

The Guerrilla Thinktank Presents



Your BBC and How They Spread Lies!

by Robbie Smith

This document articulates a counter-point to a BBC tabloid documentary *Your Money and How They Spend It*, presented by Nick Robinson. The documentary presents a right-wing biased view that high taxation of the rich reduces overall tax revenues.

When taxes rise the rich move abroad?

Throughout the documentary, an argument is presented as fact that the rich move abroad when taxes increase beyond a certain point.

Nick Robinson talks to self-made millionaire John Caudwell who stresses the point three times.^{1 2 3} Nick Robinson himself points to the 1970s when The Rolling Stones, Rod Stewart, Michael Caine as well as “countless other wealthy people” moved abroad when The Labour Party increased top-rate tax to above 70%.

The belief that the rich move abroad when top-rate taxes are raised is anecdotal and unsubstantiated!

Firstly, it is interesting to note that tax avoider John Caudwell stress how easy it is to move abroad when the tax rate is too high, pointing to his friends who have moved and yet he has elected to stay in the UK, despite his antipathy to the UK's “high taxes”. It doesn't say much for his friendships either, if so many of his friends elect to move away from him!

It is not enough to point to anecdotal evidence of a handful of rich people citing high taxes as the reason for moving abroad as proof that revenue drops when taxes rise.

Consider these reasons:

- It has to be proven that the numbers of rich leaving is greater than the expected number of outward migration. At an average of 300,000 of the population outwardly migrating each year, there would have to be approximately more than 1500 top-rate tax payers citing tax as their reason for moving every year!
- The revenue lost due to top-rate tax payers leaving has to be measured against other tax payers returning due to factors related to government spending, such as scientists returning due to increased spending on R&D.
- Reversely, when taxes are decreased, overall tax revenue change has to be measured by both top-rate tax payers returning and the effects of a brain drain of academics and scientists leaving due to falls in government spending in universities.

1 “How much can you tax the rich before they vote with their feet and decide to leave the country. As then the revenue to the exchequer is reduced rather than increased” - John Caudwell, 8 mins

2 “So many of my friends have done tax planning by leaving the country. And the country is so much the poorer for it” - John Caudwell, 51 mins

3 “I think taxes are voluntary for the very rich. You know we have the freedom of choice to leave the country, to go to a tax free state...” - John Caudwell, 51 mins

Studies often show large numbers of rich people thinking of leaving the UK. However these studies often show that tax is not the main reason. The reasons are often cited as social divisions and effects of inequality, such as the August 2011 riots as triggering a desire to leave the UK, not tax.⁴

However, the numbers of rich people thinking of leaving the UK still has to be measured against the total number of the population thinking of leaving. When this comparison is made, the rates are broadly the same. Most people fantasize about a better life abroad but for many reasons, such as family and friends, most people stay in the UK.

Since the increase in top-rate tax to 50%, total outward migration has fallen and there has been an increase in the number of UK emigrants returning to live in the UK.

The only study there has been on whether the rich move to avoid higher taxes is a study of migration with the introduction of a “millionaire tax” in New Jersey introduced in 2004. The finding was that there was no greater migration than a control group who were not affected by the tax.⁵

At no point does Nick Robinson present a counter argument questioning whether the rich really do move abroad when taxes are raised.

This all points to a strong low-taxation right-wing bias in the BBC documentary.

4 <http://www.reuters.com/article/2011/10/10/uk-britain-expats-leaving-idUSLNE79901520111010>

5 http://www.stanford.edu/~cy10/public/Millionaire_Migration.pdf – pdf download

There is no avoiding tax avoidance?

There is evidence of a correlation between tax rises and greater efforts by rich people to avoid and evade taxation through capital flight.

The idea that Governments are powerless to stop tax avoidance is untrue.

The powerlessness of Governments is based on the premise that one Government has no power to influence another sovereign state, which is patently untrue.

Most of the “tax haven” nations are tiny dependencies that have no armed forces to speak of and depend on larger nations to be protected. Many “tax havens” are British dependencies, defended by UK armed forces, paid for by British tax-payers.

The sovereignty of these tiny nations are somewhat compromised. If Governments wanted to close down “tax havens” they could easily remove protection. The tiny states would be vulnerable to attack, which although unlikely, would render the states an undesirable place to keep huge amounts of wealth.

Again John Caudwell presents a contradiction. He is asked by Nick Robinson if taxation is effectively voluntary for the rich and Caudwell agrees. Yet, his company was caught by the Inland Revenue using a loophole to pay staff via Jersey. Caudwell was forced to repay £6 million.⁶ Therefore, in this particular case, tax wasn't as voluntary as he thought it was!

⁶ <http://www.thisislondon.co.uk/news/article-9163229-1636m-tax-threat-to-phones4u-founder.do>

Economic bias

Throughout the documentary a supply-side purism was maintained, which is only one branch of economic thought. Nobel-Prize winner for Economics, Paul Krugman⁷ has written on the folly of supply-side purism⁸ which is a right-wing form of economics.

Nick Robinson states that anything above a 50% tax rate represents “crossing a psychological pain barrier”. Even if we accept the principle that there is a maximum rate of taxation before revenue begins to fall, that rate varies depending on political beliefs. Some economists consider a maximum rate of 65% or 70% likely.⁹

Robinson's assertion that there is some kind of natural barrier around the 50% tax rate is arbitrary.

Here is an alternative view to low-taxation supply-side theory:

“I have worked with investors for 60 years and I have yet to see anyone — not even when capital gains rates were 39.9 percent in 1976-77 — shy away from a sensible investment because of the tax rate on the potential gain. People invest to make money, and potential taxes have never scared them off. And to those who argue that higher rates hurt job creation, I would note that a net of nearly 40 million jobs were added between 1980 and 2000. You know what’s happened since then: lower tax rates and far lower job creation.” - Warren Buffet, billionaire

⁷ http://en.wikipedia.org/wiki/Paul_Krugman

⁸ <http://krugman.blogs.nytimes.com/2011/11/13/supply-side-solutions-beware-wonkish/>

⁹ http://en.wikipedia.org/wiki/Laffer_curve