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**The hand of accounting and accountancy firms in deepening income and wealth inequalities and the economic crisis: some evidence**

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## ABSTRACT

This paper looks at the economic crisis in the UK. It argues that everyday accounting practices are deeply implicated in the inequitable distribution of income and wealth, a major cause of the economic crisis engulfing the neoliberal economies. Without adequate purchasing power middle and low income households cannot make the purchases necessary for a sustained revival of the economic activity. Accounting calculations and discourses play a major role in the determination of wages and taxes. They prioritise the interests of capital over labour and the state and have systematically eroded labour's share of the gross domestic product. At the same time, despite a massive growth in corporate profitability, the UK state's share of the national wealth in the form of tax revenues has also declined. It is argued that accounting practices which label payment of wages to labour and payment of taxes to the state as 'costs' amplify capitalist concerns about private appropriation of surpluses and have played a major role in assigning such payments to negative spaces. Through the sale of tax avoidance schemes to corporations and wealthy elites, accountancy firms have facilitated a skewed distribution of income of wealth and further constrained the state's capacity to reflate the economy. Consequently, the tax burdens on the less well-off have increased and further eroded their purchasing power and possibilities of building a sustainable economy.

**Keywords:** Inequalities, crisis, taxation, accounting, workers.

## 1. Introduction

Since 2008, a banking crisis has dominated headlines in the western world and is threatening to destabilize the global financial system<sup>1</sup>. Experienced commentators (for example, Peston, 2008; Hellwig, 2009; Griffith-Jones, Ocampo and Stiglitz, 2010) have identified financial innovations in the form of subprime mortgages, credit boom and complex financial instruments as key triggers for the crisis. They enabled banks to make profits, but the loans and speculative activities could not be sustained and the resulting defaults triggered a crisis that has spread to all sectors of the economy. Within the constraints of local political ideologies, countries have sought to manage and displace the crisis. The UK, the sixth largest economy in the world, with GDP of around £1.5 trillion (about US\$2.3 trillion) has gone through a double-dip recession and in early 2013 is considered to be close to a triple-dip recession. It has provided £955 billion in loans and guarantees to ailing banks (UK House of Commons Public Accounts Committee, 2011; National Audit Office, 2010). In August 2012 the national debt<sup>2</sup> of the UK, the third largest economy in the European Union, excluding financial interventions to rescue banks was estimated to be £1,039.5 billion (66.1 per cent of GDP) and £2,140.7 billion (136.0 per cent of GDP), if various financial commitments are taken into account UK Office for National Statistics, 2012a).

The above statistics form the backdrop to arguably “the longest – and among the most costly – of its depressions in over a century<sup>3</sup>” facing the UK. In neoliberal

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<sup>1</sup>Ireland, Iceland, Spain, Cyprus and Greece have secured loans from the International Monetary Fund and the European Union to manage the crisis.

<sup>2</sup>There are disputes about how the level of debt should be measured. For example, some argue that it should include guarantees provided by the state, deficits on pension schemes of state employees, debts of local councils and public sector investment financed through the private sector. A report by McKinsey & Co states that in mid-2011 the UK’s total debt (combined personal, national and business debt) was 507% of GDP, the highest in the world after Japan (The Guardian, 19 January 2012; <http://www.guardian.co.uk/business/2012/jan/19/uk-highest-debt-to-gdp-ratio>; accessed 19 January 2012).

<sup>3</sup>Financial Times, Britain must escape its longer depression, 1 September 2011 (<http://www.ft.com/cms/s/0/c6c14d92-d332-11e0-9ba8-00144feab49a.html#axzz1nKyr1lxm>; accessed 13 December 2011).

traditions, the state has implemented austerity measures<sup>4</sup>, which will exacerbate income and wealth inequalities and erode the purchasing power of low/middle income households. The income and wealth inequalities were a key reason of the 1929 stock market crash and the ensuing economic depression (Galbraith, 1961). Influential voices are again saying that the current “broken society and the broken economy [has] resulted from the growth of inequality” (Wilkinson and Pickett, 2010: 5), and that “Not only did rising inequality help get us into this mess, it is now a key factor preventing recovery” (Lansley, 2012: 758).

