

Cameron's right: profit and tax cuts are not dirty word...

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The Guardian [web site has a headline this morning that says:](#)

I find such commentary from David Cameron not just ludicrous, but part of an anti-business agenda.

Let's deal with profit first of all. This is a surplus paid as a the result of entrepreneurial skill. It is not a return to capital: that's interest. Profit, then, is the reward in excess of the normal rate of return to capital that results from the successful undertaking of a risky venture. The corollary is loss.

Now four things follow from that. The first is that the managers of big businesses do not have risk in their activities. They are paid a salary. Sure they can lose their job: so can all their staff and no one says the staff earn a profit as a result. They are paid a wage. So too are the managers of the business. The confusion of management reward with profit is a deliberate ruse to inflate the reward of those who can capture the reward of a business for their own gain because of the weak governance structures within UK (and other) big business. Cameron would be most unwise to equate the two: that way lies the support of the fact cats and not the equity shareholder.

Second, because much of the profit earned by business has been captured by staff those who provide equity capital to business, which is supposed to enjoy the benefit of an uncertain profit reward and so a higher rate of return than loan capital, which does not carry that risk, have seen little or nothing of that return of late. The yield on equities has been low because staff have captured the gains, most especially perhaps in banks. And yet George Osborne is fighting the EU for staff to keep that right to fleece their shareholders of that profit. That's a profoundly anti-business agenda.

Third, if Cameron supports business he would deliver what is needed to ensure that all business operates on a level playing field, which is an open and transparent system for knowing the ownership and control of companies and open and transparent accounting

on a country-by-country reporting basis so that all business, whether large or small, could understand the realities of the market in which they operate, compete equally for capital and have that data they need to ensure the effective allocation of capital. But he doesn't. He is now on record as supporting tax havens. He is not planning to deliver transparency on the ownership of companies. He is not demanding country-by-country reporting on public record. He is reducing the information companies must file on public record so that the opacity of markets gets deeper, which is antithetical to effective competition. These are all profoundly anti-business policies.

And of course section 172 of the Companies Act must be complied with, which says:

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to-

- (a) the likely consequences of any decision in the long term,*
- (b) the interests of the company's employees,*
- (c) the need to foster the company's business relationships with suppliers, customers and others,*
- (d) the impact of the company's operations on the community and the environment,*
- (e) the desirability of the company maintaining a reputation for high standards of business conduct, and*
- (f) the need to act fairly as between members of the company.*

In other words, *it is not the object of business to maximise profit*: it must operate with broad social purpose, which is exactly what I have heard Labour say.

So let's then turn to tax. Of course tax cuts are possible. But again there are issues. First, budgets must be met. This government is not doing that.

Second, need must be met. Very clearly this government is not doing that.

Third, the cut must be fair. Why it is fair to give tax cuts to big business and the highest paid taxpayers alone in the UK over the last few years is not clear: what is clear is that there has been no yield in terms of growth as a result. That means the decision was not economically justified and as such it must have been made on ethical grounds. Since the reward has gone to a) those who are capturing business profit for personal gain in anti-business fashion and b) non-entrepreneurial big business as opposed to high entrepreneurial small business neither can this be considered fair.

Last, tax gaps must be shut to be pro-business. Leaving it possible for some business to

pay nothing - as is all too easy in the UK where corporation tax is now in effect an honesty box system of payment because the resources to check evasion have largely disappeared due to government cuts - is a recklessly anti-business policy because honest business is undermined by it but that is what the government have done.

David Cameron has a long way to go before he understands profit or what it is to be pro-business. And that makes his claims particularly galling.

The fact is that the tax justice agenda is the most pro-business lobby there probably is in the UK. It's those who abuse business that deny that.