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## **A Robin Hood Lesson** for New Labour

By George Irvin

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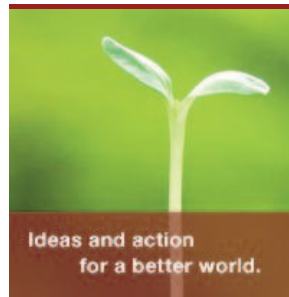
## A Robin Hood Lesson for New Labour

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*“A few years ago, the r-word was taboo in New Labour circles because it was thought anathema to middle England. Today, voters are deserting New Labour in droves, a party perceived as devoid of principles which taxes the poor and gives peerages and tax breaks to the rich.”*



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# A Robin Hood Lesson for New Labour

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**W**hile the pundits ponder over Gordon Brown's efforts to recover from the 10p fiasco, a measure he himself introduced as Chancellor in 2007, it becomes increasingly clear that the issue the party really needs to address is the huge disparities in income and wealth which characterise today's Britain. As Robin Hood well knew, the only way to improve the lot of the poor when times are hard is to tax the ill-gotten gains of the rich. But New Labour looks more like a party beholden to the Sheriff of Nottingham. Alisdair Darling's recent mini-budget, designed to help low-income families, involves borrowing an extra £2.7bn; upon closer inspection, though, it is a stop-gap measure which lasts only a year and leaves over a million people not fully compensated.

Moreover, the gap is being financed by raising public borrowing; in the current climate of Treasury orthodoxy, extending the measure beyond the next budget will almost certainly mean cuts elsewhere---ie, less for health, education, social services. Coming only a few months after Labour's inheritance-threshold gift of £1.6bn to the richest 6 percent of families, it is hardly surprising that traditional Labour voters feel this government no longer represents their interests.

Until relatively recently, conventional wisdom had it that voters were totally uninterested in redistribution, a view underpinned by New Labour's characterisation of taxing the rich as the 'politics of envy' and of the need to keep Britain's 'wealth creators' happy and provide an island haven for foreign

billionaires. But as the evidence of outlandish City bonuses, tax breaks for the super-rich and corporate avoidance and evasion has emerged, public attitudes have changed. A YouGov poll for the LibDems in late 2007 showed that 80 percent of voters believe the gap between the rich and the poor is too large and that nearly 60% believe those earning above £100,000 should be taxed more heavily. Even more damaging are the results of a recent internal study by HM revenue and customs suggesting that the 'tax gap'---the result of both avoidance and evasion---is equivalent to at least £11bn annually and could be as large as £40bn.<sup>1</sup> In comparison to such sums, the Chancellor's

industrialised (OECD) countries.

New Labour's strategy of helping the poor while being intensely relaxed about the rich has failed. This is only in part because help to the poor has been hamstrung by the red-tape of working family tax credits and a return to humiliating means testing. Fundamentally, what New Labour has ignored is that relative deprivation, as much as absolute deprivation, is a social scourge. Relative deprivation helps explain the apparent paradox of why it is that although the poor in Harlem or Hackney enjoy a far higher consumption standard than the average Bangladeshi, infant mortality is lower in Bangladesh.



George Irvin \*

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£2.7bn 'compensation package' for lower income taxpayers is peanuts.

The super-rich did not become so merely by avoiding taxes. In the 1980s and early 1990s, Thatcherite policies---particularly the application of harsh monetarist prescriptions of the mid 1980s---led to massive poverty and inequality. Over that decade alone, the Gini coefficient---a widely used quantitative measure of inequality---rose by ten points, the fastest rise in inequality experienced anywhere in the OECD. Government statistics for the period 1980-2000 showed that the number of children in poverty had risen from 1.4m to 4.4m and that the number of pensioners with less than half the average income had doubled.<sup>2</sup> And although these figures have improved somewhat over the past decade, the rich have grown much richer; in consequence, inequality in Britain remains at its post-Thatcher level, making Britain (together with the USA) the least egalitarian of the

There is now a substantial literature on the cost of relative deprivation coming from all corners of the social sciences. The life style of the super-rich has a deeply negative impact on the rest of the population, whether one looks at the deep anger and aggression of unskilled youth condemned to breadline jobs and a dead-end life, or at the cutthroat nature of life at the top of the new corporate culture. Economists are beginning to recognise that relative income status drives much of the aspirational consumption fuelled by the mountainous household debt which a deregulated financial market has facilitated. New Labour's love affair with the gospel of the American-style free-markets and the fetish of ever-growing consumer choice has led us to the brink of financial and economic meltdown, a recession from which we shall not escape as lightly as in 2001, and one in which it is the poor---starting with the sub-prime borrowers whose houses are now being repossessed---who will feel the pain most acutely.

