

WHOEVER
YOU VOTE
FOR, BIG
BUSINESS
GETS IN.

About the High Pay Centre

The High Pay Centre is an independent non-party think tank established to monitor pay at the top of the income distribution and set out a road map towards better business and economic success.

We aim to produce high quality research and develop a greater understanding of top rewards, company accountability and business performance. We will communicate evidence for change to policymakers, companies and other interested parties to build a consensus for business renewal.

The High Pay Centre is resolutely independent and strictly non-partisan. It is increasingly clear that there has been a policy and market failure in relation to pay at the top of companies and the structures of business over a period of years under all governments. It is now essential to persuade all parties that there is a better way.

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Foreword

By Luke Hildyard Deputy director, High Pay Centre

The influence of big business over UK politics is undeniable. Major corporations own most of the newspapers that dictate the news agenda and still act as the filter through which much of the population receive political news. Wealthy business people are key funders of political parties and the parties' election campaigns and research and media operations depend on business people's support.

Culturally, the business perspective has come to be seen as one with the wider economic interest. Tony Blair said that Labour's failure to identify any supportive business leaders after nearly 40 executives signed a letter endorsing Tory economic plans was the moment that he knew that the 2010 general election was lost for Labour. During the Scottish Referendum, business leaders from sectors including finance (Standard Life, Lloyds and RBS); oil (BP and Shell); and retail (Morrisons and Asda) spoke out strongly against independence – apparently at the behest of politicians from the 'Better Together' campaign. As more and more people with a business background colonise key civil service posts – each

Government department is now chaired by a business leader, while recruitment of consultants imbued with a corporate ethos is becoming commonplace – corporate power becomes further entrenched. As a think-tank also seeking to engage with policymakers, the High Pay Centre frequently witnesses the extent of this power first-hand. During one meeting with a leading politician we were told that though they personally found a particular policy convincing, they were not prepared to say so publicly until business leaders do likewise.

It is no longer a case of business petitioning politicians to win favourable policies but the other way round. It is less appropriate to talk about a corporate power than of corporate power as a governing institution in its own right.

This has radical implications for democracy, yet it is scarcely discussed. On numerous policy issues from taxation to relations with the EU to immigration to cutting the gap between rich and poor, the position to which 'big business' largely subscribes is significantly at odds with the wider public. It is certainly possible to argue that the policies in each area by Government more closely

reflect business opinion than public opinion.

Again, our experience at the High Pay Centre is instructive. Our polling suggests that an overwhelming majority of people support proposals to cap executive pay at a fixed multiple of their lowest-paid worker. When I discussed the idea on Sky News – owned by one of the UK's biggest corporations – the interviewer suggested, probably correctly, that it was 'never going to happen.' The Spectator noted that no mainstream politician 'would embrace such a provocatively anti-capitalist measure.'

That the idea of capping executive pay at, say, a mere 75 times that of their lowest-paid worker is seen as more provocative than pay gaps of that size or larger, is perhaps worrying. But the issue with corporate power is less about whether big business is right or wrong about certain policies, than whether it is sustainable for them to exert such influence in the face of public opinion.

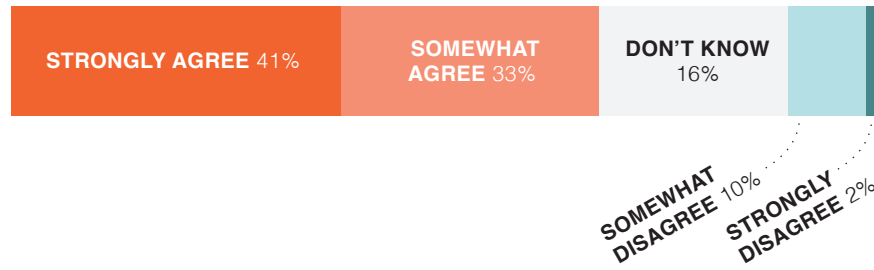
We undertook this project on corporate power to examine the extent of the influence of big business on public policy and how this practically affects the society that we live in, as well as asking how the political power of corporations can be made more transparent, democratic

and accountable. Though the Conservative MP John Redwood is not a natural ally of the High Pay Centre, his recent argument that businesses intervening in the debate about Britain's relationship with the EU rarely seek to represent the views of their customers or employees, but instead, a handful of executives at the top, makes an important point about the exercise of corporate power and whose interests it really reflects.

Our essay collection, then, examines the case for measures to check the political influence of big business and corporate governance reforms to make the exercise of corporate power more representative and more closely aligned with the interests of society as a whole. We hope it will be a valuable contribution in terms of addressing a challenge to democracy that has been shirked for too long. ■

What the public thinks about corporate power

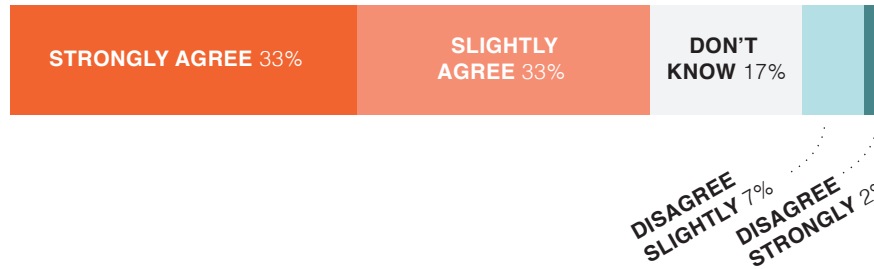
Do you think that big businesses have too much power over the government?¹



In general, do you think politicians put the interests of big business over those of ordinary people?²

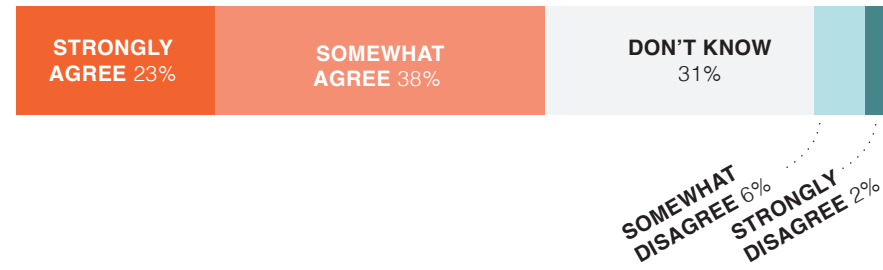


Do you think big business has too much power over the everyday lives of ordinary people?³