Income inequalities in the UK have been increasing at more than the average for major industrialised nations ( Organisation for Economic Co-operation and Development, 2011) and are regressing towards the disparities of the 19th century era (High Pay Commission, 2011a). The wealth of the top 10% of households is 100 times greater than the wealth of the poorest 10% (National Equality Panel, 2010). The middle-classes and the low-paid have borrowed extensively to maintain their quality of life and by October 2012 personal debt in the form of mortgages, loans, bank overdrafts and credit card bills reached around £1.421 trillion, the highest per capita in Europe<sup>5</sup>. The inability of the indebted to service the debt and continue consumption has been a major reason for the deepening economic crisis (Bailey, Coward and Whittaker, 2011). In principle, the state can alleviate some of the pressures on low and middle-income households by redistributing wealth, but neoliberal ideologies impose constraints on the possibility of raising additional tax revenues, especially as globalization and easy mobility of money have enabled major corporations and wealthy elites to discipline the state through tax avoidance (Shaxson, 2011).

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<sup>4</sup> These include a 19% reduction cuts in the budgets of government departments, redundancies for public sector workers with knock-on effects on the private sector, wage freezes, rise in indirect taxation from 17.5% to 20%, increase in retirement age, cuts in social welfare payments and a higher 50% marginal rate of income tax on incomes above £150,000 (reduced to 45% from 2013-2014) (for an indication, see BBC News, George Osborne outlines detail of £6.2bn spending cuts; 24 May 2010; The Guardian, Budget will cost 1.3m jobs – Treasury, 29 June 2010; BBC News, Spending Review 2010: Key points at-a-glance, 21 October 2010).

<sup>5</sup> As per Credit Action (<http://www.creditaction.org.uk/assets/PDF/statistics/2012/december-2012-summary.pdf>; accessed 28 December 2012).

Rising income and wealth inequalities are considered to be a key reason for the current economic crisis (for example, Iacoviello, 2008; Rajan, 2010; Kumhof and Rancière, 2010; Stiglitz, 2012). However, the role of accounting and accountants in sustaining and legitimizing inequalities has received little attention even though accounting<sup>6</sup> technologies are central to calculation of wages and taxes (Whittington, 1983). There is little scrutiny of the very concepts and categories of accounting which supposedly help businesses to control costs, promote competition, profits and efficiency, but also facilitate inequitable distribution of income and wealth. The labelling of wages paid to labour and taxes to the state as 'cost' or burdens is symptomatic of the above tendencies. The negative connotations legitimise discourses that encourage reduction of such payments even though one organisation's cost is someone else's income and their reduction erodes the purchasing power available to the people. The sale of tax avoidance schemes by accountancy firms and the erosion of tax revenues negatively affect the state's ability to redistribute and is a key feature of the loss of purchasing power by low and middle income households (Mitchell and Sikka, 2011).

This paper argues that the negative portrayal of wage and tax payments supports discourses that erode the workers' share of national income and wealth and thus fuels the economic crisis. The worldviews embedded within accounting practices prioritise the interests of capital and have little regard for the interests of labour or the state. Most of the arguments and evidence in this paper primarily relates to the UK. The UK is a good case for studying because it is an exemplar of neoliberalism, characterised by a strong state which advocates deregulation, privatisation, free-markets, uncontrolled financial rewards at the top, trickle-down economics, business friendly laws, curbs on trade union power, and has frequently been held up as a model for others to emulate (Gamble, 2009).

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<sup>6</sup> The economic crisis has encouraged some scrutiny of accounting practices, but it is primarily confined to the role of 'fair value' accounting in constructing and privileging a particular state of bank/corporate affairs (Ryan, 2008; Huizinga and Laeven, 2009; Laux and Leuz, 2009; UK House of Commons Treasury Committee, 2009; Shaffer, 2010). This is laudable but is in danger of suggesting that 'fair value' is an exception and that the rest of accounting is somehow exempt from any role in the crisis.

To advance its arguments this paper is organised into four further sections. In political economy traditions the first section provides a framework for understanding the crisis and social conflict around division of economic surpluses. It argues that accounting discourses have naturalised the interests of capital and thus leave little scope for consideration of the welfare of workers. The second section provides UK evidence showing a significant decline in the workers' share of income and wealth. This has also been accompanied by a decline in the state's share of national income in the form of tax revenues. The third section builds on the insights of previous studies (for example, Hines, 1988; Chua, 1986; Tinker, 1991; Funnell, 1998) to argue that everyday accounting practices and accountancy firms are part of the social conflict and have facilitated an inequitable distribution of income. It argues that accounting technologies legitimise discourses which regard the payment of wages and taxes as burdens and thus encourage erosion of workers' income taxation revenues accruing to the state. This section also builds on previous studies to argue that entrepreneurial accountancy firms have prioritised the interests of capital and wealthy clients by crafting tax avoidance schemes and cost minimisation programmes (for example, Christian-Aid, 2005, 2008; Sikka and Hampton, 2005; Sikka, 2008; Sikka and Willmott, 2010). These schemes and discourses enable accountancy firms to make profits, but erode much needed tax revenues and disable the state's capacity to stimulate the economy through redistribution of wealth. Thus, everyday accounting practices and accountancy firms are shown to be key sites for perpetuation of inequalities and economic crisis. The final section summarises the paper and offers some strategies for mobilising politics and accounting to enhance workers' share of national income and wealth.

