Building social policies in fiscal welfare

'In social science there is no neutral act'
Zsuzsa Ferge, *A Society in the Making*, 1979

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‘Increase fairness between recipients & taxpayers’
Third Principle of IDS’ *21st Century Welfare* - BUT
All UK Taxes % Gross Income, 2016-17 (*08-09*)

	Income tax & NI contri %	Council tax %	Indirect tax %	All Taxes %
All	16.6	2.7	14.9	34.2 *(33.5)*
Top fifth	21.5	1.7	11.2	34.4 *(33.9)*
Bottom fifth	**7.2**	**5.4**	**26.0**	**38.6** ***(36.2)***

In Richard Titmuss's Social Division of Welfare

Social, fiscal and occupational welfare (1955). Focus on fiscal: tax reliefs & National Insurance exemptions – running social spending through the tax system.

Mostly means-enhancing, not means-tested as much social welfare. Benefit of tax allowance at marginal rate.

Scale 2017-18 £29bn income tax welfare – 1/6 IT take, ¾+ all IT reliefs except personal allowances. +£28bn CGT relief on sale of own home. +£16+bn NI exemptions. +£2+bn charities. **Plus ???**
HMRC 400 reliefs, OTS 1156 in 2015, NAO critiques.

Analyse taxing as much as spending

Analysing **state-organised redistribution of life chances** requires as much attention to the process of collecting resources as to re-allocating them (van Oorschot, 2008). UK out of step?

Fiscal welfare a neglected '**pre-distribution**' (Hacker, 2011) as out before the Budget – and so not discussed in cabinet in the public spending re-allocation.

Power kept by the agenda-setters in the Treasury. 'No less far-reaching for being unobtrusive' (RCDI&P, Minority, 1955). See Hodge 2016, NAO, PAC.

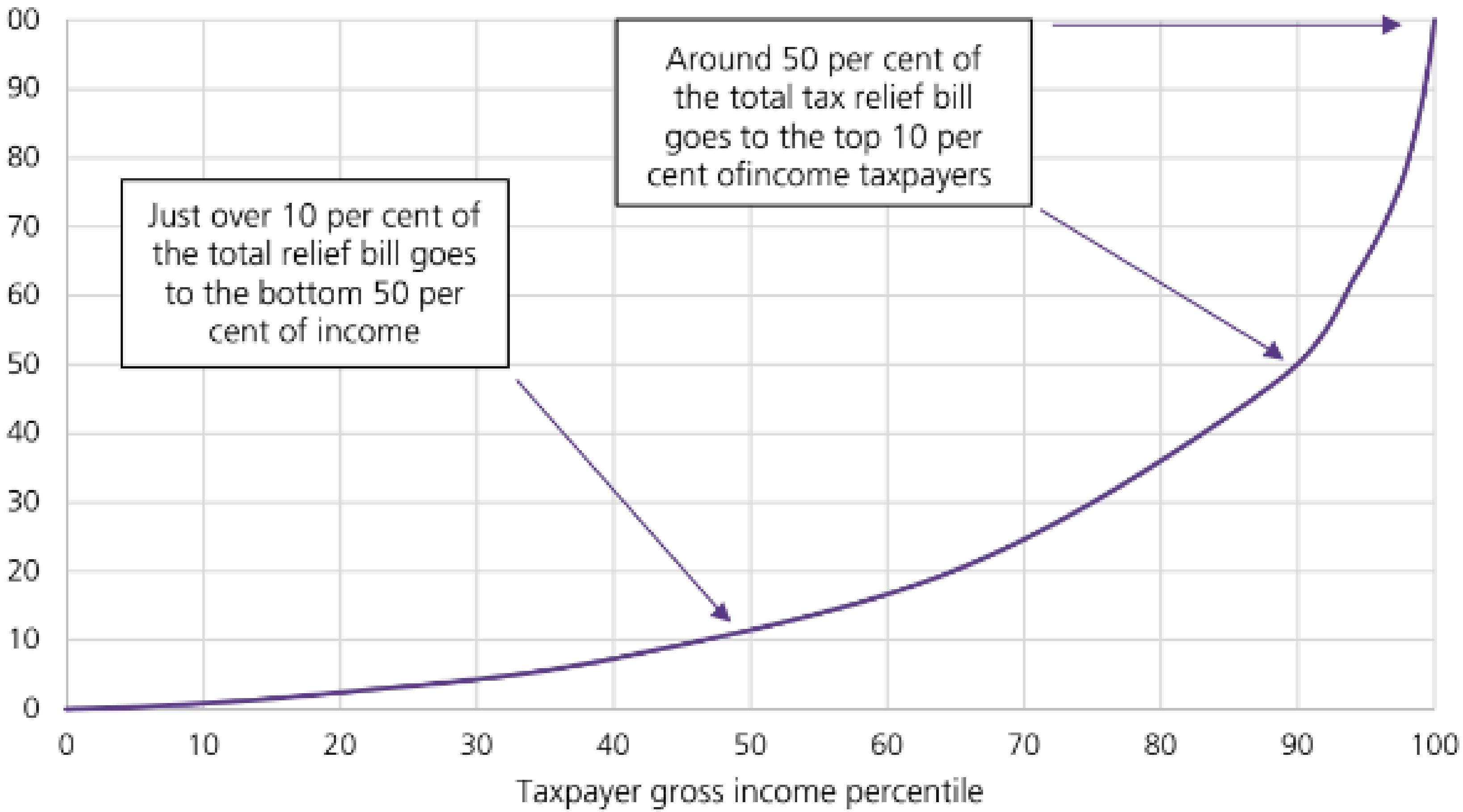
1 - End subterranean means-enhancing. Fairness needs to be evident, so where's the data?

