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Supply-Side Scotland?

Taxation, Fairness and the Scottish Economy

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"I am a long-time advocate of Supply Side economics."

First Minister Alex Salmond MSP, in an interview with the Wall Street Journal on 31 October 2007[i]

Introduction

It is revealing that the above quotation was not once repeated in the Scottish media. The First Minister of Scotland had chosen to explicitly align himself with the crank economic ideology beloved of US neo-conservatives and consistently promoted over a thirty-year period by their favourite publication – the Wall Street Journal. As a trained economist he must also have been aware that supply side economics has no evidential base whatsoever. Far from increasing the growth prospects of the US economy, supply side interventions such as George W Bush's tax cuts have served only to exacerbate already extensive income inequality[ii]. Therefore, supply-side economics cannot be easily reconciled with the targets on growth, solidarity and cohesion contained in the Scottish Government's economic strategy[iii].

Perhaps the reason the quotation was never picked up by the Scottish media is that supply-side orthodoxy has become deeply embedded in Scottish politics. Should it worry us that our First Minister subscribes to the supply side idea? This paper argues that it should. However, the paper will also argue that the First Minister's assertion is, unfortunately, symptomatic of a wider malaise afflicting all Scotland's major political parties the principal manifestations of which are:

- A stubborn refusal to face up to key challenges on taxation i.e. a mature consideration of the level of taxation required to support the needs of citizens in a mature Western economy – and how responsibility for raising this taxation should be shared amongst individuals and businesses;
- A widespread investment in the supply side idea – the proposition that cutting taxes, especially business taxes, will *necessarily* yield high returns for the Scottish economy; and,
- An irresponsible disregard for evidence based policy-making.

This paper argues that Scotland's political parties desperately need to raise their game on taxation. It also challenges a number of assumptions and orthodoxies that have been allowed to seep largely unchallenged into the national political consciousness. Most importantly, it provides a number of recommendations that could help point the way towards a fairer and more efficient fiscal regime.

What is Supply Side Economics?

It is of course quite proper that Scotland's politicians should be concerned about the supply side of the economy. Even committed Keynesians will admit there are limits to the economy's capacity and that expanding that capacity is the only way to achieve sustained improvements in living standards. It is also true that high marginal tax rates have *the potential* to reduce incentives.

However, most economists also believe that economic performance depends on the demand side – that there can be Keynesian shortfalls of demand and that it is such shortfalls of demand that create recessions. That said, some influential conservative economists (as distinct from supply siders[iv]) have argued that the demand side does not matter, or that governments are best advised to avoid trying to control demand. However, a belief that taxes have an important effect on the supply side of the economy and a general antipathy to demand side policy are not enough to render one a supply-sider.

In *'Peddling Prosperity'*, his forensic demolition of the supply side myth, the Princeton economist Paul Krugman described supply side economics as follows:

> "If one had to define the essential ideas of supply-side economics, they would be these: first, demand side policies, especially monetary policies, are completely ineffective. Second, the incentives effects of reduced taxation are very large, so that lowering taxes will dramatically increase economic activity, perhaps to such an extent that tax revenue rises instead of falling"[v].

Supply-siders believe that tax cuts pay for themselves and more. Their problem is and always has been the complete lack of real world evidence to support their ideas. Serious conservative economists may argue strongly for tax cuts but they are usually honest enough to link their proposals to cuts in Government spending – they are, after all, in the business of arguing for smaller government.

Whilst economists are divided on the question of whether and under what circumstances tax cuts are good for the economy, there is no such debate on the question of whether tax cuts pay for themselves. Economists from across the political spectrum reject the latter assertion. In testimony before Congress's Joint Economic Committee, even Edward Lazear, current chairman of President Bush's Council of Economic Advisors, admitted that, "I certainly would not claim that tax cuts pay for themselves."[vi]

It represents a quite hopeless misunderstanding of the issue to describe, as many do, supply-side economics as a discredited theory. That which has never been credible cannot be discredited and supply side economics has never enjoyed any credibility whatsoever in academic circles[vii].