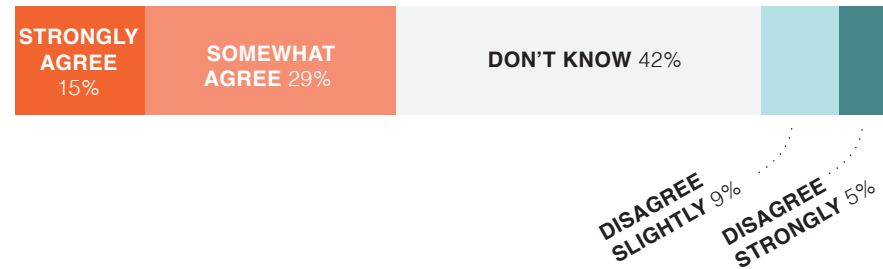


¹ Poll conducted by ICM for the High Pay Centre between April 4-6 2014 2,043 people polled nationwide
² Poll conducted for Joseph Rowntree Reform Trust between July 18-24 2014 2,004 people polled nationwide
³ Poll conducted for JRRR, Jul 18-24 2,004 people polled nationwide

Whichever party wins the next general election needs to be tougher on big business⁴

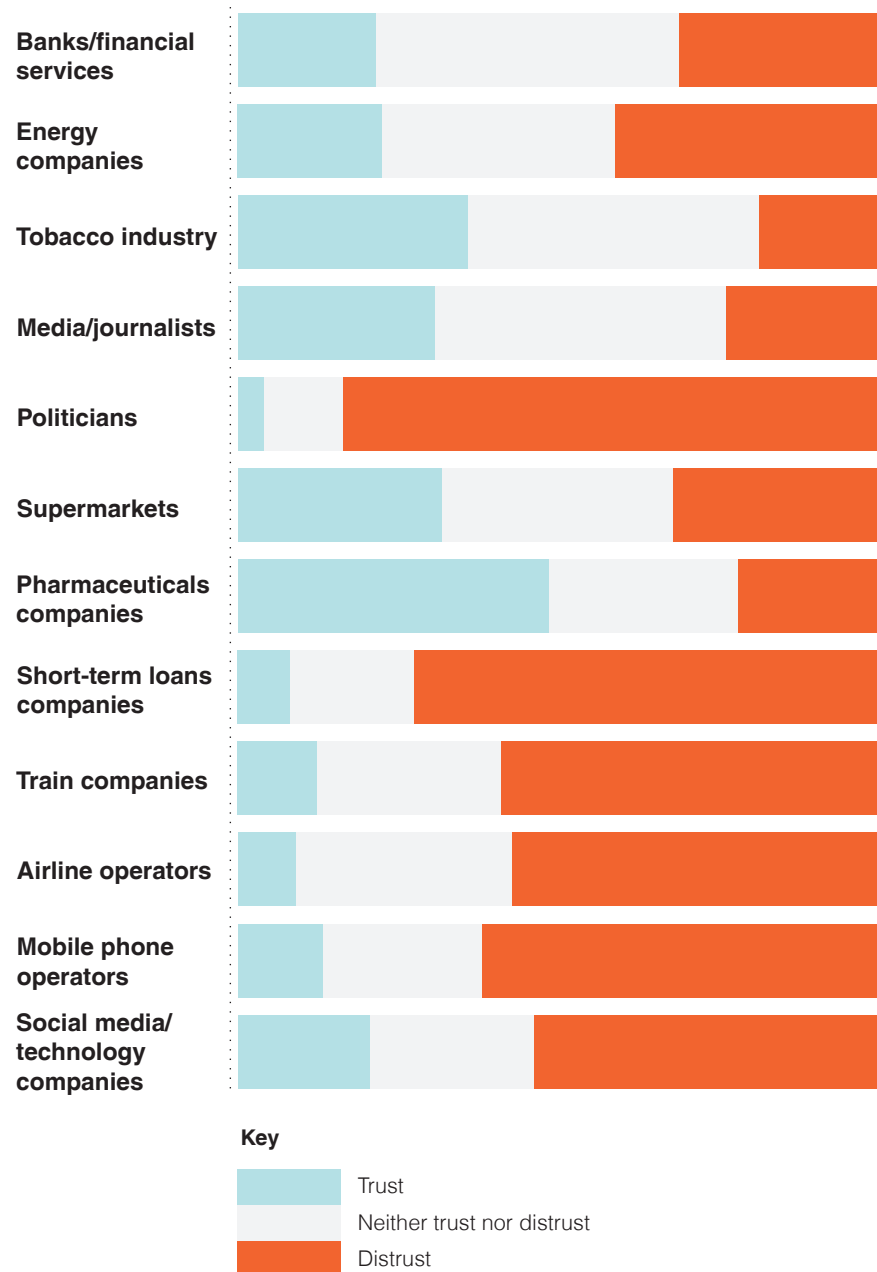


I would be more likely to vote for a political party if it was tougher on big business⁵



⁴ Populus poll, Apr 23-27 2014. 4,111 people surveyed online
⁵ Populus poll Apr 23-27 2014

How much do you trust each of the following to behave ethically, honestly and responsibly? ⁶



⁶ Populus poll Apr 23-27 2014, 4,111 people surveyed online

The Power of an idea

By Simon Caulkin Business writer

In his brilliant history of US business education, *From Higher Aims to Hired Hands*, Rakesh Khurana wrote: 'The development of economic institutions... is not simply a function of their efficiency; rather it often results from the outcome of contests in the legal, political, social, and cultural realms'. There could be no better case study than the doctrine of maximising shareholder value (MSV), the cornerstone of modern corporate governance, and one of its major consequences, runaway CEO pay.