Typical: "**Top earners bear biggest tax rise**s: Highest bracket paid 9 per cent more last year – Cut to pension breaks adds extra burden" *FT* main, front page, 2.6.18.

Yes, pension reliefs now more limited at the top, but anyone with an 'adjusted income' over £210,000 can still reduce their tax bill by £86.50 a week, cf JSA £73.10 and without any means-test.

Total pension tax & NI relief £55bn. Occasional distributional analyses **only** for tax reliefs, some 55%.

rt 5.1 Cumulative distribution of pensions tax relief among income taxpayers 2016/17. ***The rt shows the share of the total amount given in tax relief on pensions to taxpayers at or belov ven gross income percentiles. It includes only individuals that pay income tax.***



ces: HM Revenue & Customs, Personal incomes statistics 2015/16 (tables 3.3 and 3.8), 28 March 2018; and Treası mittee staff calculations

Chart 5.1, Treasury Committee,

Cumulative distribution of pension tax relief 2016/17 – on contributions only I think

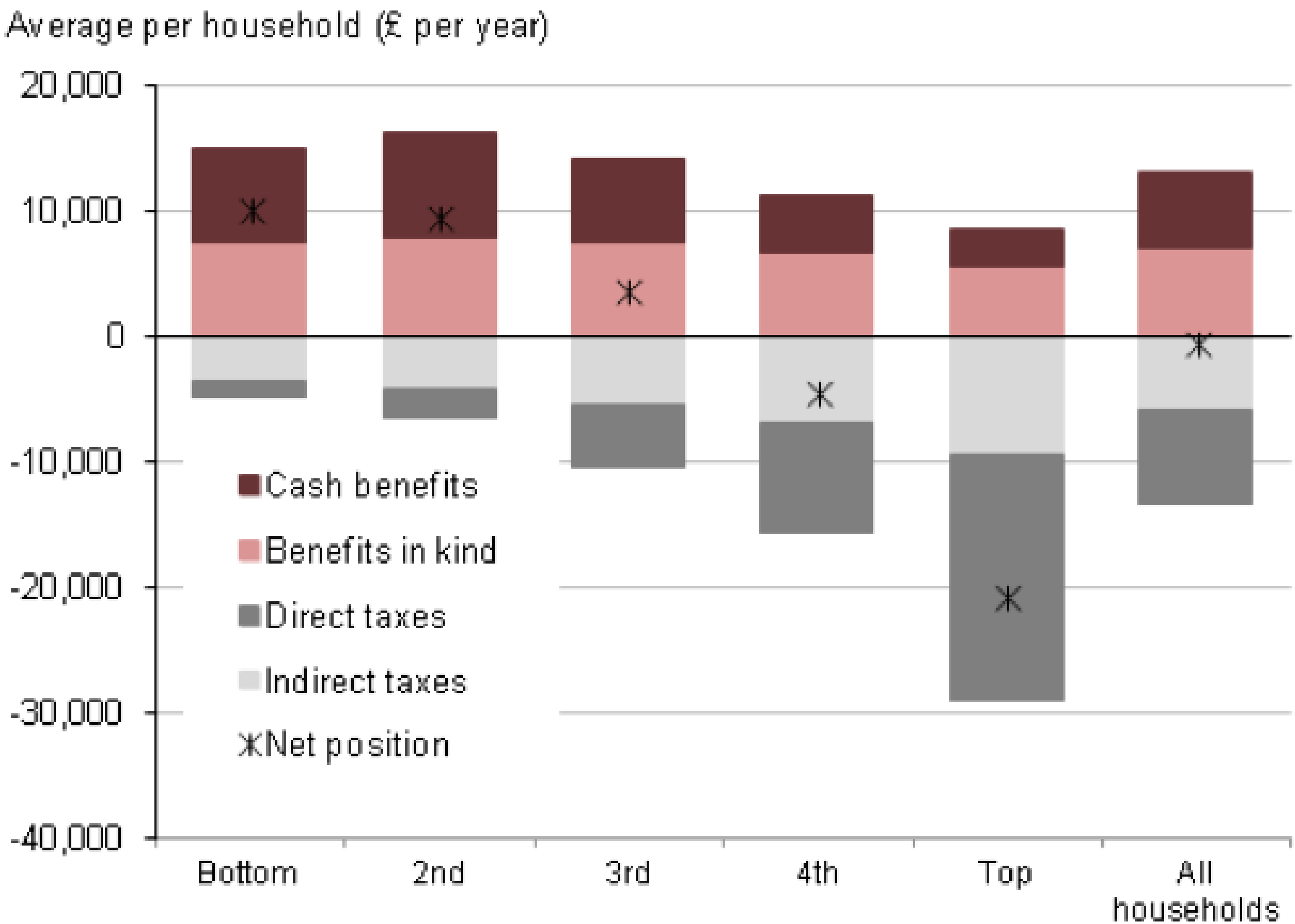
Who pays what?