When the supply-side idea emerged in the mid 1970s, it did not do so from the circuit of conservative economic seminars. Rather, it emerged from, and its support has remained within, what Krugman calls the 'fringes of economics': journalism, congressional staff positions, consulting firms and latterly conservative think tanks[viii]. Supply-siders did not seek to subject their idea to scrutiny through the normal academic channels but focused on promoting it through opinion pieces and articles in conservative publications. The movement's vanguard consisted of the eccentric group that op-ed editor Robert Bartley assembled to preach on the editorial page of the Wall Street Journal.

This group, whose leading members included the discredited economist Arthur Laffer and the excitable journalist Jude Wanniski, managed to convince themselves and a significant number of credulous politicians that they had discovered some fundamental truths about economics that had bypassed the mainstream, including conservatives like Milton Friedman.

The history of the supply side movement and its remarkable success in convincing politicians to support its cause is indeed fascinating. Starting with Ronald Reagan and Jack Kemp a quasi-religious faith in the power of tax cuts deeply embedded itself in the US Republican party to the extent that those who had previously been dismissive of 'voodoo economics[ix]' felt the need to stand four square behind tax cuts as the reflex response to each and every economic problem.

Consider the case of Bob Dole who had once proclaimed that, *'People who advocate only cutting taxes live in a dream world … We don't have to march in lockstep with the supply-siders'*. However, as Jonathan Chait[x] recalls in his recent analysis of the supply-side movement, by the time Dole had risen high enough in the Republican Party to gain its Presidential nomination, he had no choice but to embrace the supply-side idea. Dole chose Jack Kemp, an original supply-side evangelist as his running mate and made a 15% tax cut the centrepiece of his campaign. He lost[xi].

When searching for evidence to support their risible economics, the supply-siders usually turn to Reagan's 'morning in America' for proof of the startling incentive effect of reducing taxation on the wealthy. In doing so, they are always highly selective in choosing their statistical evidence. Any non-partisan economist can quite easily demonstrate why the US economy grew from 1984 onwards – and it had nothing to do with the Reagan tax cuts[xii].

The forecasting record of the supply-siders is particularly lamentable and you would have thought their hysterical reaction to Clinton's tax increases in 1994 would have represented the final nail in the supply-side coffin. According to supply siders, raising taxes on top earners could only spell disaster for the US economy. What happened? The economy grew at an unprecedented rate over the next few years.

All this might be of little more than historical interest if it were not for the First Minister's assertion that he too remains a supply-sider. The crucial question is how supply-side economics, a policy that is manifestly against the economic interests of the majority of the population, can remain attractive to politicians in Scotland in 2008?

The durability of the supply side idea can be explained by two main factors: it flatters the prejudices of the rich and powerful and it provides comfort to the intellectually insecure. Any movement arguing that the rich and powerful are doing society a favour by paying less taxes will always be assured of a powerful constituency. Similarly, as John Kay of the First Minister's Council of Economic Advisers has pointed out, there is a *'deep-seated need for simple, universal explanations of complex phenomena*[xiii]*'*. Why trouble yourself with the technical side of economics when all you have to understand is that cutting taxes solves every economic problem?

Therefore, it doesn't really matter that the supply-side idea has been comprehensively debunked. The proposition that tax cuts will always end up paying for themselves possesses properties that insulate it against the most robust intellectual attacks.

Does Scotland require a dose of Supply Side economics?

The simple answer is … no, because supply side economics doesn't work. Tax cuts, business or personal, will eventually have to be paid for by spending cuts. Politicians owe it to the Scottish people to be clear on this point.

In any case, it is difficult to discern how the supply side idea should have particular relevance to Scotland in 2008. If anyone is seriously arguing that current rates of personal and business taxation constitute a strong disincentive to work or invest then it is incumbent on them to provide evidence to this effect. Perhaps it is time that people stood back and remembered that tax rates were substantially higher during the long post war boom?[xiv]

To be fair to the First Minister, it is probably reasonable to assume that when he describes himself as a supply-sider it is with reference to his views on business rather than personal taxation (which suggests that he isn't really a supply sider after all) and on this there is clearly something of a consensus within Scottish politics.