The rise of shareholder value

The chain of events began on 13 September 1970 – the date, according to Dominic Barton, global managing director of McKinsey, that capitalism started veering off track – with the publication by the New York Times of Milton Friedman's essay, 'The Social Responsibility of Business is to Increase its Profits'. 'In a free-enterprise, private-property system,' Friedman wrote, 'a corporate executive is an employee of the owners of the business [ie shareholders]. He has direct responsibility to his employers. That responsibility is to conduct the business in

accordance with their desires, which generally will be to make as much money as possible while conforming to their basic rules of the society.'

In fact, this is wrong in every particular. In law, managers aren't employees of shareholders, who don't own the business. Firms are separate legal entities that own themselves, employ directors and executives, and to whom the latter owe fiduciary duty. Yet by the turn of the century the then new idea that the single purpose of corporations was to maximise returns for shareholders had acquired the status of holy writ. The purpose of the corporation, it was claimed, was definitively settled, and the rest of the world would soon fall in line with the US. How did this transformation come about? Channelling Khurana, it has remarkably little to do with empirical effectiveness and everything with institutional ambition, opportunism and unintended consequences. It was an idea perfectly in tune with its time.

Six years later, Friedman's ideas took a giant step towards hegemony with the publication by Michael Jensen and William

Meckling of 'Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure', reportedly the single most cited article in business literature. Jensen and Meckling's main assertion was that, following the separation of management and ownership, the fundamental problem in corporations was ensuring that self-interested managers focused on maximising value for shareholders rather than attending to their own concerns. They argued that part of the answer was suitable incentivisation of managers (the carrot); the other a vigorous market for corporate control (ie takeovers) to discipline those who failed to shape up (the stick).

Application

Their piece met two powerful needs. Desperate to establish academic and scientific credentials, business academics seized on the idea of optimising the firm around a single measurable point, shareholder value, to do just that. The ensuing wave of scholarly theorizing soon came to dominate the business-school agenda. At the same time, unlike most academic theories, shareholder primacy also appealed strongly to practitioners – institutional shareholders for obvious reasons, but also corporate raiders, whose restructuring activities it justified, and above all managers, for whom

it was a double boon. Not only did a single mathematical focus on the share price make their life easier; tying pay to its performance also made it incomparably more lucrative.

The pieces were then fixed in place by governance codes and company law articulated to increase shareholders' influence over company boards and make managers more attentive to the share price.

In this way, an ideologically-based programme, purely abstract and with no empirical backing, has wormed its way into every crevice of management, to the point where it, and its assumptions, are not only unchallenged but have become invisible to the naked eye. It is rare for a week to pass without some commentator declaring (as during the Pfizer-AstraZeneca merger saga), 'as owners of the company, it will be shareholders who decide in the end.'

Yet it is now clear that shareholder primacy doesn't work even in its own terms.

Shareholders as a whole are suffering their worst returns since the great depression, and Roger Martin has shown that over the whole period since 1970 they have done worse than they did in the post-war years when their interests *were* put first.

Inequality and economic pathology

The reasons are now becoming clear. The 'revolution in management pay' described by Andrew Smithers at an High Pay Centre seminar some months ago – broadly, paying executives in shares and options to make them think like shareholders – has succeeded only too well. Altering their behaviour with alacrity, instead of 'retaining and reinvesting' corporate profits, in William Lazonick's phrase, to the benefit of all stakeholders, they have used them to 'distribute and downsize', prioritising shareholders. That did indeed push share prices up (and thus their own rewards), but at the cost of R&D and capital investment – with the consequences for the wider economy, including widening inequality, that we are wrestling with today.

The link with shareholder value, consequent on the idea that shareholders own and control companies, is the hidden mechanism that continues to drive executive pay upward irrespective of the pathologies inflicted on the rest of the economy. This is why Smithers maintained that dismantling the bonus culture that governs managers' investment decisions is the single most important task facing policymakers today. Shareholder ownership, the concept launched on the world by Friedman in 1970, is where

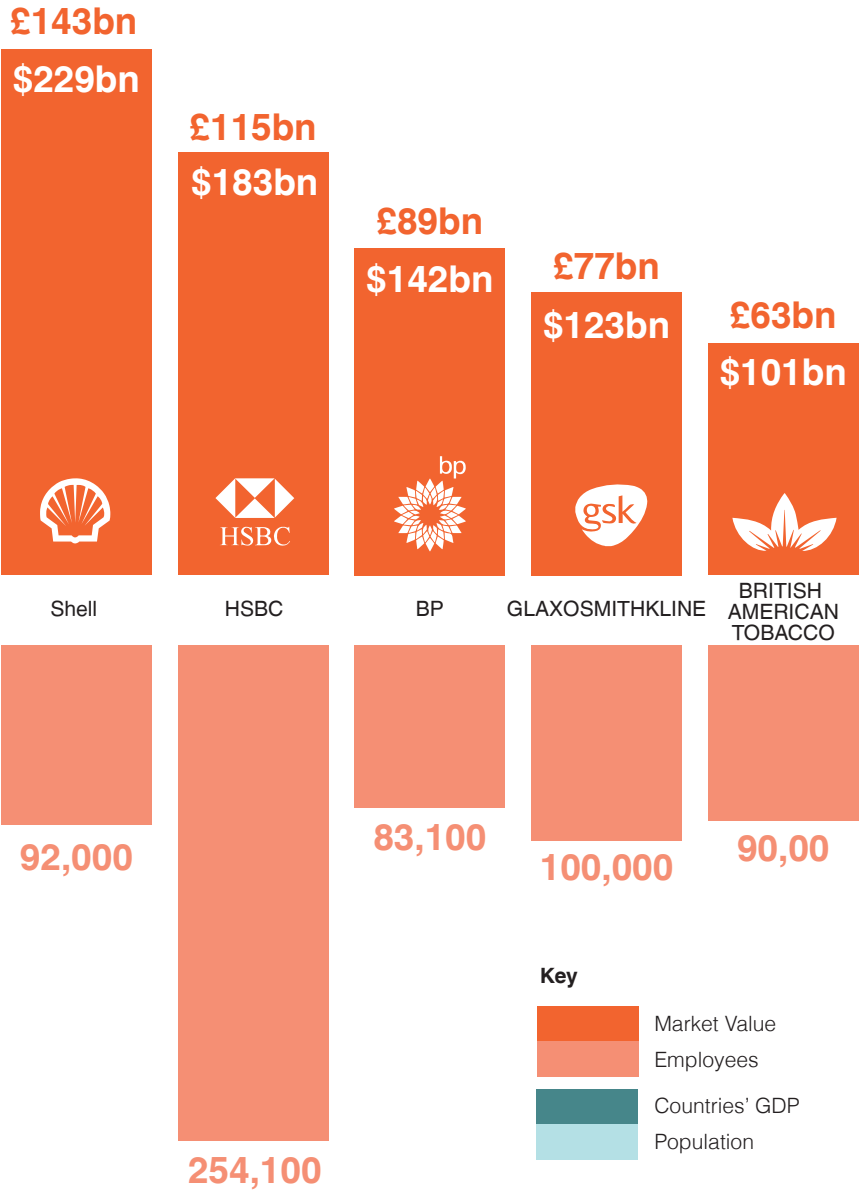
the demolition work on executive bonuses and shareholder value has to start if serious reconstruction is to take place.

