



The Economy in 2020

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Wealth creation is a good thing: we all want greater prosperity.

But let us have a serious debate about how wealth is created.

If you believe the Conservative myth then wealth creation is solely due to the dynamic risk-taking of private equity funds, entrepreneurs or billionaires bringing their investment to UK shores.

So if we follow the Conservative's tale then it is logical to cut taxes for the rich and big business, not to bother to invest in the workforce, and be intensely relaxed about the running down of public services.

But in reality wealth creation is a collective process between workers, public investment and services, and, yes, often innovative and creative individuals.

Understanding this means getting to grips with the key choice in the leadership election and indeed the key choice facing Britain:

Whether to accept austerity or whether to break free of this straitjacket and strike out for a modern, rebalanced economy based on growth and high quality jobs.

Labour must create a balanced economy that ensures workers and government share fairly in the wealth creation process

- that encourages and supports innovation in every sector of the economy; and
- that invests in skills and infrastructure to build an economy that is more sustainable and more equal.

The purpose of this document is to set out some of the key parts of that vision.

That includes not only the overall approach we must take to the economy as a whole, but some specific key changes on taxation.

THE BUDGET & AUSTERITY

George Osborne's post-election Budget speech was praised as a slick piece of political manoeuvring.

His political trick on the minimum wage was exposed within hours, but it was an attempt to outflank the too-modest-by-far plan that Labour had for £8 per hour by 2020.

Some of us had been pushing for a genuine living wage. The TUC calls for £10 per hour.

But look deeper and Osborne's Budget and a familiar story emerges: tax cuts at the top. This time for the 4% who currently pay inheritance tax, and then for corporations again.

And who bears the brunt?

Once again it's low income families, disabled people, young people, public sector workers, and our public services.

So we see that austerity is about political choices, not economic necessities.

There is money available:

The inheritance tax changes will lose the government over £2.5 billion in revenue between now and 2020.

What responsible government committed to closing the deficit would give a tax break to the richest 4% of households?

The Conservatives are giving away to the very rich twice as much as reducing the benefit cap will raise by further impoverishing the poorest.

Another choice was to cut corporation tax - already the lowest in the G7 at 20%. Lower too than the 25% in China, and half the 40% rate in the United States.

That political choice will see our revenue intake from big business fall by £2.5 billion in 2020. That's nearly twice the amount saved by cutting child tax credits beyond two children.

So closing the deficit and austerity are just the cover for the same old Conservative policies: run down public services, slash the welfare state, sell-off public assets and give tax cuts to the wealthiest.

This is why I stood in this race:

Because Labour shouldn't be swallowing the story that austerity is anything other than a new facade for the same Tory plans.

We all want the deficit closed on the current budget, but there was no need to try to do it within an artificial five years or even the extra five years George Osborne mapped out two weeks ago.

As I said on the Sunday Politics, if the deficit has been closed by 2020 and the economy is growing, then Labour should not run a current budget deficit – but we should borrow to invest in our future prosperity.

You don't close the deficit fairly or sustainably through cuts.

You close it through growing a balanced and sustainable economy that works for all

And by asking those with income and wealth to spare to contribute more.

DEFICIT, GROWTH, INVESTMENT

If Osborne's forecasts are right there won't be a deficit by 2020, but if - like last time - he is proved wrong and he only again manages to halve the deficit then I make this pledge:

Labour will close the current budget deficit through building a strong growing economy that works for all. We will not do it by increasing poverty.

The discussion about the deficit leads us to the clearest possible choice.

Rather than remove spending power from the economy and damage growth and future prosperity, Britain needs a publicly-led expansion and reconstruction of the economy.

We must put this centre-stage as the alternative to the current model of austerity for the poor, and deregulation, privatisation and never-ending corporate tax sweeteners for the super-rich and big business.

We need a fairer system for all, including on taxation, which I will set out here.

To date, we have seen only the most feeble of upturns:

- We have had the longest period of falling real wages since the 19th century
- A disastrous investment and productivity record
- A swelling balance of payments deficit
- The creation of army of low-paid, low skill, insecure, zero hours, bogus self-employment jobs.

People are still worse off today than they were in 2008. The average household is still awaiting recovery.

So to deliver rising living standards and decent jobs for the majority - which has got to be the focus of any Labour programme - we need a strategy for faster, more sustainable growth, as well as policies - including on taxation - to make sure that growth is more fairly distributed.

But as a principle to create the kind of economy we need, Britain needs sharply rising levels of investment in the economy.

Faster growth and higher wages must be key to bringing down the deficit.

Increased tax receipts and lower benefit demand are a better way forward than shutting local libraries and attacking the working poor.

If there are tough choices, we will always protect public services and support for the most vulnerable.

Instead we will ask those who have been fortunate to contribute a little more. With a sustainable investment plan, we can ensure more people fall into that fortunate category too.

AN ECONOMY THAT WORKS FOR ALL

But our economy remains fundamentally unbalanced.

Large parts of our country have been neglected for decades, with no real industrial strategy.

The Northern Powerhouse is largely southern hot air:

It devolves only already slashed budgets, leaving the real levers centralised and unused.

Our national infrastructure – energy, housing, transport, digital – is outdated, leaving the UK lagging behind other developed economies.