Indeed, the extent of the commitment to cut business taxes was revealed during the 2007 Scottish Parliament elections when the Labour, Conservative[xv], Lib Dem and SNP parties engaged in an auction of virtue on local business taxation – the only element of the business taxation package currently under the control of the Scottish Parliament.

Two things stood out from the commitments contained in the manifestos:

- the use of pejorative language – the consistent use of the term 'burden' to describe any responsibility, taxation or otherwise, that a business owes to its workforce and/or the wider community is one of the less attractive features of current discourse around competitiveness; and,
- the failure to provide supporting evidence for linking commitments on taxation to the often dramatic claims made in respect of economic growth.

Given the consensus in favour of reducing local business rates, voters could be forgiven for believing that there must be a substantial body of empirical evidence confirming the beneficial impact of a cut on the economy. In advice to the Scottish Parliament's Finance Committee, Professor David Bell of Stirling University commented on the Government's Small Business Bonus Scheme,

> "The scheme to reduce business rates for small firms is interesting but requires a clear evidence base. In particular, it is important to know the contribution that such firms make to economic growth and how the reduction in rates will affect medium-size and larger firms"[xvi].

It is clear that no such evidential base currently exists to justify the policy and, remarkably, the Scottish Government hasn't even committed to monitoring and assessing the impact of the launched in April 2008.

Are Scottish businesses over-taxed? Could cutting business taxes stimulate the Scottish economy to such an extent that the cuts will pay for themselves and more?

Business taxation

It is frustrating that in the early years of the 21st century, the case for fair taxation of business still has to be made.

The competitiveness agenda is wheeled out time and time again to explain why corporations and wealthy individuals cannot be taxed fairly. This reflects a worrying fracture in the relationship between state and markets. In the past, it was widely accepted that a balance could be struck between the demands of economic growth and of social protection because the nation state was in a powerful position to impose and police effective regulation. But globalisation is generally believed to have shattered that balance. The consequence is that the benefits of growth increasingly accrue to corporations whilst responsibility for funding vital public services, from which all benefit, increasingly falls on the ordinary worker.

At a time when the income of ordinary people is being squeezed in every direction, it is right to seriously examine just what has gone wrong with taxation policy in the UK. Wages have barely kept pace with the rate of inflation. The pre-tax annual median income of full-time UK workers is around £23,674 and some 25% of full-time employees earn less than £17,000 a year[xvii]. Millions of workers are not even paid the minimum wage that they are entitled to. Buying a house is a virtual impossibility for many if not most workers. The poorest fifth of UK households pay 36.4% of their income in taxes: 9.5% in direct taxes and 26.9% in indirect taxes. The top fifth pay 35.5% of their income in taxes: 24.7% in direct taxes and 10.8% in indirect taxes[xviii].

Those who campaign for reductions in business taxation tend to be both hypocritical and inconsistent. The Chancellor's modest proposals for simplification of Capital Gains Tax contained in the 2007 Pre-Budget Report were met with unfounded and often quite hysterical objections. Exaggeration and distortion of the nature and scale of business taxation is endemic and the positive case for business taxation is hardly ever promoted in the public realm.

Richard Murphy, Director of Tax Research LLC, is an exception:

> "Tax is not a cost to a company. It is a distribution out of profits. That puts tax in the same category as a dividend – it is a return to the stakeholders in the enterprise … This reflects the fact that companies do not make profit merely by using investors' capital. They also use the societies in which they operate, whether that is the physical infrastructure provided by the state, the people the state has educated, or the legal infrastructure that allows companies to protect their property rights. Tax is the return due on this investment by society from which companies benefit.[xix]"

It used to be generally understood that corporations earn their "social license to operate" insofar as they contribute to the general good of the societies in which they exist. This now appears to be a quaint and unrealistic ambition.

Tax avoidance is a major and growing problem in the UK. Those who deliberately avoid paying fair taxation are guilty of ignoring basic standards of fairness. Corporations are able to generate profits because they have access to our markets, and make use of our workforce, legal system and transport system. Basic fairness therefore dictates that corporations have responsibilities to society, and the very minimum of meeting those responsibilities should be meeting the full tax contribution.

