MILESTONE

<u>**TRANSCRIPT OF DEBATE**</u>

Guto Bebb

It has been a busy and quite historic week as well. I am chairing the meeting at the outset but I may have to disappear for votes. I won't be leaving because I disagree or am bored, but the bells will ring.

I am a member of the Parliamentary Accounts Committee (**PAC**). The work PAC did before Christmas sparked a significant debate on the way MNCs were behaving – paying tax they should have been or guilty of deliberately trying to reduce. Interestingly, on the way to St Pauls' cathedral this morning, it seems Starbucks has been forgiven by most MPs because it was full – including 3 members of the PAC. The boycott did not last long.

I have been very keen to get involved with this debate because I used to be a bookshop owner – and I imagine bookshop owners have a strong view as to whether they are facing fair competition or otherwise from their friends at Amazon.

In view of the events to date, the reason why I'm interested whether multinational companies (**MNCs**) are paying tax, is that I believe very strongly in what Nigel Lawson said when he was Chancellor back in the Thatcher government… That tax should be low and should be paid. This is the starting point. Perhaps taxes would be lower if everyone paid their fair share in accordance with what governments expect across the world. There is an issue here – a feeling that the tax issue is seen as an issue of the left – but it is also of the right. This is because if people paid, we might have less tax.

The other reason is that I have been inundated with letters from constituents about spending 0.7% of GDP on international aid. Politically, there is an argument for international companies to pay the tax due in the countries they operate instead of expecting handouts from western economies such as the UK. There is a live argument here and I am pleased to be involved.

My role today is to facilitate, but if I have to disappear, Tim will be taking over.

We are fortunate to have a number of expert speakers – on my right – and not to say politically, Miles Dean who has been involved with international tax since 1994 and is the co-author of "The Principles of International Tax Planning" – he would not be happy to face Margaret Hodge on the PAC I suspect. He has written numerous articles and been involved with international tax for over 20 years including investment funds, real estate businesses and cross-border structures.

On my far right, I have David Goldberg QC, called to the bar in 1971. He has been involved with tax cases ever since. He has a great deal of expertise.

On my left, I have Kamaljeet Jandu, GMB union officer, Labour candidate for 2014, commissioner for racial equality and shares London board of CAR – a different perspective but expert.

On my far left, I have Mariana Mazzucato, professor of economics at Sussex University. Prior to that, she worked at the Open University, London Business School and University of Denver. She will be able to provide a degree of overview from an international perspective.

We have a strong panel and I invite Miles Dean to start off with opening speech.

Miles Dean

Thank you everybody for attending today – a debate I personally think is long overdue. The media war on tax and tax avoidance has been raging for approximately 2 / 2.5 years. It started with a front page splash on Sunday Times on stamp duty land tax abuse. Since then, the debate has been fuelled in part (or in main) by the PAC and perhaps the chairwoman of that committee, and it has escalated, to my mind, out of control.

So MNCs, high net worth individuals, sportsmen and entertainers have all felt the brunt of the press: Jimmy Carr, Take That, Starbucks Amazon Google has all been collared. And tax campaigners, of which there are several, some of whom can't be here today, unfortunately, have quite gladly blurred the line or distinction between very important issues such as tax avoidance planning, egregious avoidance, tax evasion and tax dodging.

When I was a kid and someone was accused of dodging – it was akin to evasion. Now it is colloquially a term for legitimate planning to evasion. Basic misconceptions that are bound, and I dare say the press is somewhat misinformed, hopefully today we can help change that. The basic thing that really annoys me is that tax is not paid on revenue: It is paid on profit. The thought that a MNC should be treated in the same way as the corner shop down the road is a myth that needs to be busted. We are dealing with MNCs that have operations, cost centres, profits centres and employees around the world. And the idea that they should centre their entire operations in the UK is nonsense.

Turning that to the PAC, I remember watching the first debate with my head in my hands and screaming, that we seem to have a very topical debate that needs to be discussed descending into finger pointing and ranting at four companies that had come out of their way to represent themselves and the debate went nowhere.

What seemed to evolve out of the PAC, is this concept that companies should pay their fair tax and that companies such as Starbucks or Amazon are immoral. Both of these, the concept of tax and how a MNC is structured, are totally irrelevant.

