'
 - Instead: 'What is the gap in research communication that, once filled, will lead to improved outcomes?'
- Communicating to policymakers, and those who influence them (media and public) is key.



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McMaster University, 14 December 2016

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