And the success of UK Businesses in avoiding taxes is extraordinary:

- National Audit Office found that one third of the UK's top 700 companies paid no corporation tax in the last financial year[xx]
- The fifty largest companies almost always pay 5% less tax on average than they declare in their accounts. The average tax rate paid by these companies fell by more than 0.5% a year over a seven year period to 2006, even tough the UK tax rate was constant throughout that time – as a result, the de facto corporation tax rate for UK companies in 2006 was 22.5% when the actual rate agreed by Parliament was 30%[xxi]
- Del Monte, Chiquita and Dole sold over £400 million worth of bananas in Britain last year. Yet these three corporations between them paid only £128,000 tax in the UK[xxii]
- Saga/AA – on the announcement of their merger in July 2007 it was found that the Private Equity owned businesses Saga and the AA, incurred no liability for corporation tax in the previous year. Indeed, in the 2½ years of ownership by private equity they paid almost zero corporation tax. In the

same period, the private equity owners of these businesses – Permira, CVC and Charterhouse – generated profits of £2.5bn[xxiii].

There is no doubt that tax can be a disincentive to economic activity if tax rates are very high. But so far no-one has demonstrated that the tax levelled on Scottish businesses is anywhere near these rates. At present UK tax rates are about mid-range in OECD and would be much lower if avoidance measures were taken into account[xxiv].

Business taxation and the Scottish economy

Is taxation restricting the competitiveness of Scottish companies? As we have already learned, UK tax rates are about mid-range in the OECD.

Indeed, on World Bank's ***Ease of Doing Business Index***[xxv] the UK currently ranks 6 out of 178 countries. The index is a composite indicator comprising 10 sub rankings – one of which is 'paying taxes' measuring:

- total number of tax payments per year
- time it takes to prepare, file and pay (or withhold) the corporate income tax, the value added tax and social security contributions (in hours per year)
- amount of taxes on profits paid by the business as a percentage of commercial profits
- amount of taxes and mandatory contributions on labour paid by the business as a percentage of commercial profits. This amount includes mandatory social security contributions paid by the employer both to public and private entities, as well as other taxes or contributions related to employing workers
- amount of taxes and mandatory contributions paid by the business that are not already included in the previous 2 categories
- total amount of taxes and mandatory contributions payable by the business.

On this particular indicator, the UK ranks 12th out of 178 countries, hardly suggesting that high taxation is rendering Scottish businesses uncompetitive. Scotland doesn't appear separately on the rankings but it requires a Herculean feat of imagination to argue that a marginal difference in the business rate poundage with England would dramatically alter Scotland's position.

It is also interesting to note where the other countries in the First Minister's 'arc of prosperity' rank:

- Ireland 6th
- Denmark 13th
- Norway 16th

- Iceland 27th
- Sweden 42nd
- Finland 83rd

Taxation appears to have little to do with the economic and social success of these 'small independent European countries' but it remains the policy option mesmerising Scotland's politicians who apparently fail to realise that it is not the only factor influencing a firm's decision to invest in Scotland. The availability of skills and quality of the workplace environment, public services, infrastructure, security and stability all matter too.

Ireland's low rate of corporation tax has attracted particular attention but no serious authority attributes recent strong growth to this factor alone. Rather, Ireland used the stability created by the establishment in 1987 of robust and enduring social partnership to take advantage of a number of other key factors – a young and well educated population, English language and Ireland's role as an enthusiastic EU member state – to achieve prodigious success in attracting FDI. Scotland simply cannot replicate this route to success. Moreover, an undue focus on taxation will continue to leave Scotland particularly exposed to competition from low-cost economies.

Local Income Tax

The general lack of rigour and failure to see the bigger picture is again apparent in the current debate over proposed alternatives to the Council Tax.

Campaigns against council tax claim it is unfair but the fairness of a tax cannot be judged in isolation. Taxing all forms of wealth makes the tax system fair and it is entirely fair that unearned as well as earned income is taxed. Property constitutes a significant stock of wealth and is therefore a legitimate element of the tax base.