Both of these issues are not included in the tax code. Both are completely subjective and I think that drags the debate into realms where it doesn't need to go. The UK tax system is extremely complicated – we have thousands of pages of code, the rule of law and due process, extensive case law, and dare I say it, the government, exchequer and revenue have power to change the laws if they see fit. That is what should happen rather than harrang MNCs that perceive to not pay their fair share – the law should be changed rather than bring companies falsely to account.

We also have the soon-to-be-introduced general anti-avoidance rule (**GAAR**), which I think David will speak more about, but that seems to be taking the concept of subjectivity even further into our tax code. Whether it will be good or bad I don't know, but that the advisory panel the other day agreed that the structures employed by Starbucks, Google and Amazon would not be caught by GAAR, I think is a good thing in itself.

The real debate on tax is not that MNCs are tax avoiders or not paying their fair share – but:

- What do we as a country?
- What does the government want to achieve in the form of its tax legislation?
- Do we want to attract companies into the UK and at the same time collect more tax?

If so, the rules need to change. In my mind, these companies are not avoiding UK tax. Period.

There are various solutions to amend UK legislation. There are two that are often proposed –

1. unitary taxation - which I don't think will ever work. Theoretically, it is a good, neat academic idea, but in practice it will require complete change of our tax system and change of UK trading partners systems. It will also require an overhaul of the UK DTTS. I can't see this happening in my life time.

2. and the other option at the EU level – the Common Consolidated Corporate Tax Base (**CCTTB**). I wonder whether eurotechnocrats have more on their mind than introducing a tax base at the moment.

Solutions that might work would be changes to transfer pricing rules in the UK. The multiplicity of choices for MNCs to use various methodologies to come to an arm's length price for goods and services provided intra-group. Perhaps all the choice available makes it difficult for the Revenue to challenge inter-company prices. Another question is whether HMRC are sufficiently resourced to tackle large scale transfer pricing?

Another idea is perhaps domestic legislation should be amended to include some form of cap on deductibility of group expenses – such that a MNC that has a business operation in the UK isn't allowed to deduct more than a certain percentage of a combined set of inter-company charges (e.g. finance, royalties and interest expenses).

Perhaps the easiest way to tackle perceived avoidance is for the UK to look at its double tax treaty (**DTT**) partners. In my view, the tax avoidance doesn't occur in the UK. Take amazon. Its business structure is perfectly within the law. Under the UK / Luxembourg DTT, the allocation of profit leaves a headline corporation tax rate of 20%. What actually happens in Luxembourg, and beyond Luxembourg, is a matter for Luxembourg law and its tax authorities. Arguably, if there is any avoidance, it occurs outside the UK. So the UK could say our treaty partners, eg Luxembourg or Ireland, are allowing the base erosion of their own tax base. For that reason, we'd have to renegotiate our DTTs.

I've had enough of the fair share and morality argument surrounding tax. If the government want to change the law and increase its tax take from MNCs, it should lobby and consult on a proper basis and the law should be amended. I don't think pillorying MNCs for operating within the rules is a sensible thing and it doesn't give the right message in terms of the UK being open for business.

Lastly, MNCs are good. They generate employment bring investment and this focus on the effective tax rate and tax they pay in the UK is only one part of the equation. We should be thinking of their total contribution to the UK economy.

David Goldberg

I'm hoping to give a 'middle of the road' lawyer's view of the situation. There is nothing natural about tax: All taxes are inherently artificial and are created by words, which require interpretation. It is, for example, a rule of nature that, for a human being to live, he or she must draw breath. It is not a rule of nature that a farmer must give 10% of his increase for the public good, even though that is what the Bible provides.

And, even if the Biblical requirement of tithing, although not natural, can be described as quasi natural – that is not essential but highly desirable to the smooth running of society – the word "increase" has to be interpreted. Is this a profits tax or a turnover tax? Either answer is possible and neither answer is inherently right or inherently wrong.

Because of the non-natural nature of tax, it is possible to have different views about how legislation imposing a tax should describe the taxable subject matter: There may be something to be said for a tax of Description A (say a profits tax) and for a tax of Description B (say a turnover tax).