In a celebrated passage on the power of ideas, Keynes wrote:

'The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist...' He added: 'The real difficulty in changing any enterprise lies not in developing new ideas, but in escaping from the old ones.' ■

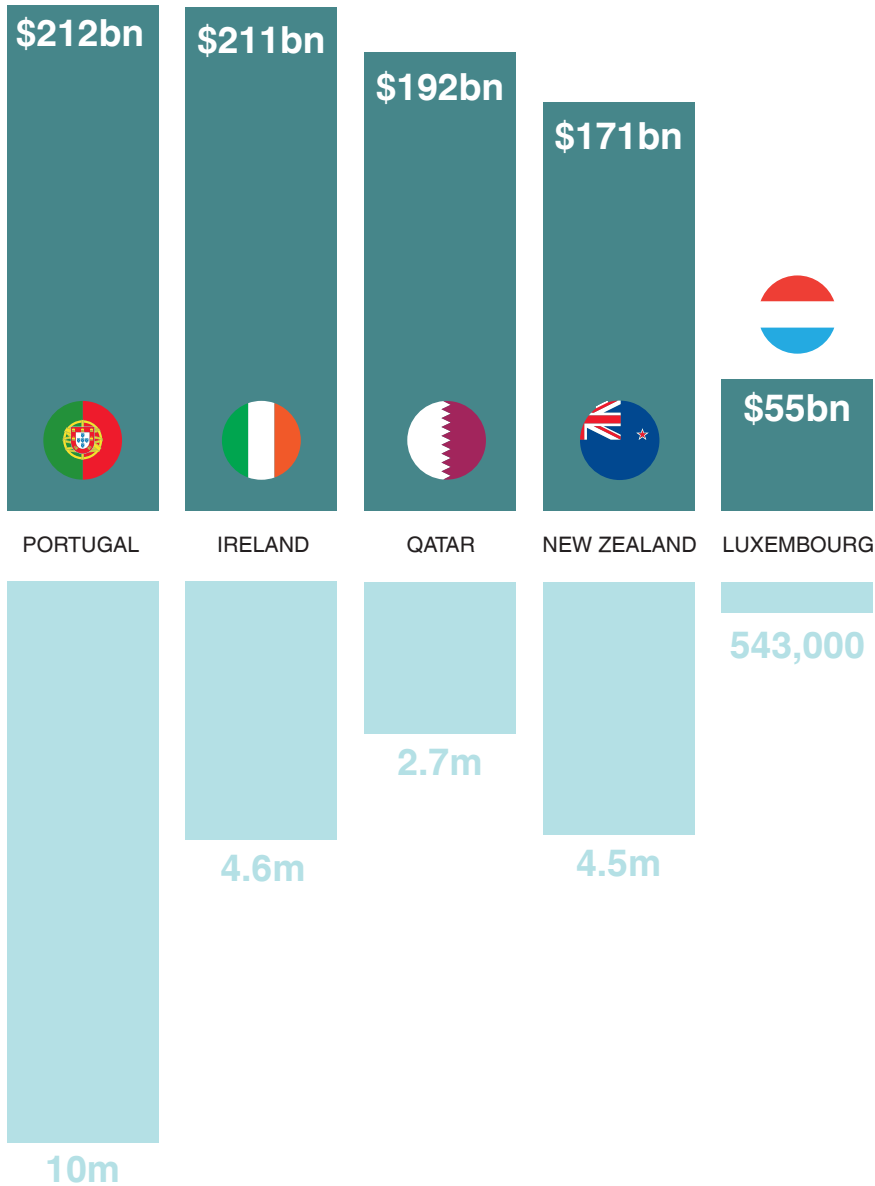
Some companies are bigger than countries' entire economies

UK's biggest companies 2014⁷



⁷ FT 500 from ft.com
<http://www.ft.com/cms/s/0/988051be-fdee-11e3-bd0e-00144feab7de.html#axzz3HRSIrSfA>
 Figures have been rounded

Countries and their economies



A FTSE 100 chief executive takes home more in three days than an average worker gets in a year⁸



⁸ High Pay Centre data highpaycentre.org

How to burst the business bubble

By Dina Medland An independent writer, editor and commentator with a strong focus on corporate governance, the boardroom and better business www.dinamedland.com

A great deal has been said since the financial crisis about the absence of trust in publicly listed companies. Not much has been said on the impact this could have on corporate power.

But as business has come under greater scrutiny, so has its attitude to corporate governance – which is meant, under the UK’s ‘comply or explain’ regime, to be a standard of behaviour to which business should conform or explain to their shareholders why they are not.

Governance and values

Corporate governance can be the ‘glue’ that holds the business together, that sets a much vaunted ‘tone from the top’ and acts as the anchor for the direction of the business. But the nature of ‘comply or explain’ means it can also be used as a screen behind which the company operates on a daily basis.