## **2. A Perspective on the Economic Crisis**

Capitalist economies are inherently crisis prone and the recurring crisis is often given visibility by the falling rate of profit, conflict between labour and capital, over/under investment, excessive credit, bubbles and economic crashes (O'Connor, 1987). The crisis is managed, or displaced, by a variety of crisis management practices instituted by the state and a plethora of ideological state apparatuses

(Althusser, 1971) to enable capital to resume growth. The strategies are embedded in country-specific institutional structures and social relations of power (Esping-Andersen, 1999). The neoliberal state is concerned with the long-term welfare of capital because it needs tax revenues for its survival and these are primarily levied upon profits and wages which in turn are dependent upon the private investment of capital (Habermas, 1976; Offe, 1984). Thus the interests of capital are embedded within the system and the state's own survival is dependent on the long-term welfare of capital. At the same time the state has to secure social legitimacy for its reproduction and needs to be seen to be even-handed and responding to popular demands for jobs, improved material conditions and social welfare. The extent of the inclination to be even-handed depends on popular discourses and how various protagonists marshal political and ideological resources to advance their interests. As part of crisis management, the state may make concessions (e.g. welfare rights), but depending upon the ideological contingencies they can be diluted or withdrawn. Thus the state is enmeshed in an endless variety of contradictory policies, but the inherent antagonisms cannot be resolved.

Despite inherent antagonisms, all production of wealth requires co-operation between varieties of stakeholders and each expects a return. For example, investors and creditors provide finance in expectation of a return in the form of dividends and other payments; employees provide human sweat, blood, brawn and brains in expectation of a return in the form of wages and salaries and society provides public goods and social infrastructure and expects a return in the form of taxes. However, the exact share of surpluses accruing to each party cannot be fixed and is subject to endemic struggles and ruptures.

Capital needs to exploit all factors of production, including labour, to expand itself. In a globalized economy capital is mobile and may increase its share through relocation, a reserve army of labour, mobilising the state to enact controls to limit the power of labour and by promoting discourses which associate payment of taxes and higher wages as a threat to economic wellbeing of a country. It also provides higher financial rewards to accountants and managers 'watching over capital' and advancing and protecting the interests of capital (Carchedi, 1977). Unlike capital, labour cannot be stored and its mobility is severely constrained by geography,

technological innovations and competitive advantages pursued by nation states. Therefore, labour needs to develop strategies for maintaining or enhancing its share of economic surpluses. Broadly speaking, in neoliberal societies labour can marshal two forms of power to resist erosion of its share of surpluses: “market power” and “political power” (Gourevitch and Shinn, 2005). Market power enables trade unions to protect the workers’ share of income and wealth through strategies of conflict and co-operation. Depending on the political contexts, trade unions could be co-opted into company boards, remuneration committees and systems of corporate governance and influence the division of wealth and/or they could be excluded from such processes and left to pursue demands for improved wages through industrial action and strikes. An uneasy compromise may prevail, but equilibrium is not possible as gains for labour may be seen as losses for capital generally and may encourage it to migrate and/or mobilise the state to introduce counter policies. Market power itself is dependent upon political power which is shaped by electoral outcomes and the extent to which labour can colonise the ideological agenda to advance its interests. Trade unions may enrol and fund political parties to advance their interests, but the outcomes are uncertain because in common with the general public their members also have common and competing interests derived from class, age, gender, ethnicity, religion, family and other interests. Thus, the advancement of workers’ interests is always dependent upon forming coalitions with other sections of society.

In general, left-leaning governments may be more responsive to workers’ demands and help to expand, or maintain, their share of income and wealth. Conversely, a tilt to the right creates possibilities for the erosion of market and political power exercised by workers. A tilt to the right may be more sympathetic to capital and enhance returns to capital or check the power of labour, but it also sows seeds of its negation as without adequate purchasing power workers and their families cannot purchase goods and services produced by capitalist enterprises and thus businesses cannot realise economic surpluses. If workers are able to secure higher wages then the return to capital may be eroded, which in turn may have a negative effect on the levels of economic activity, investment, production, jobs and ultimately the legitimacy of the state.