Need very much more data – why do NAO and select committees not request more on who gets what in their demands on HMRC & Treasury?

Who actually benefits from these reliefs? How much corporate welfare (Farnsworth) and subsidy from taxpayer & universal NI contributor to private welfare?

Overall top 0.1% had 86 x more extra relief than average, but only 31 x more pre-tax income in 2004-05 (IFS, 2008). That helps to explain overall official pattern of tax incidence.

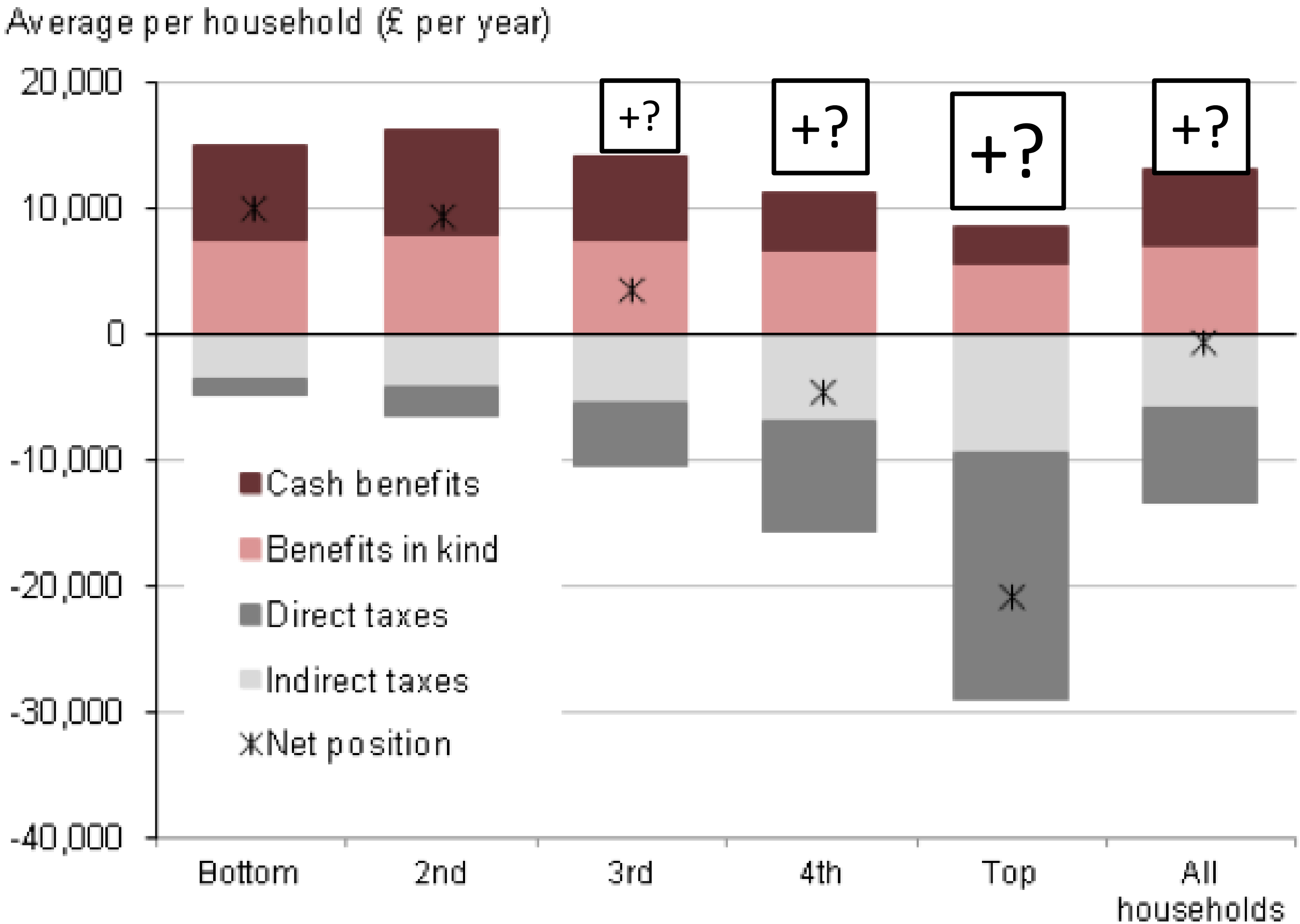
NB. NI reliefs not included, not discussed.