It may be possible, as a matter of economics, to say that one of those taxes is sensible and one of those taxes is not sensible. For example, a tax on profits at 20% may seem economically sensible, while a turnover tax at 110% of turnover may seem economically nonsensical.

There may be sociological aspects of taxes like that and the question of whether one form of tax is regressive while another is redistributive may arise.

However, it is never truly possible to say that one form of tax is, inherently, fair or morally right and another is not: To say something like that is to confuse concepts – in particular, morality and politics – and to proceed on a deeply wrong assumption that there is something natural about tax.

In this connection, the idea that there is such a thing as "loopholes" in a tax is another example of flawed thinking, based on a similarly wrong conception: There is either tax or no tax; there is no place where tax should be but isn't.

This debate is entitled "International Corporate Tax Avoidance". That title might be taken to suggest that there is such a thing as "international tax" and such a thing as "avoidance". However, to describe taxes imposed by this country or, indeed, by any country, as "international tax" is a complete misnomer. Each country imposes its own national tax.

The fundamental question is how each country reacts, for itself, where events within its jurisdiction interact with events in another jurisdiction. To put that another way, it is not tax, but facts which have an international element. Tax, even when it involves a double tax treaty, is always solely national, a matter entirely within the jurisdiction of the home state, in our case, of the United Kingdom; and what is essential is that one state's taxes interact sensible with the taxes of other states.

Recent commentaries have focused on two distinct situations: The first is where a wholly UK entity buys goods or services from a foreign associate. The second relates to a situation where a foreign company does something in the UK and it becomes necessary to determine whether what it has done in the UK gives rise to a tax charge and, if so, how much the tax charge is.

There have been some comments that various companies have made arrangements which result in them paying an amount of tax which is less than the fair amount; and that this is because they have been doing something which can be characterised as the avoidance of tax. I have considerable difficulty with the conceptions that lead to this type of comment.

Ignoring, for the moment, that laws exist and are intended to answer this question, what is the amount for Company X to pay? How, in the absence of law, do I determine the answer to that question? The point to focus on here is that, in all of these cases, companies have done no more than apply the rules of our domestic legislation to themselves in a way which is strictly in accordance with the law. To call that avoidance or doing something which is not fair is, at best, childish and at worst rabble rousing.

If the complaint is that our rules do not impose an amount of tax which the commentator considers sufficiently significant, then the fundamental question is what the rule should be, not whether Taxpayer A or Taxpayer B has been behaving properly.

There can be a proper debate about how our tax system should be designed and what it should be achieving. In that debate, there can be consideration of whether our tax system should be designed to ensure that every cent or penny of a taxpayer's turnover or profit is taxed somewhere and why that should be so.

For myself, however, I would say that I do not understand why the UK should be in the slightest bit concerned with how a taxpayer is taxed on what it earns outside the UK: I cannot see how that makes any difference to the Commonwealth of Britain whether the word commonwealth is taken to refer to wealth or to the wholesome goodness of our society.

What I do think is important is that our tax system should be designed so that Foreign Company X can do business here, and Domestic Company Y can do business in Company C's home jurisdiction, without either of them finding that it is taxable on the same thing both here and somewhere else – a likely outcome if the current demands of some politicians were to be fulfilled.

The real lesson of the current debate is that our legislators have not understood how our tax system is designed or what it seeks to achieve. We have, in the news today, another shameful example of this lack of understanding: A power company is being criticised for not paying corporation tax. It appears that it has not paid corporation tax because it made investments which attracted capital allowances. In other words, the company did what the tax system was designed to do – invest in capital assets. It cannot be criticised for doing that.

Whether it is sensible for the tax system to encourage specific forms of expenditure is another thing altogether; and there is an urgent and fundamental need for a consideration of what our tax system is doing, and of what it is supposed to do. Is it supposed, for example, to be economically helpful: Is it supposed to encourage people to create business?

This year's Finance Bill is 615 pages long: It contains miserable tinkering that cannot conceivably, in any way, help our economy. For example, the provisions about whether a person is resident or non-resident here, supposed to be – no doubt intended to be – helpful, are an example of how not to legislate. Other countries manage this rule in about two pages or less. Our legislation takes up 615 pages. What on earth is this about?