The struggles over a greater share of economic surpluses take place in contemporary institutional structures characterised by rationalisation, efficiency, calculation, control and predictability (Weber, 1948; 1968, 1992). Neoliberal institutions disseminate discourses which attach positive signs to private profits, cost reduction, competition and efficiency, but negative signs to wages paid to workers and taxes paid to the state. These inscriptions are circulated through education, media, policymakers and opinion formers to form commonsensical understandings of contemporary life. Accounting calculations and logics are central to the development of capitalism (Chiapello, 2007) and Johnson (1972) notes that the “functions of the accountant in providing the means of cost or management control were regarded as so crucial for the development of capitalist enterprises that Weber defined the capitalist business form as an establishment which determines its income-yielding power by calculation according to the methods of modern book-keeping and the striking of a balance” (p. 66). Accounting calculations frequently provide a legitimising rhetoric for notions of cost saving and efficiency, and in the process advance sectional interests and disarm critics (Hopwood, 1984).

The concepts of profit, costs and efficiency are highly abstract, but central to any measure of the welfare of capital. Contemporary accounting practices are designed to ‘watch over capital’ and ensure that economic surpluses accrue to the absent owners of capital (Johnson, 1972). This is pursued not only by designing internal controls and audits to prevent leakages of capital, but also by giving visibility to organisational processes, decisions, allocations and distributions (Armstrong, 1987). The calculations may be highly abstract, but nevertheless shape subjectivity and mobilise people. Indeed, accounting calculations measure and label things to give visibility to what can be talked about or remain obscured (Hines, 1988). Accounting creates specific spaces and categories to enable focus on efficiency, profitability and enterprise.

At the same time the cold logic of accounting creates invisibilities by detaching numbers from the lived experiences of the people and prevents consideration of alternatives (Funnell, 1998). For example, a focus on labour costs makes people anonymous and reduces the lives of employees to quantifiable objects who can be hired, fired and manipulated in the pursuit of private profits. Little consideration is

given to the human consequences of downsizing and reducing someone's income even though that reduction would not enable people to buy the products and services sold by capitalist enterprises, a necessary condition for making profits. Thus, accounting naturalises an instrumental logic that excludes and silences other criteria for assessing value. The inscriptions and spaces created by accounting calculations are infused with historical struggles that shape the division of economic surpluses by "bolstering unequal economic relations" (Chua, 1986: 623). In this context, accounting is not just a technique, but a resource in the political struggles over allocation and appropriation of economic surpluses. As accounting is closely aligned with the interests of capital, anything that obstructs expansion of capital's share of surpluses is called a 'cost' or a burden and is consigned to negative spaces. Within the hegemonic discourse of capitalism, a widespread view is that costs must be reduced and even eliminated. In this worldview, the payment of taxes and wages are not seen as legitimate rewards for the employment of social and human resources, but as barriers to expansion of capital. Consequently, much of the accounting technology is pre-occupied with controlling costs, measuring and reporting performance to enable corporate managers to plan and control their operations in the service of capital.

A wide variety of advisers, consultants and opinion formers are enrolled to disseminate discourses that portray payments to workers and the state as a threat to the welfare of capital. In this context, major accountancy firms are also a major fraction of capital and their profits are conditional upon creating demands for their services. The entrepreneurial accountancy firms have used their expertise to craft cost minimisation programmes and tax avoidance schemes to enable their clients to avoid taxes and erode the state's capacity to increase workers' share of national wealth through redistributive programmes. Accountancy firms have extensive organisational structures and incentivise staff to develop tax avoidance schemes (US Senate Permanent Subcommittee on Investigations, 2003, 2005). Within accountancy firms, tax departments often function as profit centres and are assigned revenue generating targets. Those able to reduce tax bills for clients are rewarded with promotions and salary increases, further naturalising the view that undermining taxes is positive and rewarding. In a parliamentary debate, a UK legislator said that "There are armies of bankers, lawyers and accountants who

ensure that even though the letter of the law is respected, increasingly immoral ways are found of perverting the spirit of the law to ensure that tax is avoided. ... To hide its true purpose, the tax avoidance industry adopts the language of real business, so technical innovation and reinventing your business model do not mean finding new products, services and markets, and new ways of supplying them. No, they mean registering your business in a tax haven and becoming a non-dom to avoid tax while still enjoying the, admittedly decreasing, benefits and services which make this country the civilised place that it is<sup>7</sup>. In the words of the US Senate Permanent Subcommittee on Investigations (2005): “dubious tax shelter sales were no longer the province of shady, fly-by-night companies with limited resources. They had become big business, assigned to talented professionals at the top of their fields and able to draw upon the vast resources and reputations of the country’s largest accounting firms ...” (p.9).