Source: Office for National Statistics

Notes:

1. Households are ranked by their equivalised disposable incomes, using the modified OECD scale.



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1. Households are ranked by their equivalised disposable incomes, using the modified OECD scale.

World Bank & OECD concern – so hardly radical

'[Tax expenditure] 'violates' both vertical and horizontal equity (World Bank, 2003).

'Though evaluation of tax expenditures may be difficult, a more serious problem may be the failure to try. … An out-of-sight, out-of-mind attitude can arise and continue to insulate inefficiencies from scrutiny for periods of years' (OECD, 2010, p 29) – and insulate inequalities too.

To promote inclusive growth 'tax bases should be broadened first by removing or reducing tax expenditures that disproportionately benefit high income groups' (Brys et al, OECD, 2016) .

2. Put tax expenditure alongside public

Showing tax spending beside public opens up more questions about amounts – and also power, inconsistencies and double standards.

Eg Since April 2012 tax allowance threshold up by 46%, but basic working-age benefit only up by 3%.

Resisted by Treasury – because it transfers power to spending depts as well as making subsidy to private welfare more visible. US GAO proposes a return to it.

Brings out differential treatment – **public** austerity and **private** fiscal welfare.

Comparison of main public & fiscal spending on social security in retirement, 2016-17

	Total billions	*Percentage*
Pension credit	£ 5.66 bn	3.9%
State pension	£91.58 bn	62.6%
Winter fuel payments	£ 2.05 bn	1.4%
Other public spending	£ 7.09 bn	4.8%
Total public spending	*£106.38 bn*	*72.7%*
Income tax reliefs net	£23.65 bn	16.2%
NI Exemptions	£16.35 bn	11.2%
Total fiscal welfare	*£40.00 bn*	*27.3%*
Total direct & indirect	**£146.38 bn**	**100%**

3. Include reliefs in CESCR ‘maximum available resources’ (MAR)

‘A state can’t justify retrogressive measures simply by referring to resource scarcity, fiscal discipline or savings: it needs to show why the measures at issue were necessary for the protection of the totality of rights in the Covenant’ (Aoife Nolan on ***International Covenant on Economic, Social and Cultural Rights***, CESCR).

Include fiscal welfare and other reliefs in MAR to UN Special Rapporteur on extreme poverty & human rights inquiry into UK, first in Europe

‘Austerity for no-one, if not all!’

4. Fairer Taxes require

- Office for Tax Responsibility & Ministry of Taxation (Richard Murphy) – how independent of professions? Urgent need for better & more distributional data, but?

- Cap fiscal benefits, eg no more than £5k above basic allowance for those earning over £100,000. 2010 worth £14.9bn. Special exceptions with ceilings?
- Replace tax allowances by fairer tax credits.
- Tax recipients of wealth (IHT relief £23bn+).

Make **all** income & taxes visible to anyone, cf Norway.

Much proposed in Sandford et al, eds, *Taxation and Social Policy*, **1980** – note resistance, Hodge, NAO, PAC.

‘Fiscal welfare is still ‘simultaneously enlarging and consolidating the area of social inequality’

It is part of the social division of welfare ‘reinforcing sectoral advantage, nurturing privilege and contributing to exclusion and marginalisation’ with 'the demoralising effect of cumulative social rejection' (Titmuss, 1958 and 1959).

‘The heavy distributional skew of tax breaks for private benefits cannot be treated as an analytic afterthought. It must be placed at the heart of any explanation of the distinctive political dynamics' (Hacker, 2002)**. And so, any solution too.**

Towards a more responsible society

Tackle upside-down, means-enhancing pre-distribution upstream to prevent poverty and reduce inequality.

Research into taxes as well as benefits & services has potential to help develop strategies to tackle the persistence of *The Irresponsible Society* (Titmuss, 1959) and 'the evil of inequality' (Beveridge, 1944). Great opportunities for cross-disciplinary work.

If it's really true that our economic system can't provide a decent minimum, then why should we defend it? How can we? Sawant, Seattle 2018, **and** Beveridge, *Full Employment in a Free Society*, 1944.