This ‘screen’ shielding the thinkings of the boardroom may be lifted only rarely in conversations with institutional investors or during evaluations of the board as part of a review and succession planning process. These are

recommended every three years by the UK Corporate Governance Code. But the way in which they occur in reality is dictated by each business itself – Tesco, the UK’s biggest retailer, had just one externally facilitated board evaluation in 10 years, under three years ago.⁹

This ability of UK plc to control and project its own image has contributed to its corporate power, to its capacity to speak loud and clear – whether it is to government, to media, or to its shareholders. But what happens if the corporate governance ‘glue’ starts to dry up, and there is no longer a coherent identifiable set of values and beliefs behind the running of a company?

Trust in business

The overwhelming lack of public trust in business has been exacerbated by indications that executive pay seems to be dictated in a world of its own, and be self-perpetuating, as demonstrated in the latest report from the High Pay Centre.¹⁰ It is one example of a growing ‘disconnect’ between UK plc boardrooms and the rest of society. The fact that a FTSE350 director’s

⁹ <http://www.forbes.com/sites/dinamedland/2014/10/24/tescos-meltdown-shines-a-light-on-board-evaluation/>
¹⁰ <http://highpaycentre.org/pubs/new-high-pay-centre-report-performance-related-pay-is-nothing-of-the-sort>

pay has grown nearly twice as fast as pay for all full-time UK workers suggests that business is operating within a dangerous 'bubble.'

Boardrooms are not representative of the society they serve – or the geographical customers they woo - in terms of ethnic, gender, age or cognitive diversity. In digital 2014, with cyber risk at the forefront of challenges, boardroom headhunters feel comfortable saying publicly that they have no idea where or how to find "appropriate talent." By this they seem to mean talent which also conforms to an existing way of doing things.

Executives versus workers

Sir Jon Cunliffe, Deputy Governor of the Bank of England, has spoken recently once again of the UK's 'productivity puzzle,' asking 'why, despite this rapid fall in unemployment to 6% have we seen such weak pay growth in the official data?'

"Despite the biggest squeeze on real incomes for nearly a century, there appears to be little evidence that workers are demanding a catch-up in pay, possibly due to a shift in the psychology of UK workers resulting from the sharpness of the recession and the years of austerity that have followed it" said the Bank of England, reporting his speech

to the Cambridge Society For Economic Pluralism.¹¹ "A shift in the psychology of UK workers," sounds suspiciously like a 'disconnect' between workers and their employers.

By definition, corporate power is surely measured by the capacity to influence as well as to engage others – and it includes power over the workforce that is creating the wealth in the first place. It might be useful, then, to look at Jaguar Land Rover (JLR), by all accounts a corporate success story. At time of writing it is facing threatened industrial action for the first time since it was bought by India's Tata Motors in 2008.

Average car industry salaries rose just 2.3% in real terms in the past four years- a time when foreign-owned manufacturers pushed British vehicle output up 45%, according to an investigation by the Financial Times. The wages of the lowest paid 30% fell 7.5%, according to data from the Office for National Statistics.

Roger Maddison, national officer at Unite, which claims to have 98% representation among shop floor workers, was quoted on the JLR unrest by the FT.¹² "If the people that are making these fantastic cars and these fantastic profits can't really benefit from that success, there's something wrong" he said.

Social media and re-aligning corporate power

Alongside alienation of the workforce, there has been another very important development: the effect of technology on communication. The arrival of social media has the capacity to alter corporate power in a fundamental way. While business tends to focus on its marketing and sales potential, it has not done much to reflect on the power of social media on corporate behaviour.

Offering rapid communication and instant judgement, social media needs to be respected precisely because it cannot be controlled or channelled into corporate strategy in the same way as before. In the same spirit, for business to retain corporate power it needs much better two-way communication, both internally and externally.

There is no reason why the structure of UK company boards cannot be changed to generate this improved communication. At a recent event held by the consultancy Board Intelligence to explore such issues, Sir Win Bischoff, chairman of the Financial Reporting Council (FRC) referred to the "hidden rule book of habit and convention which pervades and stifles many a boardroom."¹³

Involving employees in strategic thinking by finding a way to ensure their voices are represented in the boardroom would be a critical step forward in the realignment of corporate power - towards its stakeholders. ■

¹¹ <http://www.bankofengland.co.uk/publications/Documents/speeches/2014/speech773.pdf>
¹² <http://www.ft.com/cms/s/0/e7989dd4-544f-11e4-986c-00144feabdc0.html#axzz3HWs8Mk3r>

¹³ <http://www.forbes.com/sites/dinam-edland/2014/08/31/rethinking-the-hidden-rule-book-of-habit-for-boardrooms-and-the-need-for-cake/>

What can we do about the revolving door?

By Stephan Stern Visiting professor at Cass Business School who writes regularly for the Financial Times

When the former lobbyist and now EU Commissioner Jonathan (Lord) Hill attended his initial Brussels hearing in front of MEPs at the European parliament in October, the reaction among his questioners was rather similar.

“You show an impressive rhetorical brilliance, but also a lack of substance,” declared the German MEP Michael Theurer. Lord Hill had been “*charmant mais pas vraiment convaincant*”, (charming, but not very convincing) according to the French MEP Sylvie Goulard.

What is lobbying?

If only lobbyists remained forever *charmant mais pas vraiment convaincant* no-one would be too concerned about what they got up to. But almost by definition, what lobbyists do in private on behalf of corporate clients does provoke scepticism at best and, at times, profound cynicism. In spite of calls for transparency and repeated questioning about an apparent fast-track (or is it a revolving door?) between public office and the private sector, the public remains more or less in the dark as to the full extent of lobbying activity, in the UK at least.

What is lobbying, anyway? Must it always be problematic? After all, it is good practice within an organisation for managers to consult employees – that is, genuinely listen to and reflect on their views – before taking decisions that will affect them. Similarly, governments usually consult widely – or at least say that they are consulting widely – before introducing new legislation. It is only natural for businesses, as well as charities, pressure groups and trades unions, to try to influence decision makers in government to their advantage. And as long as that lobbying took place openly, with no financial or other enticements being offered, perhaps there would be nothing to worry about.