The safety of a people is dependent upon the certainty of its laws and on the willingness of the State to ensure that the law is obeyed: We call this the rule of law and it is one of our country's chief exports in the field of ideas, which are the most powerful things in the world.

Our legislators – people who work out of this building – are showing, in particular, but not only, in relation to tax, disrespect for law which is worrying.

The proposed general anti-abuse rule in its current form is a provision which no civilised state should consider enacting: That is probably will be enacted demonstrates that we are in a dangerous situation. I have no doubt that the Finance Bill will be passed without significant changes because nobody in politics has the guts to stand up and ask what it is all about.

I can assure you that 615 pages of new legislation are not necessary to maintain our tax take and that we could increase it by tearing up whole chunks of our legislation and reducing the rate at which tax is charged. I doubt if this Bill can be seen as helping the creation of a fair society: I recognise that I view things through a particular prism but, to me, this Bill and much of our recent legislation is full of things which are nasty and brutish.

The current legislative approach is, if I may so, all Emperor's new clothes. We go on in the old way because nobody has bothered to ask "why is this necessary?" Sometimes a legislator can behave in the most adult way by asking what might seem a childish question.

Kamaljeet Jandu

Thank you very much. Miles and David, you're going to love me.

Very illuminating and illuminated ideas and thoughts that certainly I had thought about but hadn't recently thought them through. But, certainly, the use of language and terminology I think masks a real debate around real issues. What I will try and do is humanise this debate because taxation is not in isolation. It is related to a framework in terms of the economy and other aspects of life in terms of welfare and people. But before I do that, what I want to do is welcome this opportunity because I am sure like all of you in this room, we all live in our bubbles, this is an opportunity to actually see how wobbles come together or clash or let's see if there is any commonality that we can build upon and move forward on.

So, on that basis, thank you very much for the invite. What I want to do in the next 10 minutes is to argue the case for a financial transaction tax (**FTT**), the closure of tax avoidance schemes and an increase in corporation tax. So, that's the challenge I'm putting myself under, so get ready.

Phew. Where do I begin? We are living and experiencing monumental times. And moments in history today, being one of those, April 2013 will go down as a pivotal moment when the raft of cuts and reforms in health, welfare, taxation came into force and when the UK, I think, changed for the worst. I will argue on 3 bases, firstly, the moral arguments – hey I'm your worst nightmare Miles – the legal argument and also the business argument for a FTT and also the closure of tax avoidance schemes and increasing corporation tax.

Well, why the moral argument? Don't drop off to sleep I know it's late in the afternoon and you know, the suns up, people call this the graveyard shift, but as I said, we don't live in isolation. We are moral beings. We are constantly making judgments of being right or wrong and making judgments about good and bad. We find ourselves in a time when the basic needs of living and surviving, such as food, shelter, access to education and employment are being denied to many by political judgments and policies which are implemented by state institutions. On the other hand, the same state institutions and political judgments are being made to support the status quo of the plenty and those who have opportunity against those that do not have the same opportunity.

Let me give you an example. Virtually every town in the UK, today, has a food bank. Many towns have three or four food banks. There was a time we used to call them soup kitchens and it wasn't very far from here that we could go and see them. It's tragic, and I make no excuses for this, as a nation we cannot feed all our citizens and the British system, some citizens have to go hungry. On the other hand, there are many citizens and corporations that sit on great wealth and cash mountains that they will never utilise in their lifetime . The price of our food bills is rising while food supplies and retailers continue to increase profits and drive market share. The costs of heating our homes – the basic things – are rising, yet financial remuneration and bonuses continue to be the norm for leaders or many energy companies. The cost of keeping our families fed, clothed and sheltered is rising. The scourage of communities unemployment is back. Today, we heard that nearly one million young people are unemployed in this country.