Increasing the tax on wages increases the share of taxation paid by working people. Wealth inequality is rising in the UK. The top 1% holds 21% of the UK's marketable wealth and half the population shares around 7% of total wealth[xxvi]. Income other than wages and salaries is mainly investment income. Top 10% of working age population received 4% of their income from investment compared to less than 1% for the lowest 10%. This income is not liable to the new tax. There are better ways to help people on low incomes living in large properties than abolishing the council tax. Property taxes remain the most common form of local taxation within Europe because of the need for balance in a fair system of taxation and the obvious link between your home and local government.

The Scottish Government claims that 80% per cent of households will be better or no worse off under its proposals for a local income tax. The poorest households will gain nothing as they already receive full council tax benefit. Verifying this claim is impossible because of the different make up of households, number of earners and dependants, what other perks are received i.e company cars and the complexities of council tax benefit and other tax credits and allowances. The Government's own consultation paper states that it is impossible to produce a "user friendly calculator" to enable people to work out their own bill.

Assuming average council tax bills and a 3% tax rate household incomes of about £45 000 and under pay less and those above pay more. At the 6.5% rate, needed to raise the same money as council tax, a household with 2 earners on about £20,000 each would pay about £2000 in extra income tax. Even with council tax benefit the rate would need to be 4.5% as set out in the SNP's 2004 proposal. The 3p rate is chosen to make the plan more palatable to average income families. The council tax was also introduced at a subsided rate. It then rose by an average of 10% in its first four years in order to meet the real costs of local government. The same choice would arise again: cut services or raise taxes.

The salient point here is that the current debate over local taxation is not, as it should be, firmly rooted in context of a wider consideration of the distribution of wealth and income.

Conclusion and Recommendations

> "But we should never be surprised when prominent people say foolish things about economics. The history of economic doctrines teaches us that the influence of an idea may have nothing to do with its quality – that an ideology can attract a devoted following, even come to control the corridors of power, without a shred of logic or evidence in its favour. Supply-side economics may have had a meteoric career in the world of politics but it never did make any sense.
>
> "And failure may have brought out the silly streak in some supply-siders but they have not suddenly become cranks. They always were"[xxvii].

The STUC hopes that both the Scottish and UK Governments have observed a particular irony of the current crisis in global finance: that the plight of such pillars of international finance as Bear Sterns, Citigroup, Merrill lynch and Barclays is attributable to the system – unregulated market capitalism – they have supported, promoted and aggressively defended. It is doubly ironic that these organisations now find themselves being bailed out by sovereign wealth funds; Government bodies doing exactly what global finance has always lectured governments not to do. Perhaps it is time that Governments adopted a less obsequious posture when listening to the views of the global financial elite?

One key issue that global finance has lectured nation states on is the need to reduce corporate taxation. Their success may have contributed to profitability reaching an all time high[xxviii] but it has also ensured that Government fails to gather a fair slice of the cake.

A recent KPMG survey[xxix] of Corporation Tax rates in 86 countries found that there has been a consistent and dramatic reduction in corporation tax rates since 1993. With commendable common sense, the report suggests that given the intense global competition for tax revenue it makes sense for governments to consider strategies other than simple price (taxation) cuts to attract and retain 'discerning customers' (large corporations). The report goes on to argue that,

> *"As transport, communication and trading links improve across the world, corporations are finding it progressively easier to site their operations wherever they can find the best combination of resources, skills, finance, security and the effective rule of law.*
>
> *"Tax under these circumstances, becomes effectively a price that multinationals have to pay to make use of the goods and services that a country can provide. Like any astute customer faced with this kind of choice, corporations are shopping around for the best combination of price and value".*

There is no future for Scotland as a low tax economy. The auction of virtue on business taxation is yet another reflection of the failure of Scotland's main political parties to establish effective policy to support the high value, high skill, high wage economy to which they all claim to aspire. Scotland continues to suffer from a taxation and regulatory framework that encourages too many companies to choose the low road to competitiveness. In contrast, the Nordic nations continue to have much higher taxes and higher public expenditure but also more successful companies and higher productivity.