When he was chancellor of the exchequer, Alistair Darling used to tell anyone who would listen that there was no need to hire a lobbying firm to try to get his attention or that of his advisers. Why not just write him a letter? A bit of stationery, a stamp and some writing time could save you thousands on that annual retainer to Glib, Oily and Plausible Ltd, public affairs consultants.

But the fact is that there are grounds for concern. While the UK may have nothing like the big political money seen in the US, relations between business and government are complicated, highly interwoven and quite often troubling.

The revolving door

Consider the apparently unavoidable intertwining of the big four audit firms and the political parties. The parties need support in researching data and analysing it. Seconding staff might offer useful career development opportunities and could even be seen as a socially responsible thing to do. But what happens if the party you have been helping in opposition gets into government? Will (subtle) pressure be put on officials to encourage them to hire consultants from the same audit firm? Will inside knowledge be exploited and will favours be called in? It could be hard to draw neat and clear lines on what is proper and what is not.

An extreme case of this overlap between government and the private sector emerged last year, when Dave Hartnett, a highly regarded career lifer and tax expert at the Inland Revenue, took a senior job with Deloitte as well as an advisory role with HSBC. There are explicit restrictions in place on Mr Hartnett to prevent him drawing

on his specialist knowledge to help his new employers or their clients, and also on his ability to lobby officials or ministers personally for a year after his departure from HMRC.

But as a Guardian leader column noted last year: “In its emphasis on avoiding personal lobbying of ministers and advisers by former colleagues, the advisory committee on business appointments pays too little attention to how they might otherwise massage relations between a company and Whitehall.”

This grey area is altogether unsatisfactory. On the one hand, government might benefit from private sector experience and advice, and the possibility of a switch or return to the private sector for public officials should probably not be ruled out. And yet in practice there must be concern that in some cases improper use of information gleaned at tax payers’ expense will be made. This is a gamekeeper-turned-poacher world in which the public – the country – could suffer.

Mirko Draca, assistant professor in the department of economics at Warwick University, has studied the “revolving door” between politics and business in the US. He estimates that having a former colleague as a contact in congressional politics adds

around \$75,000 to your value as an employee in a lobbying firm. This is, as he puts it, “politician-specific human capital”. Will this obvious financial incentive to go into politics in the first place attract the wrong sort of people into it, he asks. In the US, is money simply buying access and support for the “right sort” of candidates? And will public servants or elected politicians be tempted to take decisions with regard to a possible brilliant future career somewhere in the private sector?

Boundaries and transparency

Other questions remain. How, as the political philosopher Dean Machin from University College, London, asks, can we get hold of private sector expertise without the worrying element of undue influence? Greater and more meaningful transparency must be part of the answer (see Tamasin Cave article). Stricter demarcation of which private sector roles might or might not be acceptable for former public servants could help.

And Jekhan Aruliah of the Ripped Off Britons web-site raises another pertinent and rarely asked question: “Who lobbies for ordinary people?” Perhaps the people need to hire a lobbying firm, too. ■

A quiet word in your ear: how companies lobby parliament

By Tamasin Cave director of Spinwatch and co-author of *A Quiet Word: Lobbying, Crony Capitalism and Broken Politics in Britain* (Bodley Head, 2014)

In the lead up to the 2010 general election, David Cameron made a pitch to the electorate that spoke directly to voter frustration with our broken political system. Lobbying, he said, specifically “secret corporate lobbying.... goes to the heart of why people are so fed up with politics.”

He spoke of our “fears and suspicions” about how our political system works, with “money buying power, power fishing for money and a cosy club at the top making decisions in their own interest”.

“We all know how it works,” he confidently assumed, before calling up the image of private negotiations over lunch, behind closed doors.

But do we all know how it works? Lobbyists, the paid persuaders whose job it is to influence the decisions of government, typically stay out of the limelight. As one notes: “The influence of lobbyists increases when . . . it goes largely unnoticed by the public.” Lobbying is most effective when secret.

Only occasionally, through exposure in the media, do we get to see how it works. Outside of

the Westminster/Whitehall bubble, the UK’s estimated £2 billion commercial lobbying industry, the third largest in the world, is largely a known unknown.

Yet there is nothing mysterious about lobbying. The influence lobbyists enjoy is constructed very consciously using a shared set of tactics.

Capture of whole departments

First, lobbyists commonly hire political insiders to facilitate access to, and knowledge of, government. Google’s lobbying team, for example, counts an old member of Cameron’s inner circle, an aide to Clegg, the daughter of the PM’s neighbour and an ex-advisor to Jeremy Hunt during his stint in charge of internet regulation. The so-called revolving door between corporate interests and the political class has resulted in whole departments – notably defence and health – now being captured by business and market values.

Lobbyists also regularly shape public debates through the media, feeding it information they want politicians to see and keeping out inconvenient facts they would

rather they didn't (a skill that lobbyists have also mastered when it comes to online information).

Also central to lobbying is the engineering of support for business-friendly policies by, for example, creating or enlisting credible third parties, like think tanks, to act as arms-length spokespeople. The nuclear industry spreads its messages "via third party opinion because the public would be suspicious if we started ramming pro-nuclear messages down their throats," as one nuclear lobbyist succinctly put it.

Divide and rule

Then there are lobbyists who deal with what they term 'the antis', or their opponents. These will be monitored and if they present a threat, countered or nullified through a variety of techniques, from divide-and-rule tactics to the infiltration (otherwise known as spying) of opposition groups, like environmentalists.

All this takes money. Yet lobbying is not seen a cost, but rather an investment, one that delivers a return. Lobbying has become another way of making money, whether from heading off a threat to profits (for example, pushing back against curbs on particular products like cigarettes, or alcohol) or applying pressure to

open up new markets (take the recent health service reforms). One study in the US, where data on lobbying spending is available, estimates that from an annual corporate lobbying spend of roughly \$3.5bn, the value of the resulting corporate subsidies alone secured through lobbying is about \$90bn a year.