There was nothing in the Budget about boosting public investment, in fact the Budget data shows it will be cut back even further.

You cannot cut your way to prosperity. We need to invest in our future.

A strategic state cannot leave our infrastructure to deregulated privatised markets.

They are failing people and holding back our economy.

Modern housing, transport, digital and energy networks are the foundation stone of a modern economy, and we need to ensure they are among the best in the world.

Public investment in new publicly-owned infrastructure so that a future chancellor can deliver a sound economy, not just sound-bites.

We need to drive investment and lending to reshape and rebuild the economy:

Focused on hi-tech and innovation and the infrastructure to support that, rebuilding supply chains to stimulate private sector demand.

The 'rebalancing' I have talked about here today means rebalancing away from finance towards the high-growth, sustainable sectors of the future.

How do we do this?

One option would be for the Bank of England to be given a new mandate to upgrade our economy to invest in new large scale housing, energy, transport and digital projects:

Quantitative easing for people instead of banks. Richard Murphy has been one of many economists making that case.

Another option would be to strip out some of the huge tax reliefs and subsidies on offer to the corporate sector. These amount to £93 billion a year - money which would be better used in direct public investment, which in turn would give a stimulus to private sector supply chains.

These funds could be used to establish a 'National Investment Bank' to invest in the new infrastructure we need and in the hi-tech and innovative industries of the future.

To invest in infrastructure also requires a clear strategy in the construction, manufacturing, and engineering skills to build and maintain that new infrastructure so vital to sustainable economic growth.

So taking this approach, in the coming days this campaign will set out how we propose to invest in adult education and further education more generally to get the high skill, high pay, high productivity workforce we all want – building on our announcements already on university education.

TAXATION

The biggest issue facing British politics right now is not whether the top rate of tax should be 45% or 50%, or whether corporation tax should be 18% or 20%.

The big question is how to get some of the wealthiest individuals and biggest corporations to pay anything like their fair share.

At a time when schools and hospitals are struggling for funds, it is grotesque that some of the richest individuals and most profitable businesses are dodging their responsibilities.

Paying tax is not a burden. It is the subscription we pay to live in a civilised society.

A collective payment we all make for the collective goods we all benefit from: schools, hospitals, libraries, street lights, pensions, the list is endless.

Our tax system has shifted over the last generation from taxing income and wealth to taxing consumption; and from taxing corporations to taxing individuals.

These changes have helped to make our society more unequal and our tax system more regressive.

So I make this pledge: Labour must make the tax system more progressive:

Ensuring that those with the most pay the most, not just in monetary terms, but proportionally too.

TAX JUSTICE

But whatever tax laws we pass, we won't get a progressive tax system in reality unless we can enforce it and collect the tax we are owed.

A detailed analysis last year produced by Richard Murphy suggests that the government is missing out on nearly £120 billion in tax revenues, per year.

That's enough to double the NHS budget; enough to give every man, woman and child in this country £2,000.

The £120bn figure is made up from:

- about £20bn in tax debt, uncollected by HMRC which continues to suffer budget and staffing cuts (only partially reversed in the last Budget)
- another £20bn in tax avoidance
- and a further £80bn in tax evasion.

This is money taken from us all. And we can address this.

Therefore I am announcing today that my fairer tax policies will include:

- The introduction of a proper anti-avoidance rule into UK tax law.
- The aim of country-by-country reporting for multinational corporations.
- Reform of small business taxation to discourage avoidance and tackle tax evasion.
- Enforce proper regulation of companies in the UK to ensure that they file their accounts and tax returns and pay the taxes that they owe.
- Lastly, and most importantly, a reversal of the cuts to staff in HMRC and at Companies House, taking on more staff at both, to ensure that HMRC can collect the taxes the country so badly needs.

George Osborne announced some modest extra funding for HMRC in his Budget, but this does not even reverse the cuts he made in the last Parliament.

Tax justice is about creating a level playing field.

Most of those reading this paper pay their taxes through PAYE - removed from their wages before they hit your bank account.

You don't have fancy accountants routing your income through an offshore shell company;

You cannot ask your boss to pay you in fine art or vintage wine to avoid your dues.

You pay, so they should pay too.

My local coffee shop cannot pretend to buy its beans from a subsidiary to dishonestly shift its income to a low tax jurisdiction.

When it makes money it pays its taxes fairly and on time.

But how can it compete against a global multinational chain that engages in some of the most reprehensible practices?

CONCLUSION

We have a deeply unbalanced society, and a deeply unbalanced economy.

We need a strategy for a more highly skilled, productive economy that works for the many not the few. The state has a vital strategic co-ordinating role to play in that.

Without that role, we have the casino economy and the chaos of underinvestment, debt bubbles, and grotesque inequality between rich and poor, and a widening regional inequality.

Our vision is of an economy that works for all, provides opportunity for all, and invests in all – rich and poor, north, south, east and west.

It means we judge our economy not by the presence of billionaires but by the absence of poverty; not only by whether GDP is rising, but by whether inequality is falling.

Labour must become the party of economic credibility AND economic justice

A more equal and more prosperous society that only a Labour government in 2020 can deliver.