This paper has deliberately avoided the current debate about additional fiscal powers for the Scottish Parliament[xxx]. The concerns raised here refer to a growing adherence in Scotland to crank economics that is very likely to inform the development of fiscal policy should further powers be devolved. Therefore, the following recommendations refer to current UK and Scottish fiscal policy and would be just as relevant applied to Scotland should further powers be devolved.

1. Scotland desperately requires a mature debate on taxation – particularly the tax levelled on business. Scotland's political parties must recognise supply-side economics for what it is. Scotland has nothing to gain from adopting policies that have achieved nothing for the US economy apart from to redistribute wealth to the already super-rich.
2. Scotland's political parties must start to articulate why it is appropriate for business to pay its fair share of taxation. Similarly, they should strive to be balanced about what cutting taxes for business in Scotland is likely to achieve. This will require commissioning the appropriate empirical work and working to improve the quality and breadth of Scottish economic statistics.
3. The UK and Scotland require a fair fiscal framework – one that is truly progressive, ensuring that all income taxes have progressive rates and

that indirect taxes operate with exemptions to assist the poor; ensures that the capital gains tax regime does not offer significant tax incentives when compared to income taxes; Includes fair and proportionate inheritance taxes and removes allowances only available to the wealthy.

4. Tax avoidance by UK business is a serious problem. Recent estimates put the cost of avoidance at around £40bn a year – enough to wipe out public sector debt. The STUC supports the recommendations of the TUC report, The Missing Billions – the UK Tax Gap[xxxi] including the introduction of a new law called a 'general anti-avoidance principle' that treats all tax avoidance as unacceptable and therefore open to challenge.
5. A National Commission on the Distribution of Wealth and Income should be established to consider the type of fiscal framework necessary to fund the requirements of a mature western democracy in the 21st century.
6. The UK Government should act to increase cooperation on tax internationally to ensure companies are held to account for where and how they operate and are required to act as good corporate citizens, including payment of their dues to society as a whole.
7. The impact of new policy instruments – such as the Scottish Government's Small Business Bonus Scheme – must be effectively monitored and evaluated.

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[i] Wall Street Journal 31 October 2007

[ii] Bush has left the payroll tax, the most regressive element of the US taxation framework, untouched. He cut the more progressive income tax by around 10% whilst slashing taxes on capital gains by 50%. Bush abolished the estate tax, which affects only the fabulously wealthy, although he was unable to muster sufficient support to make the abolition permanent. Similar patterns are detectable on spending: programmes that redistribute income from rich to poor (Medicare, Medicaid, Social Security and food stamps) have been persistently attacked whilst spending in areas with a powerful business constituency such as defence, highways and corporate subsidies has increased. See Chapter 4, The Big Con – the true story of how Washington was hoodwinked and hijacked by crackpot economics, Jonathan Chait, Houghton Mifflin & Co 2007.

[iii] Economic Strategy, Scottish Government 2007.

[iv] Commentators commonly confuse serious conservative economists such as Milton Friedman and Martin Feldstein who were enjoying their intellectual heyday in the 1970s with the supply-siders. This is a serious mistake and confers on the supply-siders a degree of credibility by association that their ideas have never justified. Generally speaking, the serious conservative school and the supply-siders held each other in contempt. For instance, the supply-siders were harsh critics of Friedman's monetarism. Today, it is clear that the Bush administration are politically motivated supply-siders rather than committed followers of a serious economic conservatism. Bush's Energy Bill of 2005, memorably described as the 'sum of all lobbies' contained so many market distorting subsidies that it is impossible to envisage any market orientated economist supporting it.

[v] Pg 90, *Peddling Prosperity – Economic Sense and Nonsense in an Age of Diminished Expectations*, Paul Krugman, WW Norton and Company, 1994

[vi] Edward Lazear, Testimony before the Joint Economic Committee, June 27, 2006.

[vii] In Peddling Prosperity, Krugman relates how, in 1992, a journalist writing a piece on the state of contemporary academic economics approached him for assistance. He was asked to categorise economic departments into three categories, Keynesian, Monetarist and Supply Side. His answer was that 'not only is there no major department that is supply-side in orientation, there is no economist whom one might call a supply-sider at any major department'.