This goes a long way to explaining why lobbying is dominated by corporate interests. It is certainly true that others also make an investment in lobbying – trade unions and charities, for instance – yet their influence is often limited. There has been, for instance, no equal or equivalent counter lobby to the UK's powerful bank lobby either before or since the financial crisis.

So, when David Cameron described for voters how lobbying works: "the lunches, the hospitality, the quiet word in your ear," he was giving us the abridged version. The last thirty years have seen unprecedented growth in the reach of the lobbying industry and its penetration into government, the sophistication of its tactics, and the amount of money involved.

The result is that commercial lobbyists acting for particular, narrow interests have bent our system of government to their will to such an extent that it can be said to no longer serve the

interests of the wider public.

'We can't go on like this,' Cameron said in back in February 2010. But, how do you "sort it all out", as he then pledged?

Open up to scrutiny

One crucial, but straightforward step is to open up lobbying to public scrutiny. Force professional (paid) lobbyists to declare their activities on a quarterly register, as they do in the US, Canada, Brussels, and other countries around the world. A register of lobbyists lets people see who is influencing whom in government, and what they are seeking to influence, whether that is lobbying for tax breaks, against environmental laws, or over NHS policy. At the moment, these conversations are being had, but behind closed doors. Open it up and we can all take part in the conversation.

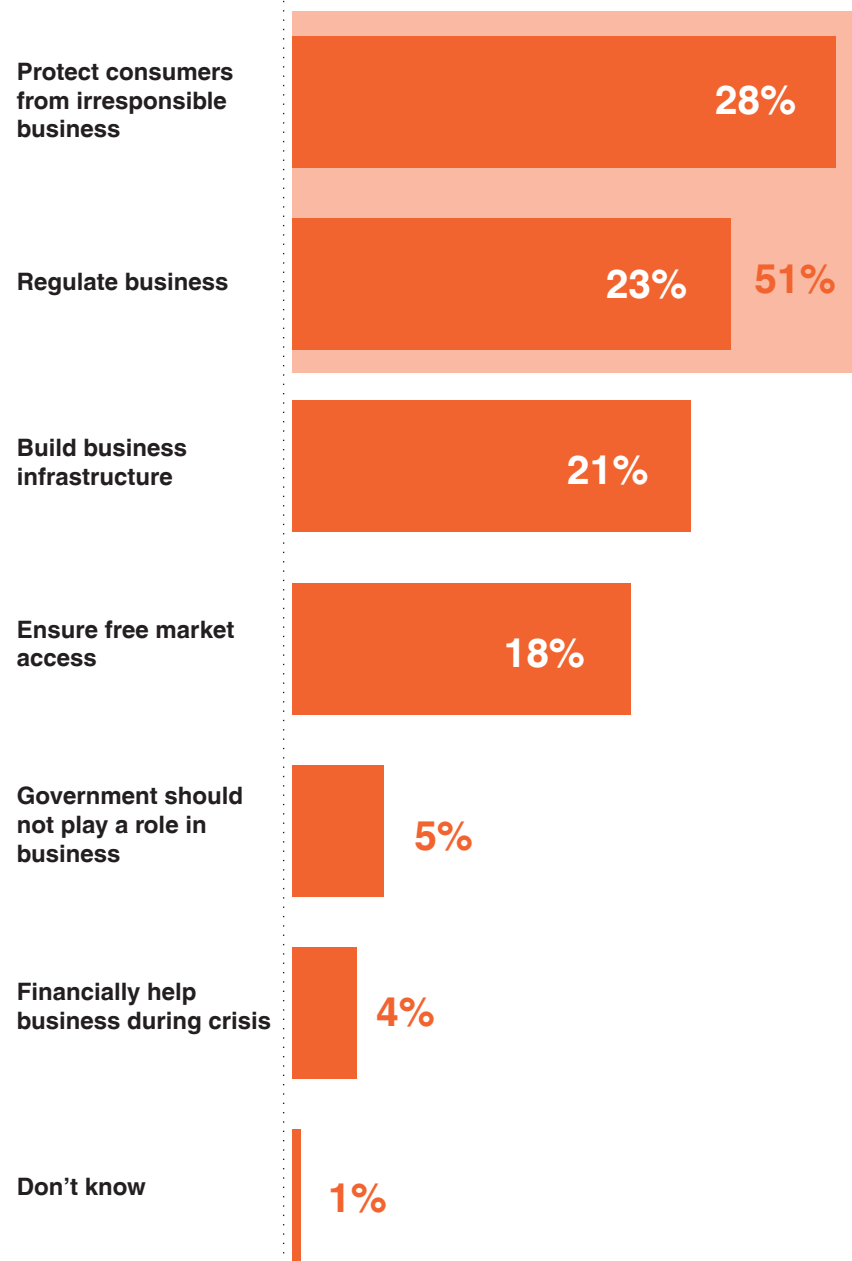
From the Canadian register, we can see, for example, a breakdown of the lobbying activities of Philip Morris International (PMI). We even know the individual meetings the tobacco giant has held, for instance, with advisers to the Canadian Prime Minister. In Britain, we know only that a key adviser to the Prime Minister, Lynton Crosby, is at the same time a lobbyist-for-hire paid by PMI. Even this

information was hard to extract. Who he is talking to, we are barred from knowing. We Brits must make do with assurances from David Cameron that he had not been lobbied by his own election adviser on behalf of PMI.

Nor are we likely to in the near future. Four years after the current coalition pledged to introduce lobbying transparency, what we were in fact presented with in early 2014 is a genuinely fake register of lobbyists. This was Parliament's reaction to the government's Transparency of Lobbying bill: 'glaringly inadequate', 'it opens up Parliament to ridicule and suspicion', 'disingenuous' and 'contemptuous of the public'.

