People do want tax justice, not cuts

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Stephanie Flanders, the thinly disguised Tory in the BBC’s economics' department wrote on her blog today:

We'll be debating the timing of Britain's fiscal budget squeeze until at least the next election. But what about the how?

On the Today programme this morning, Richard Murphy, director of Tax Research UK, made the case for raising an extra £47bn in taxes to fill the fiscal hole, almost entirely from the top 10% of earners or corporations. It has a good populist ring to it. But it doesn't seem likely to win over the public - or most economists.

I was, of course, discussing the Compass report on tax.

Flanders, a pure down the line economist is, of course, not convinced. She knows here bread is buttered by pandering to wealth. But she’s wrong about the electorate. Compass did some polling with YouGov on a sample of more than 1,000 people to support this report, which I co-wrote. The polling was pretty emphatic. There were three questions:

When all taxes are taken into account — income tax, national insurance, VAT, excise duties, council tax etc — the richest households pay a smaller share of their income in tax than the poorest households. The overall tax rate for the richest 10% is 34%; for the poorest 10% it is 46%. In principle, do you agree or disagree with this statementâ€šÃ„¶?:

“The government should change the tax system to ensure that the richest households pay at least the same percentage of tax as the poorest households”

The finding to this one was 78% strongly in favour or agreeing; just 14% disagreed in part or strongly.

The second question was:

Until last year the starting rate of income tax was 10%, paid on the first £2,220 of taxable income. Last year this was abolished to pay for a 2p reduction in the standard rate of income tax. Do you agree or disagree with this statementâ€šÃ„¶?:

“The government should restore the 10p starting rate by increasing taxes on the top 10% of households by income”

Here the finding to this one was 59% strongly in favour or agreeing; just 13% disagreed in part or strongly.

And finally they asked:

Some people say that the tax system should be changed to reduce the income of the richest 10%, and increase take home income for the remaining 90% of people. Their proposal has 4 key elements:

1. the income tax rate would be 50% for anyone earning more than £100,000 a year;

2. the cap on national insurance would be lifted and also applied to investment income;

1. the income tax rate would be 50% for anyone earning more than £100,000 a year;

2. the cap on national insurance would be lifted and also applied to investment income;

3. and new anti-avoidance rules would be introduced and simplified to ensure that all income, apart from standard personal allowances, is taxed;

4. the 10p starting rate of income tax would be restored.

Overall this new package would raise enough tax to allow government borrowing to be reduced sharply without major cuts in public spending and many economists believe the economy would be less likely to slip back into recession.

Which of these views comes closer to your own?

“This package is a good idea: it would make Britain fairer, it would assist the recovery by giving more money to 90% of all households, and ensure that our public services don’t suffer”

“This package is a bad idea: many high-paid people and international companies would move to other countries, and Britain’s economy would suffer”

Don’t know

And the finding to this one was 62% favoured the first statement, 25% the second and 13% did not know.

As such Stephanie Flanders is wrong: there is support for this package, it’s just not being offered to the public.The reality is that if it was it would be very popular indeed because people have an innate sense of justice that so far, and with regret, politicians will not respond to because economists say it does not exist. But it’s the economists (and especially economists like Flanders — ex the Institute for Fiscal Studies, I note) and not the people who are wrong.

And let’s ask the simple question that Stephanie Flanders seems to have ignored, but to which I drew attention in the interview. Why would a tax proposal that makes 90% of people significantly better off be unpopular? Come on Stephanie — you believe in rational people — so why would they vote against their self interest?