

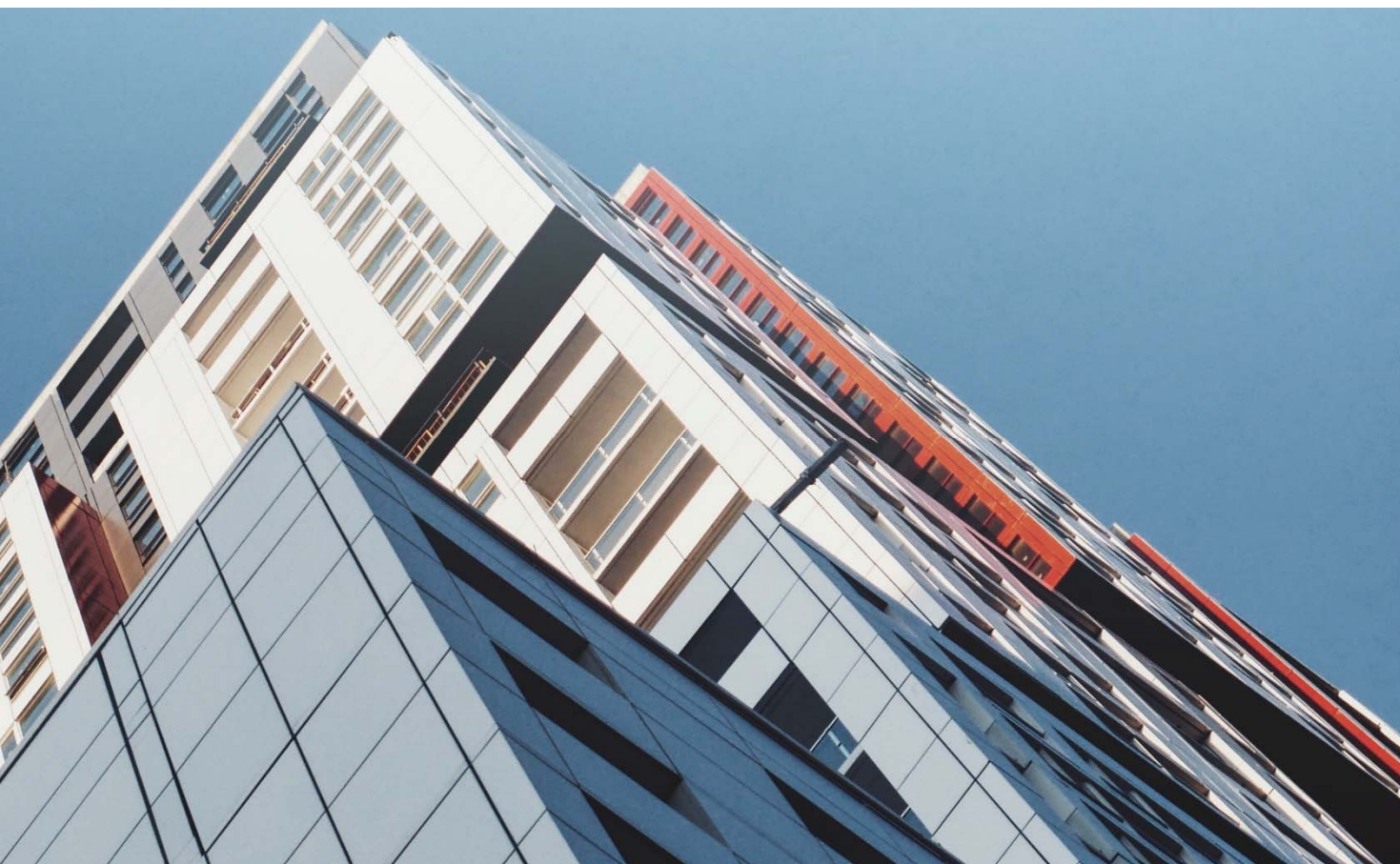


UK Governance

From Overloading to Freeloading

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ABOUT US

Austerity and its Alternatives is an international knowledge mobilization project committed to expanding discussions on alternatives to fiscal consolidation and complimentary policies among policy communities and the public. To learn more about our project, please visit www.alt austerity.mcmaster.ca.

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The referendum result in favour of exiting the European Union in June 2016 was the latest sign of the crisis of governance afflicting the United Kingdom. Although the sources of this crisis are multifaceted and contested, many commentators point to the UK's political system's failure to reflect and respond adequately to the interests and demands of many citizens. The result is a profound and widespread disenchantment with politics, politicians and political institutions (Clarke et.al. 2015; Flinders 2015; Stoker 2011). This has prompted the reprise of the debates from the 1970s when an equivalent epoch of anaemic economic expansion, paroxysms of social unrest, public policy failure and mounting cynicism about politics led to the portrayal of the UK as ungovernable (Miliband 2012; Economist 2016).