This is not the politics of envy. Very, very, very far from it. It is the politics of survival and it is the politics of fairness. There are those that would argue that the merits of a system, economic system that we have at the moment, is defined by the trickledown economics that, which Margaret Thatcher was a great proponent of. So, if the rich got rich, they would filter down in terms of investment and jobs. This has not happened. The gap between the top 10% income scale has got further away from the bottom 10%. The further top 1% has accelerated away from the rest, facilitated by generous tax breaks, tax avoidance, tax havens – I could give you many examples, real examples. This is further justified by the narrative that we need deficit reduction to get the economy going and that this is a world phenomenon unleashed by the globalisation.

And, you know, we're quoted in many quarters by Adam Smith and his Wealth of Nations where he talked about the "invisible hand" of the market. It's the market finding it's balance between demand and supply.. it's the settlement at the optimum level. Optimum level for whom?? It's the invisible hand that is coming to pick pocket the money from people's wallets / it's the invisible hand that is reducing the amount of food on the table for many / it's the invisible hand that is threatening to wake away the roofs over the heads of many today.

The state institutions facilitate this. There is an imbalance in the 20 / 80 ratio of taxation to cuts. Why is it that those paying the price for austerity are paying the price for those that caused it? Surely there must be a better way to organise our economy and taxation. Surely there is a moral case for an 80 / 20 ration of taxation to cuts. An increase in corporation tax rather than the bedroom tax. Tax avoidance is costing the country £25bn per year. Big companies like Starbucks and Amazon should pay more tax. I see no reason why not.

It is not flawed thinking, it is not blurred lines: Let's look at outcomes. Let's look at what's happening. To do this, we need a far stronger GAAR that penalises tax avoiders and not see it as a virtue and glorification of tax avoidance. At a time when there has been a huge loss of jobs at HMRC, I would advocate we need far more resources to close the tax loopholes that allow big companies and wealthy individuals to avoid paying their fair share while leaving everyone else to pick up the tab. Tens of billions of pounds raised would be much fairer and more effective way of tackling budget deficits than endless self-defeating austerity. But getting to grips with tax avoidance is a global issue and will not work unless the government takes tougher action closer to home.

The UK remains a global leader for tax secrecy, both through the city and its Crown Dependencies around the world. The government should start closing the UK's multimillion pound tax gap with a fairer tighter GAAR principle and a minimum tax rate for those at the tops till the superrich begin to pay their fair share.

Secondly, it is right to argue for a FTT. In some quarters, it's called the "robin hood tax". To make banks and financial institutions pay something back to society, banks and financial institutions do not live on their own. They are a key part of society and a key stakeholder as with other stakeholders. This would be popular move – a poll conducted in 13 countries showed that 2/3rds said they would support such a move and certainly would put Euro 480bn back into the global economy and curb financial speculation. By the way, 2 weeks ago the EU financial tax regulation was unveiled and, I understand, rejected by the prime minister. There is growing anger and resentment that international banks and larger corporations haven't paid enough tax to fix the global financial crisis. 78% of the public think international banks should pay more. And 77% think large corporations should pay more. This government should listen to the voters and constituents. We are at risk of increasing political and economic instability. I think banks and large corporations hold too much sway over national economies. A FTT is a good way for banks to put something back into society and the economy, not just through their strategies or priorities around social responsibility initiatives.

Increased corporation tax would raise billions, FTT would raise about £20bn and closing tax avoidance another £40bn. I am no practising economist, though I do have an economics degree, haven't I just halved the budget deficit there? Isn't there a simple solution there? A business sector with low taxation distorts competition, contradicting what was said earlier what Miles said – providing much opportunities for large businesses and monopolies but little or none for small enterprises. Trickledown economics does not work.

But I do agree with both David and Miles that we need legislation that enforces tax payment: A strategy to change the culture that sustains tax avoidance and greed. We need a holistic tax system that is fairer, distributes wealth better and meets the basic needs of all our citizens. Thank you.

(Guto Bebb disappears to vote – the bells are ringing!)

Mariana Mazzucato

I'm not sure why I was invited! Because I don't do tax. I try to understand what drives business investment and try to understand what the state's role is in the economy – so indirectly I do lots of tax – but I actually want to focus on what I know. I think what I'll talk about will have some implications for what's been said.

Even though I agree with lots of what has been said, I think that actually weakens the case by talking about the moral case. I'm going to focus on the economic case. I will talk about the moral case but more about how it's been distorted. What a lot of what we've seen bout tax has been done through different types of law which has no economic evidence behind it, and driven by ideology or different types of moral points on who the wealth creators are in the economy.