The carefully cultivated understandings of capitalism are routinely reaffirmed by economic theories which claim that the objective of the firm is to maximise shareholder wealth and that this can be achieved by reducing wages and taxes. This social construction is legitimised by naturalising concepts and measurement of accounting income solely from the shareholder perspective. This is done even though shareholders hold shares in companies for a comparatively short period and function more like speculators and traders rather than owners with responsibilities. In many corporations they provide only a small fraction of the long-term risk-capital (Sikka, 2012). The idealised model privileged in accounting leaves little room for consideration of the welfare of other social constituencies<sup>8</sup>. The same discourses are enshrined in the literature on corporate finance and its focus on investors, managers and agency costs neglects the role of employees and the state in wealth

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<sup>7</sup> Hansard, House of Lords Debates, 17 March 2011, col. 375.

<sup>8</sup> The shareholder wealth maximisation model may be peculiar to neoliberalism and is not prioritised in other social formations. For example, in former Yugoslavia, considered to be a socialist country, the company was considered to be owned by its workers. Hence, the income was the share attributable to workers, while the return paid to providers of finance capital was expensed (Kardelj, 1981a, 1981b). In state capitalism, as practised in the former Soviet Union, the state was the owner of the means of production and thus the income was the share paid to the state (Campbell, 1963; Ash and Strittmatter, 1992). I am grateful to the editors for drawing my attention to this.

creation (Jensen and Meckling, 1976). Accounting regulators naturalise the power of capital by claiming that the main purpose of financial reporting is “to provide financial information about the reporting entity that is useful to present and potential equity investors, lenders and other creditors in making decisions in their capacity as capital providers” (International Accounting Standards Board, 2008, p.12). The interests of capital and capital maintenance concepts are central to all accounting calculations and construction of income (Whittington, 1983). Thus the bottom line in the profit and loss account reports the extent to which shareholders, as idealized owners and representatives of capital, are richer. It is effectively a celebration of the victory of capital over all-comers, including labour and the state. The influence of such logics establishes boundaries and squeezes the space for competing discourses and does not encourage consideration of the impact of the loss of wages and tax revenues on people, communities and even on capital itself because without adequate purchasing power people cannot buy the goods and services and thus capital cannot accumulate profits.

Workers face an uphill struggle in securing an equitable share of income and wealth because it is not easy to oppose the discourse of cost reduction, efficiency, competitiveness and profits, which are mobilised to reduce wages paid to labour and taxes paid to the state. After all, who would publicly claim to advocate inefficiency, higher costs and uncompetitive firms? Some strategies of resistance may be developed, but that would depend on country-specific institutional structures and the extent to which workers and trade unions could deploy their market and political power to undermine the negative signs assigned to the payment of wages and mobilise the state to redistribute wealth.

### **3. Inequalities in the UK**

This section looks at two elements that have eroded the workers ability to spend and stimulate the economic activity. Firstly, since the 1970s Labour’s share of the national wealth in the form of wages and salaries<sup>9</sup>, expressed as a percentage of Gross Domestic Product (GDP), has significantly declined. Wages and salaries have

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<sup>9</sup> This includes employer social contributions, maternity pay, paternity pay, sick pay and benefits in kind

been casualties of the debates about corporate profitability and efficiency. The policies of the state relating to taxation, labour union laws and privatisations have eroded workers' market and political power. Secondly, the tax revenues accruing to the state, expressed as a percentage of GDP, have also declined, mainly due to political choices to reduce taxes on corporate profits and incomes of the rich. This has constrained the state's ability to redistribute wealth and boost the purchasing power of ordinary people.

