
Budget 2012: The myth that lower taxes for the rich generates more tax revenue

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One of the greatest myths that was regurgitated in the aftermath of the budget was the claim the tax take on the rich rises the less they are taxed.

It was said this occurred when Nigel Lawson was chancellor in the 1980s. What actually happened in the 1980s was that as the rich took a greater and greater share of national income the share of income tax they paid went up.

The richest 1% now pay more than a quarter of all direct income tax. This is not because of the 40%, 45% or 50% top tax rate, but because they now take home such huge salaries and bonuses (and incomes in other forms).

Today the best–off 1% take home a greater share than they have done at any time since directly after the First World War.

Allowing the richest 1% to take home more and more income and pay less tax does not create wealth and jobs. Employment levels have been highest in Britain in the years when the richest 1% had their lowest shares of national income, from 1945 to 1979.

The richest 1% didn’t pay a great absolute amount of income tax then because they were not taking such a high and unfair share of all the monies paid out in wages and salaries nationally.
It was not the high tax rates that meant the tax take from the richest was less then, they were less rich and so had less to tax, as Figure 5 shows, and there was less need of their taxes because a wider cross-section of society had enough then to contribute.

Figure 5:

In a report published by IPPR today, “The case for austerity among the rich”, I try to make this case and show just how much, in both the UK and USA, incomes have become concentrated at the very top of society so there is now so little to share around amongst the bottom 90%.

I show how an increase in incomes of 1% of those 9 out of ten people, coupled with reductions in income at the top, would save trillions of dollars and billions of pounds a year. I then show how this occurred before (in the 50 years from 1920 to 1970).
Those items of discretionary spending that would be most hurt by a little more austerity among the rich are listed: luxury cars sales, board school receipts, and Michelin star restaurant profits, and the geographical part of the country which would lose out economically is highlighted. There would be a few losers as well as millions of winners from any slight movement towards greater equality.

The mainstream advocates of a little austerity for the rich in mainland Europe and the United States of America are also listed, places where a little haircut for the rich is a much less alien concept.

The paper uses IMF figures to show just how low public spending in a country like Britain gets when you end up relying on such a few very wealthy people to pay so much tax (so much it cannot be repeated enough, because they pay themselves so much).

Even under New Labour, as Figure 2 shows, public spending in Britain was lower than in all but a tiny handful of European countries (Spain and Ireland) and the USA, and it is set to fall below all of them by 2015 under coalition policies.

Figure 2:

The UK is slowly transforming itself into one of the most unequal, most low taxing, most low public spending countries within the rich world.
That transformation began under Margaret Thatcher, was slowed under John Major, accelerated again under Tony Blair, slowed a little again under Gordon Brown, and is now accelerating again under the coalition.

Under Tony Blair, the highest paid 0.1% of households gained from ‘earning’ 61 times the average wage of the bottom 90%, to receiving 95 times their average wage a year by the time Blair resigned. It was possible to get away with this then because of overall income growth (a very little at the bottom, a great deal at the top).

For the government now, as their economic arguments fail, they may come more and more to rely on hate to maintain their credibility. Hate ‘benefit-scroungers’, hate ‘immigrants’, hate the last government said to have ‘overspent’ your money.

It should be possible to offer an alternative to hate. And an alternative to simply offering the policies of the coalition a little watered down. A small part of that alternative would be the case for more austerity among the rich and dispelling of the myth that reducing taxes on the rich somehow makes the other 99% better–off.

The full report is:
