

Tax competition is destroying the social contract - and...

Published: January 13, 2026, 4:35 am

Jeffrey Sachs is not my favourite economist. There again, he's far from bottom of the pile, and he's notched up a fair few places this morning with an article in the FT on tax competition. [In it he says:](#)

With a quarter of a million people on the streets of London [protesting against the UK budget cuts](#), and with the US government days away from a potential [shutdown](#), the social divisions over fiscal policy are deepening. It is not hard to see why. Both the US and UK have experienced a profound shift of income distribution from the poor and the middle-class to the rich in the past 30 years yet the fiscal adjustments are dominated by sharp cuts on public services combined with reductions on corporate tax rates. The social contract is under threat. Only international co-operation can now solve what is becoming a runaway social crisis in many high-income countries.

As the [Tax Justice Network note](#), it looks like he's signed up to tax justice. That seems the way when he continues with this:

The underlying political and economic forces tearing our societies apart are very powerful. The rise of globalisation, and especially the [entry of China and India](#) into the world markets, has put extreme downward pressure on wages of low-skilled workers while giving new opportunities for financial and business investments. The pre-tax income of the top 1 per cent of households has soared, from 10 per cent of household income in 1979 to 21 per cent in 2008 in the US, and from 6 per cent in 1979 to 14 per cent in 2005 in the UK.

This is the reality the right ignore, daily. Because for them enough is never enough, so as Sachs notes:

With capital globally mobile, moreover, governments are now in a race to the bottom with regard to corporate taxation and loopholes for personal taxation of high incomes. Each government aims to attract mobile capital by cutting taxes relative to others. Governments like Ireland have created tax havens that drain revenues from the rest and act as conduits to tax-free Caribbean hideaways such as the Cayman Islands. The

rich are doubly benefited: by the underlying market forces of globalisation and by their governments' policy response.

And as I've been pointing out, much of this is the result of lobbying, a point with which Sachs wholeheartedly agrees. Lobbying that can be subtle of course: the [Oxford Centre for Business Taxation is just one example of such lobbying](#) that denies it is anything of the sort.

That's the good news. Then Sachs gets a little wobbly when it comes to deficits. As he notes:

The end result is that both the US and UK are [battling deficits](#) of about 10 per cent of gross domestic product. The situation in the US is far graver. Total government (federal, state, and local) revenues as a share of GDP in the US are now 32 per cent, roughly 9 percentage points below the UK and 15-20 percentage points below countries such as Denmark, Finland, Norway, and Sweden, which all have much lower budget deficits (or a surplus in the case of Norway) and highly effective public services.

Note his point: the deficits are the result of low tax. Services are possible: we just need to pay for them. But as he notes:

The problem is that both the US and UK are aiming to do the impossible: run a modern, high-technology, prosperous 21st-century knowledge economy without the requisite tax base, largely to satisfy the upper classes and multinational companies, which threaten to decamp to milder tax regimes, or direct their campaign contributions elsewhere, if they do not get the tax cuts they obsessively crave.

In that context his praise that follows for the 'Cameron-Clegg-Osborne team' that follows looks ill informed: no one is doing more appeasing than Osborne right now. But as he points out, the US isntax cut obsessed, "while Ireland has clung to its irresponsible tax-haven status in the middle of a crippling turn to austerity."

And he's right to note

For too long, fiscal politics between the left and right has been debated on false premises. Left-of-centre politics has tended to play down the importance of closing the budget deficit, arguing against spending cuts on the basis that deficits do not matter. Right-of-centre politics has tended to play down the importance of taxing higher incomes, arguing that only spending cuts can reduce the budget deficit. A more responsible position takes a note from both sides. We surely need to reduce the deficits but in a fair, efficient, and sustainable manner, by levying higher taxation on the rich, who are enjoying a boom in living standards and a share of the national income unprecedented in modern history.

I think that's unfair: the Left in the UK is saying no cuts for a reason. The reason is we have come up with alternatives. We can raise taxes, as Sachs suggests, we can close

the tax gap, at least in part, we can use pension contributions to fund new investment as a condition of tax relief, and we can have a Green New Deal. All of those would close the deficit because of the wealth generated and the tax paid. We know there's an issue. And we can deal with it.

But as Sachs says the odds are stacked against us right now:

Yet to get to the right place, countries cannot act by themselves. Even the social democracies of northern Europe, with their balanced budgets and high tax rates, are increasingly being pulled into the vortex of tax cutting and the race to the bottom. The political defences in the US and the UK against the power of the rich are crumbling. Multinational companies and their disproportionately wealthy owners are successfully playing governments against each other. The game is clear, and it is working fiercely well.

This is precisely why UK Uncut are right to protest. It's why [they're on bail and bankers are not](#).

And this is why, as Tax Justice Network has argued often, we need international cooperation. Sachs looks to the OECD for that. He's wrong to do so. It's well and truly captured. It hires the Oxford Centre for Business Taxation for advice: and utterly biased advice flows back as a result - a foreseeable consequence. The OECD oppose country-by-country reporting designed to tackle this problem. The OECD has refused to properly tackle the tax haven issue. They're the rich country club band they service the rich in those countries. Sachs is right to say:

[C]ountries should urgently convene a meeting of finance ministers to enunciate basic principles of budget fairness: that fiscal adjustments towards budget balance are needed for medium-term solvency but must be carried out in a fair way; that the basic needs of citizens need to be protected in this period of fiscal stringency; that recent trends towards unprecedented inequalities of wealth and income require increased, not decreased, taxation of higher incomes, including corporate profits; and that tax and regulatory co-ordination across countries are vital to prevent a ruinous fiscal race to the bottom.

Hear, hear.

Now let's get on and do it. Through the UN if need be. But let's do it now.

Before society breaks down.

Because that's where the policies of the far right and George Osborne are leading us.

And I value society a lot, even if they don't.