

CYCLONE DEMOCRACY



The local government elections were not “a bad day for Labour”: they were a drubbing. To end up as the third party – behind the Liberals, with our worst results since the 1960s – sends out messages that can no longer be ignored.

This is not the time for the left to join the queue of those wanting to give Gordon Brown a good kicking. The electorate have already done that. The critical issue we must address is the policy shift that will put Labour back in touch with the public and address some of the really big challenges ahead.

The abolition of the 10p tax rate became the symbolic cross upon which the Party was to be crucified. Millions of people who were not financial losers as a result of the changes saw this as Labour’s fundamental break from its own values. Time and again, MPs have been assailed by the question: “How could a Labour Government... a

Labour Government... do this to the poor?”

After the election results, the question was not whether Alistair Darling would back-track, but how. We needed a simple and equitable solution, not a complex combination of tax credits, winter fuel payments and manipulations of the minimum wage – and we got one. Darling went for a combination of raising the threshold of tax exemption and then narrowing the band for the basic rate of tax. Clear, fair and simple to apply through the system of tax codes, it also automatically backdates itself for the whole of this tax year. My worry is that Darling has been forced to accept the wrong level of intervention: the poorest in the land have lost £200 from the abolition of the 10p rate and the threshold needed to be raised by £1,000 to deliver full compensation.

The Chancellor has also adopted the wrong mechanism – additional borrowing – to pay for the compensation. This leaves us politically vulnerable to the accusation that such borrowing could not be funded year-on-year and that the measure is therefore a short-term fix.

There are all sorts of alternative ways in which the Treasury can be compensated by the rich rather than the poor. At present those earning over £40,000 pay a reduced rate of 1% (rather than 11%) in National Insurance contributions. They also get tax relief at 40% on pension savings, whilst those on lower incomes only get a 20% tax allowance. In each case, to place the rich on the same footing as the poor would give the Government an extra £8.8bn and £6.6bn respectively.

Richard Murphy, the UK-based research director of the Tax Justice Network, pointed out in his document *The Missing Billions* that 17% of capital disposals are of assets held for less than a year. Such profits can be offset against the Capital Gains Tax (CGT) allowance. Simply removing this entitlement, for assets that have been held for less than year would raise in excess of £1bn. Another loophole, allows the same offsetting for assets transferred as a gift and then sold within a year of purchase. Closing this loophole would raise £0.5bn.

There is also serious underreporting of share sales in the UK. At present, share sales of little more than £5bn a year are reported to HMRC. This seems implausible in a country in which residents hold shares worth more than £250bn. Reporting sales is left to the individual: those who report honestly provide tax cover for those who do not. The Treasury could simply make stock brokers, banks and traders, the ones who have a legal duty to report. On its own, this would comfortably cover the full cost involved in raising the tax threshold by £1,000.

The big 'tax' issue now facing Labour is far more about the direction of travel rather than the detail. Can we bring ourselves to shift the ground rules (and subsidies) in favour of citizens rather than corporations? Almost everything within the New Labour economic plan played to the rich and powerful rather than to the poor and vulnerable. It relied on a mythology that markets, freed from constraints, would deliver a prosperity that would embrace us all.

We now know that this philosophy is quintessentially short-termist and greedy. Bankers have pocketed the profits of privatisation but want to nationalise their losses. Water companies delivered a flow of dividends that exceeded the flow of the leaks from their water pipes. Rail company bonuses arrive on time, but not their trains.

Politically, the electorate has drawn a line under its willingness to go down this path with New Labour. Ecologically, it comes at a time when massive infrastructure programmes are needed to address the real threats to survival. If the Prime Minister wants to reconnect himself with the big issues that are coming our way then poverty, inequality, democracy and sustainability have to be the cornerstones of the next manifesto.

This has nothing to do with Gordon Brown's search for charisma, nor the Blairites' search for his replacement. The party's future hinges upon a fundamental change of direction and an equally fundamental shift in the balance of wealth and power. Whether we are up to this is as much about the character of the party as it is about the Prime Minister.