### **3.1. Income and wealth distribution**

After the Second World War, the UK economy was rebuilt and unemployment virtually disappeared (Hobsbawm, 1969). By the late 1960s, in the face of emerging competition from Germany and Japan, the rate of profitability of the UK corporate sector began to decline. For example, in 1960 the average rate of return before interest and tax at current replacement cost stood at 13.7%, but by 1970 it declined to 8.9% (British Business, September 1988, p. 32; also see Armstrong, Glynn and Harrison, 1984). The 1973 Arab-Israeli war provided a further kick as the price of oil, a vital commodity for the British economy, rose virtually overnight from US\$2 to US\$11 a barrel and increased UK industrial costs (Green and Sutcliffe, 1987). At the same time uncontrolled speculative activity brought about the crash of a number of secondary banks and the crisis rapidly spread to the insurance and property sectors (Reid, 1982; Clarke, 1986). By 1975, the UK general index of prices (or inflation) reached 24.9% compared to 2.5% in 1967 (UK Central Statistical Office, 1988), and the average rate of corporate profitability, before interest and tax, declined to 3.9% (British Business, September 1988, p. 32). Some argued that "a continuing drop in the return on investment, whatever its cause, would raise serious doubts about the stability of what is loosely described as the capitalist system" (Financial Times, 4 July 1973, p 22). The government bailed-out the financial sector, and in 1976 it itself had to secure loans from the International Monetary Fund (Reid, 1982; Clarke, 1986).

The above period is marked by low unemployment rates (Nickell, Nunziata and Ochel, 2005) and strong trade unions. Since the early 1970s, the UK government had been struggling to control inflation and imposed statutory controls on prices and

wages. In 1973-74, this policy was challenged by coal-miners who took prolonged industrial action leading to the declaration of a state of emergency. Eventually, the Conservative government called a general election on the theme of “who governs” and lost. Significantly, the 1974 election manifesto of the incoming Labour administration, with strong links with trade unions, called for “a fundamental and irreversible shift in the balance of power and wealth in favour of working people and their families ... Eliminate poverty wherever it exists in Britain ... Achieve far greater economic equality - in income, wealth and living standards ...<sup>10</sup>”. In the above environment, labour’s share of national income, expressed as a percentage of the GDP, remained steady and even grew. In the 1960s it averaged around 58-60% of GDP and peaked at around 65.1% in 1976 (Sikka, 2008). By 1979, trade union membership peaked at around 13.2 million, or 55.4% of the workforce<sup>11</sup>. However, subsequent developments weakened trade unions and with it the workers’ ability to maintain their share of national wealth.

The election of the Conservative Party in 1979 and its espousal of new right philosophies marked a significant tilt to the right and a major shift away from consensual politics and managed capitalism. The administration led by Margaret Thatcher emphasised deregulation, free markets, curbs on trades union rights, dismantling of trade barriers and exchange controls to control inflation and encourage mobility of capital. It privatised state-owned enterprises, most notably steel, gas, electricity, water, coal, docks, automobiles and other industries, often with large trade union membership. The government ‘rolled back the state’ by making heavy cuts to the public sector, an area where trade union membership was particularly high. Sir Alan Budd, a key economic adviser to the Thatcher administration, noted that some key policymakers “... never believed for a moment that this was the correct way to bring down inflation They did, however, see that it would be a very, very good way to raise unemployment, and raising unemployment was an extremely desirable way of reducing the strength of the working classes -- if you like, that what was engineered there in Marxist terms was a crisis of capitalism

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<sup>10</sup><http://www.labour-party.org.uk/manifestos/1974/Feb/1974-feb-labour-manifesto.shtml>; accessed 31 October 2011.

<sup>11</sup>[http://www.unionhistory.info/timeline/1960\\_2000.php](http://www.unionhistory.info/timeline/1960_2000.php); accessed 7 November 2011.

which re-created a reserve army of labour and has allowed the capitalists to make high profits ever since<sup>12</sup>”.

The Thatcher administration identified trade unions as “the enemy within” (Dorey, 1995: 133) and perpetuated the view that the wellbeing of the country was under threat. Through the Employment Acts of 1980 and 1982 and the Trade Union Act 1984 the government abolished the ‘closed shop’, required compulsory balloting (not just formal showing of hands) of trade union members before any industrial action, banned secondary picketing and introduced legislation which could be used by employers to seek compensation from trade unions<sup>13</sup> for strike action (Milne, 2004). In 1984-85, the attempts to close or privatise coal-mines once again led to confrontation with the miners’ trade union, a battle which was decisively lost by the union and changed the political landscape of the country (Reid, 2005).