First, I'm talking about the role of the state. In the end, the reason why you didn't want companies and people to pay tax is as if you actually have a theory of what the state should be doing - because of course the tax goes to the state. And here it's very interesting that there's different ways of talking about the state's role in the economy – in the end an implication on the way we think about tax. If we think the state is simply a nuisance, and we really just need to get it out of the way, which is not by the way what Adam Smith said at all, where you basically just need the state to do property rights and do the basics, then you could actually argue what Nigel Lawson argued which is that we should have the lowest tax rate possible and simply get people to pay it.

If instead you think that what the state is doing is something on top of that – for example – fixing failure in the market, market failures, you need more of the state budget in order to do that. So the usual example is if you have public goods – basic research – my father who does nuclear fusion research at Princeton University is all state funded – why? Because no private company is going to bother because it is so long term and once it's discovered it hard to appropriate the profits. So you have government spending on basic research – different types of externalities – pollution – need the government to tax it. The market failure notion of what the state does which is very strong… what people learn in their economics textbooks both micro and macro.

If instead the state is doing something even on top of that, which very few people had actually talked about so we don't have words for it, but I believe it, which is shaping and creating markets, then you actually need even more tax. Here there's a wonderful book written in the 40s called the Great Transformation which I really suggest that people read for the history of markets and capitalism where he says that markets, local and international, had existed forever – since the time of the ancient Egyptians. National markets – the capitalist market – pretty recent – the last 300 years and were enforced by governments. So he mentions this whole distinction state vs market which drives the tax debate is a false one and provides fascinating historical detail – reminds me what you were saying that tax is not natural – well markets are not natural.

But even more so if you look at innovation and investment, here too it becomes very fuzzy because when you think of places like Silicon Valley which remain the model of what you want to do and how it present a different type of growth model, there's this notion that it was all done by garage tinkerers, the economist talks about this all time. It recently had a special issue on the next industrial revolution and said very clearly what the government should do is stick to the basics and leave the rest to the garage tinkerers and what they were talking about was the new wave of renovation – nanotechnology and green technology and looking back at SV and facebook and amazon and apple.

What we really need to do is inspire that sort of thing which means we need to have venture capitalism (**VC**) and private equity. If you look at the history of Silicon Valley, it was hugely a result of government intervention. I often use the iphone as an example, because it's in everyone's pocket, but there is not one technology behind the iphone that is not government funded. The internet was government funded. Gps, touchscreen display, even this new thing that I just pressed by accident this seri voice personal assistant, it was all government funded. All the communication technology – government funded.

So of course you need someone like Steve Jobs who has taken his wonderful calligraphy classes and put all these things together but that never would have happened without VC in almost every single industry – but technology VC came in 15 years after the state took on a massive level of investment.

Now where does this state budget come from to do that? Obviously, from tax. So if you are going to have really low taxes the state cannot do that and it's no surprise that some of the weaker states round the world are those that can't, for some reason, aren't able to collect it, either a low rate because they think it will drive a high rate of capital flow, or places like Italy have a really hard time with the legal framework.

Apple is one of these companies. I was really curious that no one mentioned Apple with Starbucks and Google, but it is one of these companies. So the state of California budget deficit is $US9bn. Apple should have paid but avoided, not evaded, avoided, $US2.5bn to the state of California. They did this completely legally. They simply did what lots of companies did – they had a subsidiary, now all of a sudden not in California - where all the stuff was funded, but in Nevada – one of a poor state that tries to attract capital through these nice low rates that Nigel Lawson thinks attracts investment where you pay basically nothing, and through that, avoided US$2.5bn.

Apple is a company that received its early stage investments from the government – so not just all the technology – even the early stage seed high risk capital came from government through the SVIC programme (Silicon Valley Innovation Challenge). The SVIC programme, which, in this country is basically again, early stage funding for small companies, is a huge expense and requires tax revenue to fund. The pharmaceutical industry – 75% of new molecular entities were priority rating – in other words the really innovative drugs not the me2 stuff because that's easier - are funded through national instituted funded labs.