Just as in the 1970s the dominant narrative is that Britain's political malaise is a symptom of overload (King 1976; Flinders 2012). The overload thesis contends that faith in the British polity is being eroded by the mismatch between the electorate's perennially expanding expectations of government and the propensity of the political system to deliver them. According to adherents of the overload thesis the escalation of demands on government sets in motion a self-fulfilling process of state enlargement. As the state grows in response to citizen demands new constituencies are forged with a vested interest in swelling the state's largesse. Unwilling to risk a backlash at the ballot box UK governments have opted to appease these sectional demands with extra resources. In other words the overload thesis sees the expectations gap as the outcome of the excessive demands of citizens. As well as being self-fulfilling the process is also self-defeating. The result is runaway public expenditure which will ultimately result, as it did in the 1970s and 2010s, in a fiscal crisis. The antidote is austerity (a euphemism for shrinking the role of the state and the public sphere) in two senses:

- In the short term, measures biased towards public expenditure cuts to bring the budget back into balance with governments stilling voter dissatisfaction with simplistic comparisons to the balance in family budgets and appeals to the 'national interest'
- In the long term, to sever the link between citizen demands and state growth by delegating responsibilities to private and market actors.

In the 1970s, the overload thesis chimed with the emergent New Right whose ideas continue to pervade UK policymaking to the present. Unfortunately these policy prescriptions proved equally self-defeating, not least because a 'strong state' was needed to devise and enforce a framework of rules to regulate the competitive forces that had been unleashed and it engendered a clamour of corporate constituents demanding protection against the very global market forces to which they were now subjected (Gamble 1988; Cerny 1997).

Here it is argued that the demand led explanation of the overload thesis had another fatal flaw, namely that it downplayed the withering of government capacity



to supply public goods because of the ability of actors to enjoy the benefits of citizenship without contributing adequately to the cost. In other words the problems of UK governance are the consequence not just of overloading but also of freeloading.

Plenty of commentators have engaged with the problem of freeloading. Academically the New Right talked of extinguishing the 'dependency culture' of those who were content to exist on state benefits. Similar themes are parroted in the popular press and their regular spasms of righteous indignation against 'benefits cheats', 'scroungers' and the 'workshy'. Here it is argued that the real freeloading problem that has bedevilled UK governance since the 1970s derives from the inability of states to raise sufficient revenue because of tax avoidance and evasion perpetrated by rich individuals and corporations. By 1975 the Inland Revenue's Chairman was describing tax avoidance as a 'national habit'. This dilemma has intensified in the interim because of the unstated but discernible policy of successive governments to transform the UK into a tax haven. As a tax haven, the UK permits rich individuals and corporations to profit handsomely from the public goods paid for out of general taxation whilst simultaneously supplying them with subterfuges that allow them to curtail their UK tax liabilities.

Today barely a week passes without some new expose of tax avoidance. Far from the fringe activity undertaken by a handful of maverick accountants or finance officers, tax avoidance in the UK is rife; indeed it is an intrinsic component of contemporary corporate strategy. Conventional wisdom suggests that tax avoidance in the UK is a game of cat and mouse in which clever and duplicitous rodents outwit the hapless feline revenue inspectors. The reality is somewhat more sinister. Far from being the passive victim of provisions to shrink tax liabilities the state, through its connivance with the tax planning industry been their primary architect (Brooks 2013). Swathes of the UK's corporate tax code are now drafted in conjunction with representatives from the tax planning industry and their multinational clients. The transnational tax planners no longer have to concoct elaborate avoidance schemes, the state designs the schemes for them. The privatisation of UK tax policy making has been complemented by the emasculation of enforcement. Denuded of staff and expertise Her Majesty's Revenue and Customs (HMRC) is reduced to resorting to 'sweetheart deals' that allow the beneficiaries to pay tax at a fraction of the headline rate.

Given the nature of tax avoidance and evasion, putting a precise figure on the amount of revenue foregone is difficult. Nonetheless, even conservative estimates suggest that assets stashed offshore by rich individuals deny the UK exchequer £5bn per annum (Zucman 2014) while avoidance by US corporations located in the UK costs another £1bn (Cobham & Jansky 2015). Irrespective this revenue would do offset the UK's budgetary gap and lessen the need for austerity. Instead governments have opted for policies that



- a) play into the hands of the tax avoiders. For example, the Private Finance Initiative was established to allow public goods to be supplied without harming the government's fiscal position. By borrowing at exorbitant rates however, PFI companies generate tax deductible interest expenses that eradicate years of tax liabilities. Likewise, the payments received by PFI companies from end users are invariably routed through tax haven hosted companies. The absurdities plumbed new depths in when it was revealed that the Inland Revenue had signed a PFI deal surrendering ownership and management of its estate to a Bermudan based company, this preventing them from taxing its landlord's capital gains.
- b) Worsen inequality. For example, raising indirect taxes and cutting spending in areas that disproportionately distress the poorer segments of society.

The polarising effects of freeloading are fuelling a sense of injustice that is eroding the legitimacy of the UK's political institutions. The perception that rich individuals and corporations can write their own laws or cut their own deal with the tax man while the majority suffer the effects of austerity reinforces the sense that the UK's political process is rigged in favour of those who dominate the process by virtue of their wealth. The half-hearted fight against freeloaders headed by a Prime Minister that is now known to have earned £31,000 from selling shares in a Panama based trust established by his later father has served only to reinforce such views. Action to quell tax avoidance is no panacea to the multifaceted challenges facing UK governance but will help to address the grievances of those who feel that the rich increasingly have representation without taxation.



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