If the political class were previously aware of voter anger with the British political system, today this anger threatens to kick them out of office. The dominance of corporate lobbyists in our system is one major source of frustration, but still politicians decide to stick with the status quo, which is to favour secrecy. ■

Most important role for government in business¹⁴



¹⁴ 2014 Edelman Trust Barometer via <http://www.edelman.com/insights/intellectual-property/2014-edelman-trust-barometer/about-trust/executive-summary/>

Democracy threatened by corporate capture of tax policy

By **Richard Murphy FCA** Director of Tax Research UK, founder of the Tax Justice Network and a chartered accountant

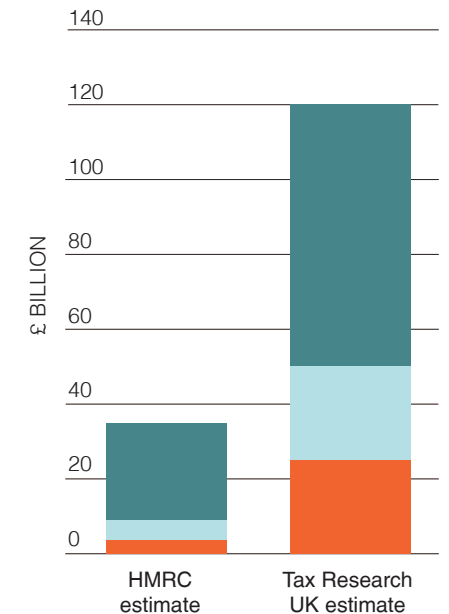
Companies pay around £40 billion a year in taxes on their profits in the UK, which is little more than 7% of all taxes, but it appears that they resent that fact. The question to be asked then is whether or not they use their power to influence the process by which tax is demanded from them, with a favourable impact on their obligations as a consequence. My unambiguous answer to this question is 'yes' but let's first consider why this matters.

Explaining taxation

Tax is not, as most people think, the way a government raises money to pay for its spending. Because governments can spend without taxing (by borrowing and printing money, for example) tax is always a matter of choice: the spending choice is the first decision, the taxing choice is second.

And that choice by government to use tax to recover part (almost invariably) of what it spends is also linked to the government's decisions on what it spends, on whom, and for what reason. Spend and tax are, therefore, not separate issues: they are intimately related aspects of

The UK tax gap: HMRC and Tax Research data



	HMRC estimate	Tax Research UK estimate
■ Tax evasion	26	70
■ Tax avoidance	5	25
■ Tax paid late	4	25

macro and microeconomic management.

In a democracy this is particularly important. These related issues are the way in which the choices people make at the ballot box should be put in to effect. So my question is a simple one and it is

whether or not governments really reflect the wishes of the electorate when making these decisions or if the process is subverted on the way?

Conflict and capture

The evidence for subversion is strong. Let's start at HM Revenue & Customs, our tax authority. Its board has five non-executive members. All are there to represent the interests of big business. Two are ex Big Four Firm accountants. One is the former CEO of Npower, which company I have suggested has been engaged in major tax avoidance in the past. Quite specifically, no other interest group in society is represented on the HMRC Board, and that is intentional.

The evidence of capture is, then quite strong. That evidence continues when it comes to the creation of tax policy. Take as an example, the creation of the General Anti-Abuse Rule, passed last year. The panel of people advising were all from big business bar me, as one of the major proponents of the idea, and a representative from Save the Children, to reflect civil engagement on this issue. The other nine were from big business, or large firms of lawyers and accountants, and most support staff to that panel were seconded from the Big 4 firms of accountants

or lawyers. We wrote most of the guidance on that Rule. HMRC did not. Capture looked very complete to me.

And what was the outcome? An anti-abuse rule (not even, I stress, an anti-avoidance rule) where the effective permission of a panel of tax experts drawn from the ranks of private sector tax specialists was required before HMRC could pursue a case. Capture was complete.

Evidence of this state of capture can also be found when you look at who submits comments on most tax policy consultations undertaken by HM Treasury: it is the same big firms who have the time and resource to influence outcomes. Lord Joffe highlighted this issue in the House of Lords recently, saying that the House of Lords Economics Affairs Committee report on tax reflected the submissions made to it, but they were hardly representative.

Threat to democracy

The result is that, I suggest, that a key element of democracy has been captured for the benefit of a limited but very powerful interest group in society. What this means is that the chance that a balanced approach on this subject is very hard to maintain precisely because all but one voice is almost totally absent from debate.

You might say I, Private Eye and the Tax Justice Network plus key supporters in the NGO sector are the upholders of the alternative view – but with extraordinarily limited resource available to us.

And I will be candid: I think the result is that democracy is threatened. This is why, for example, the UK's budget deficit is being closed by cutting spending and not raising tax.

And this is also why HMRC does not have the resources it needs to tackle tax abuse in this country.

And this is why it is widely acknowledged, even in the tax profession, that big business gets a deal from HMRC that is quite unlike that for everyone else. Why, after all, has the large business sector had a tax cut of 7% in the last four years when small business has had none?

Is this healthy? Empathically not. One economic sector is getting an advantage over all others.

Is this wise? I'd suggest that to listen to one voice in isolation can never be an indication of wisdom.

And is it democratic? I think that self evidently it's more akin to plutocracy.

But, if we're to be pragmatic, does it work? Here I ask a question

in response: if it did, would we still have a tax gap (which is the difference between tax that should be paid in the UK and the amount actually paid) which I think might be £100 billion a year? And would we still have austerity as a goal, not just as a means to an end? I'd suggest not.

Securing tax, securing democracy

So my suggestion is a simple one and that is that we need to re-think the structure of how we collect tax in the UK, and how we govern that process from top to bottom to make sure that tax's role at the heart of democracy and the choices that are made with regard to it truly reflect the priorities of the society in which we all live.

The one thing I know is that this is not possible with the structures we have.

And what I also know is that we could do this very, very much better than we do now. But unless we invest in a truly representative basis for the governance of HMRC, and in its own staff so that they can be entrusted with the job of creating tax policy in the UK on behalf of all who live here then I really cannot see this happening. And what are the chances of that? That's where you, the reader comes in, because it won't happen unless you want it to. ■

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