The point is, if we want that stuff to happen, and I talk about it in terms of the entrepreneurial state that we see in Brazil, China, Finland and Denmark. Denmark today is providing all the high tech services by the way to China's green tech strategy. China is spending US$1.7trillion in the next 5 years in these 5 new areas which are all more or less around the green economy, environmentally technologies, new engines. You need tax to do that.

So first, let's admit why you need to pay tax. You need to pay tax because the government is not just a nuisance, not just correcting market failures, but doing this big stuff which in theory everyone is trying to do – innovation led growth. One of the things that defines / decides markets which is sometimes interpreted wrongly – is innovation. Innovation has been funded in the history of capitalism hugely by governments - not just the basic research which can be justified by market failure - but even the pride research.

Mitt Romney what he said he was going to do if he was going to get into power, was going to cut the government's budget on social spending –but these projects require what Time Berners-Lee did for the internet because governments shouldn't be doing supply research and just do basic research. It's a complete misreading of what Darper was about. Darper also had plenty of applied research. Almost all these big missions - putting a man on the moon, or doing the internet, nanotech - are fully funded initially by the state or the green economy today. Look at the big green investments today around the world – the most difficult stuff – the capital intensive parts of green as well as those parts of green that have still very high technological and market uncertainty are being driven by state investments (different types). In China, it's through the China Development Bank, Brazil it's through BNDS – its development bank. You need different types of finance and long term committee patient finance – which private finance is not good at. The patient finance tends to be more the public finance. Later you do need to the private finance to commend, but the problem of whose ding what is driven more by ideology.

Now this is the issue if you start looking at what drives business investment and what a company is asked for, it's all about tax. And you look at where they work and it's not about tax. Pfizer was always saying they want less red tape, patent box - which I think is personally the worst piece of policy ever – patents are already a monopoly you do not want to target the income generated from patents that is already there from a monopoly you need to target the research which this country has a real problem with. We have the lowest in the OECD business r&d spending as a percentage of GDP. We need to invest in this: So Pfizer leaves Sandwich, Kent and goes to Boston - not because of tax - but because of this US$32bn a year that the national institute of health is spending in the US.

So this is the problem that CGT has fallen hugely both in the US and UK over the last years because of the stories that were told about what's driving business investment. Both in the US and UK, interestingly enough it wasn't the oil tycoons who were lobbying for this, but it was the VC industry –*"we are the risk takers, wealth creators – lower our CGT so we will invest more*" – there is no evidence at all that neither CT nor CGT had any effect on business investment.

I do work on economics of innovation and we have different proxies for something else that we call technological market opportunities – that drives investment. Neither Bill Gates nor Steve Jobs invested and did what they did because of tax. They did it because the vision they had of where the future opportunities are – and those are hugely correlated with public investments and that requires tax revenue.

Now having said that, this doesn't actually talk about avoidance. The problem is what level of tax do you want. But I really think the two are correlated. The degree to which you can battle the avoidance is very much related to the degree / the actual justification you have in the first place of why you need a certain level of tax. By the way, the highest rate of income tax under Eisenhower – 90%. He was basically a communist president. But anyway, the point is there is huge disparity of what one might have that so much of what is driven tax policy from the recent patent box policy which is a mess, the R&D tax credits which there is almost no evidence that they provide any additionality to make R&D happen that wouldn't have happened anyway. That's the whole problem – making things happen that wouldn't have happened anyway. The CGT changes that have been hugely falling / rapidly over the last 20 years with these arguments of how you drive wealth creation…

SME policy. There has been some interesting research in this country where many SMEs have actually been set up in the first place for tax avoidance, yet we all think SMEs are great. If you actually look at the data, only 4% of SMEs create any net job creation and as a sector, which means nothing, they get £9bn a year from government indirectly funding – research coming out of the University of Cambridge from Alan Hughes. Why to SMEs? Why not to teachers? Just to say, it's all driven by the sort of myth we all have of the role of SMEs and VCs.

We need more of an economic argument. We shouldn't just resort to moral argument – even though I have huge thoughts about why we have a moral case. But just by representing it like that you will be attached and will not be able to get the point across.