In essence, reversing inequality means taking Robin Hood seriously. Two generations ago, it might have been possible to argue that the redistributive limits of progressive taxation had just about been reached and, moreover, that the rich---barring the royals and some of their courtiers---were not wildly richer than the rest of us. But we live in a

country where the ratio of the FTSE-100 CEOs' pay to the average wage has moved from 10:1 in 1979 to 100:1 in 2006, where the top tenth of income earners receive about one-third of national income while the bottom tenth receives only 2%, and where the top one percent own nearly one-quarter of Britain's wealth.

Labour has steadfastly refused to reform a fiscal system which, like the Sheriff of Nottingham, taxes the poor more heavily than the rich. Indeed, it has arguably made the problem worse, by cutting corporation tax from 33% to 28% and capital gains tax from 40% to a flat rate of 18%, and by giving entrepreneurs 'relief' by taxing the first million of capital gains at only 10%. Labour has lifted the inheritance tax threshold from £300,000 to £600,000 (rising to £700,000 after 2010). The government has failed to make NI more progressive and has maintained the cap on the highest rates of council tax.

If government wanted to reverse this state of affairs, it has a variety of instruments at its disposal. In addition to closing 'non-dom' loopholes in direct taxation (bringing Britain into line with other OECD countries), it could introduce higher rate bands---say, 50% and 60%--- for those earning above £250,000 and £500,000 respectively. Doubtless this would unleash the wrath of the tabloid press, but in a country where an average family with several working members earns only £32,000 a year, a majority would consider this fair. And while it may not be politically feasible to restore the previous CGT and inheritance tax rates, a graduated wealth tax of (say) 0.5% to 4.0% on net worth of (say) above £500,000 would be perfectly viable; Austria, Belgium, France, Germany, Norway, The Netherlands, Sweden, Spain and even Switzerland all have some form of wealth tax, typically with a low threshold and low initial but graduated rates. Additionally, Germany and The Netherlands have recently announced a special levy on large executive bonuses. It is the distribution of assets which most affects the distribution of income, and the

asset distribution in Britain is the most unequal in the EU.

Corporate taxation is another field where reform is needed---suffice it to say that tax avoidance is rife, and loopholes allowing incorporation in Lichtenstein or the Cayman Islands need to be closed. Here, action is needed at European level, and Brussels has recently begun to pry open the secrecy laws countries like Austria and Luxembourg which facilitate tax avoidance. Equally, an interesting way of taxing companies more effectively without cutting into their cash flow is to force them to issue new shares for their workforce---first proposed by Rudolf Meidner in Sweden---a scheme which might help save earning-related pensions and fund social provision. A further way of financing the growing need for decent social provision is to impose a levy on residential property which could either be paid upfront, or taken from an individual's estate upon death. As Polly Toynbee points out ('Despite the baby boomers ageing, we can afford to care' *The Guardian*, Tuesday 13 May 2008) the over-60s own £932bn in property, and the shortfall for social care is just £6bn.

A few years ago, the r-word was taboo in New Labour circles because it was thought anathema to middle England. Today, voters are deserting New Labour in droves, a party perceived as devoid of principles which taxes the poor and gives peerages and tax breaks to the rich. As rising food prices and impending recession squeezes the typical family increasingly hard, it's time to do something radical about growing inequality. Redistribution, far from being taboo, is returning to the centre-stage of the new generation's politics. Readers will doubtless have noted that the Crewe and Nantwich constituency, once a Labour bastion, lies only 50 miles from Robin Hood's Nottingham.

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### Footnotes:

\* George Irvin is Professorial Research Fellow at the University of London, SOAS. His book *Super Rich: the growth of inequality in Britain and the United States* (Polity Press, 2008) appears in June.

<sup>1</sup> See Vanessa Houlder "'Tax Gap' estimated at £11bn-41bn', *Financial Times*, March 13, 2008.

<sup>2</sup> See for example D Gordon and P Townsend [eds] (2000) *Breadline Europe: The Measurement of Poverty Bristol: The Policy Press*.

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