A combination of government faith in the growth of service sector and the forces of globalisation led to the comparative demise of mining, shipbuilding, auto, steel and engineering, often the heartlands of trade unionism. Many well-paid skilled and semi-skilled jobs disappeared. In 1981, the UK manufacturing sector provided employment for 5.8 million workers and, but by 1996 it declined to just over 4 million (Buchanan et al., 2009). Trade union and workers’ power to maintain their share of wealth was eroded by rising unemployment. In the recession of the early 1980s, UK unemployment reached 3.07 million, the highest since the 1930s depression, and remained above 3 million until 1986 and then declined to 1.2 million in 1999 (UK House of Commons Library, 1999). Many in full employment also found their wages depressed. In the newly privatised parts of the economy many contractors often rehired the same staff on lower wages and inferior working conditions (UNISON, 2004; Wills, 2008). In 1979, UK trade unions stood at nearly 13.2 million (or 55.4% of the workforce) members<sup>14</sup>, but by 1996 it shrank to less than 6 million (UK

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<sup>12</sup>New Statesman, A “nightmare” experience? 8 March 2010 (<http://www.newstatesman.com/blogs/the-staggers/2010/03/thatcher-economic-budd-dispatches>; accessed 20 December 2011).

<sup>13</sup> There are no equivalent obligations on corporations. For example, they don’t have to ballot shareholders or employees to move production.

<sup>14</sup>As per [http://www.unionhistory.info/timeline/1960\\_2000.php](http://www.unionhistory.info/timeline/1960_2000.php); accessed 4 August 2011.

Department of Trade and Industry, 2005). Against this background corporate profitability recovered from a low of 3.9% in 1975 to 12.8% and 12.9% between 1996 and 1998<sup>15</sup>. The brunt of this was borne by workers as their share of the national wealth in the forms of wages and salaries declined from 65.1% of GDP (in 1976) to a post-war low of 52.6% in 1996 (Sikka, 2008).

In 1997 the Labour Party, generally more sympathetic to trade unions, formed the government but it continued with many of the New Right policies. The Prime Minister soothed business anxieties by stating that the “British law is the most restrictive on trade unions in the western world” (cited in Compass, 2007, p. 22) and in the next 13 years of its tenure in office the Labour Party did not reverse any of the trade union laws. It continued with privatisation of state-owned enterprises, did not restructure the economy and continued to express its hope that the service sector, especially financial services, would somehow be the renaissance of the UK economy. A raft of corporate governance codes emerged (for example, Committee on the Financial aspects of Corporate Governance, 1992; Committee on Corporate Governance, 1998), but equitable distribution of income and employee rights were not on the agenda. The manufacturing sector was still important to the UK economy, but employment in this sector declined from 4 million in 1996 (Buchanan et al., 2009) to 2.5 million in 2011 (UK House of Commons, 2011). Employment in the services sector, generally low-paid, increased from 2.35 million in 1991 to 4.7 million in 2007. For the same period employment in the financial services sector remained relatively flat at around one million. The government expanded the public sector to tackle unemployment through huge investment in healthcare and education. By 2009, trade union membership stood at 6.5 million (26.6% of the work force), well short of the 1979 peak (UK Department of Business Innovation and Skills, 2010). By September 2011, the UK unemployment levels reached 2.62 million<sup>16</sup>. The income of some workers had been lifted by the National Minimum Wage Act 1998, which established a national minimum wage though critics argued that the low rates pushed poor people into misery and debt (Abrams, 2002; Toynbee, 2003). Despite

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<sup>15</sup> As per the UK Office for National Statistics, 1 December 1999 edition (n.d.).

<sup>16</sup> The Daily Telegraph, Eurozone crisis ‘not to blame’ for rise in UK jobless, 16 November 2011 (<http://www.telegraph.co.uk/finance/jobs/8894845/Eurozone-crisis-not-to-blame-for-rise-in-UK-jobless.html>; accessed 16 November 2011).



the introduction of the national minimum wage, in 2011 the workers' share of GDP stood at 53.8% (UK Office for National Statistics, 2012b). For the second quarter of 2012 the average rate of corporate profitability was 12.7% (UK Office for National Statistics, 2012e).