[viii] Pg 85, Peddling Prosperity

[ix] George Bush Snr's famous description of the Reagan tax plan

[x] pg 17, The Big Con – the true story of how Washington was hoodwinked and hijacked by crackpot economics, Jonathan Chait, Houghton Mifflin Co. 2007

[xi] Interestingly, as extensive survey date proves, supply side economics has never been good politics. Why then has the Republican Party been so spectacularly successful in winning elections whilst pursuing economic policies which are demonstrably detrimental to the majority of the population? The answer seems to lie in the success of the Republicans in campaigning and wining on other issues such as race (implicitly) and defence (explicitly) – see The Conscience of a Liberal – Reclaiming America from the Right, Paul Krugman, Penguin 2008

[xii] "Those who claim the Reagan tax cuts caused an increase in economic growth generally measure the economy from the depths of the recession in 1982 through to the next business cycle peak in 1989, concluding that the economy grew by 3.8%. But showing that the economy recovered from the recession says nothing about whether the 1981 income tax cuts caused the underlying growth to be greater than it would otherwise have been. To avoid being misled by the business cycle, one must look at the underlying growth rates. Congressional Budget Office data show that the underlying rate of annual economic growth was lower in the 1980s than the 1970s. It averaged 3.4% from 1969 to 1980, then slipped to 2.7% in the 1980s (not the 3.8% that comes from measuring from the depths of the recession in 1982). It is plausible that the underlying annual growth rate might have been slightly less than 2.7% in the 1980s were it not for the 1981 tax cut but surely only slightly", Richard Kogan, Centre on Budget and Policy Priorities.

[xiii] pg 8, The Truth about Markets, John Kay, Penguin 2003

[xiv] For instance, in the US in 1963, the highest marginal rate of tax was 93%.

[xv] All parties in Scotland should take an equal share of the blame for the refusal to address issues of taxation seriously. However, the comedy supply side agenda of the Scottish Conservatives would be particularly hilarious if the issues weren't so serious.

[xvi] http://www.scottish.parliament.uk/s3/committees/finance/reports-08/fir08-01-vol1-02.htm#budgetadvisor

[xvii] http://www.statistics.gov.uk/pdfdir/ashe1107.pdf

[xviii] http://commentisfree.guardian.co.uk/prem_sikka_/2008/01/how_to_avert_a_recession_cut_taxes.html

[xix] New Statesman http://www.newstatesman.com/200711120004

[xx] Management of Large Business Corporation Tax, National Audit Office http://www.nao.org.uk/publications/nao_reports/06-07/0607614.pdf

[xxi] If this de facto tax rate was the official tax rate it would place the UK 16th in a table of corporation tax for the EU 25 with France the highest and Malta the lowest – it would also mean that the UK had the lowest corporation tax of the western European economies with the exception of Ireland.

[xxii] Guardian investigation http://www.guardian.co.uk/business/2007/nov/06/19

[xxiii] BBC Investigation http://news.bbc.co.uk/1/hi/business/6263866.stm

[xxiv] For detailed evidence on this point refer to The Missing Billions – the UK Tax Gap, TUC Touchstone Pamphlet 2008

[xxv] See World Bank website for current Index http://www.doingbusiness.org/economyrankings/

[xxvi] http://www.statistics.gov.uk/cci/nugget.asp?id=2

[xxvii] Pg 51, The Accidental Theorist, Paul Krugman, Penguin 1999

[xxviii] http://www.statistics.gov.uk/pdfdir/prof0408.pdf & http://www.guardian.co.uk/business/2008/apr/01/economics.creditcrunch

[xxix] http://www.kpmg.com/NR/exeres/EC5931FC-261B-4D7D-80DF-9E5C49C6F2F8.htm

[xxx] The STUC is entirely comfortable engaging in this debate and will publish a report on the Powers of the Parliament at Congress 2008.

[xxxi] The Missing Billions – the UK Tax Gap, TUC Touchstone Pamphlet 2008.