The workers' share of national wealth has declined from about 65.1% of GDP in 1976 to 53.8% in 2011. However, the headline statistics conceal the way the shrinking share of income has been divided. Most notably, the poor have become poorer, middle and low-income earners have seen their share shrink and the highest paid earners, often senior corporate executives and professional labour have increased their share. In October 2012, the average gross wage for the UK, including bonuses, was around £24,500 a year (UK Office for National Statistics, 2012c) though there are considerable regional variations. On 1 October 2012, the National Minimum Wage rose from £6.08 to £6.19 per hour (about £12,000 a year<sup>17</sup>) though many argue that just to survive employees need to earn a Living Wage of £8.30 per hour (about £17,200 per annum) in London and £7.20 per hour (around £15,000 per annum) elsewhere. However, evidence shows that 299,000 people were on rates below the full minimum wage (UK Office for National Statistics, 2012d), 150,000 workers were being unlawfully denied the minimum wage<sup>18</sup> and altogether around 5 million workers receive less than the Living Wage (Savage, 2011). In early 2010 the number of people working part-time because they could not find full-time work stood at a record 1,046,000 (Institute for Public Policy Research, 2010). There are also workers who for a variety of reasons choose part-time employment. Since 1984 the number of people in part-time work has risen steadily by over half (53 per cent) to reach 7.7 million. The part-time and temporary workers are generally on inferior rates of pay and working conditions.

Whilst it is not possible to reconstitute the government statistics by separating the proportions of GDP going to executives and other workers, there are some studies

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<sup>17</sup> There are four separate hourly rates: £6.19 for workers age 21 or over, £4.98 for 18-20 years old, £3.68 is the 16-17 year rate for workers above school leaving age but under-18, and £2.65 – the apprentice rate for apprentices under 19 or 19 and over and in the first year of apprenticeship.

<sup>18</sup> BBC News, Staff 'not getting minimum wage', 22 December 2007 (<http://news.bbc.co.uk/1/hi/uk/7157056.stm>, accessed 15 October 2011).

which note that incomes of those at the bottom have been severely eroded. For example, Hills (1999) noted that during the period from 1979 to 1995, the incomes of the poorest 10-20 per cent were little or no higher in real terms, despite overall income growth of 40 per cent. Between 1977 and 2010 the share of GDP accruing to the bottom half of workers fell by more than a quarter. For every £100 of GDP they received £16 in 1977, by 2010 their share fell to £12 and after taking-out bonuses their share declined to just £10. In contrast, the top 10% of earners increased their share from £12 per £100 of GDP to £14 and after taking account of bonuses it rose to £16 (Bailey, Coward and Whittaker, 2011). A study by the High Pay Commission (2011a) concluded that “In the past 10 years, the average annual bonus for FTSE 350 directors went up by 187 per cent and the average year-end share price declined by 71 per cent. ... We have witnessed massive growth in performance related pay and yet no such corresponding leap forward in company performance” (p. 4 and 8). The Commission added that “In 1978, the reported earnings of the top paid director at British Aerospace was just £29,000. By 2010, the salary, benefits plus bonus of the highest paid director at BAE Systems, the company British Aerospace has evolved into, was £2,363,000. Over the period, that represents a pay increase, excluding share-based incentives, of 8,048 per cent, which compares to a corresponding rise since 1978 of 556 per cent in the median earnings of all UK full-time male employees” (High Pay Commission, 2011b: 10). Another study (Incomes Data Services, 2011) reported that despite a deepening recession, during 2010-11, the total remuneration of FTSE 100 directors jumped by an average of 43%. In sharp contrast, recent trends indicate a wage freezes or cuts in real wages for workers. For example, between 2010 and 2011 the earnings of the bottom 10% of workers grew by just 0.1 per cent, compared to a rate of inflation of nearly 5% (UK Office for National Statistics, 2011b).

Since income constitutes a major part of accumulated wealth, a skewed distribution has consolidated inequalities in the distribution of wealth. In 1997, the collective wealth of the UK’s 1,000 richest people was estimated to be £98.99 billion, but by 2012 despite the banking crash and recession their wealth increased to over £414

billion<sup>19</sup>. The most recent official government statistics (UK Office for National Statistics, 2009) reported that in 2006/08, the median household wealth was £204,500, including private pension wealth and value of dwellings. The least wealthy half of UK households held 9% of the total wealth, while the wealthiest half had 91% of the total. The wealthiest 1% of households had 23% of the country's cash, property and saleable assets and the wealthiest 20% of households had 62% of total wealth. The least wealthy 10% of households had negative values for both net financial wealth and net property wealth. A government commissioned study reported that the UK income and wealth inequalities were bigger than those in other industrialised countries and at their highest level for over half a century (National Equality Panel, 2010). The study estimated that the household wealth of the top 10% of the population, at an average of £853,000, was nearly 100 times higher than the wealth of the poorest 10%, who had property, savings and personal possessions worth less than £8,000. The bottom 1% had negative wealth (liabilities exceeding assets) of more than £3,840. However, the concentration of wealth at the top is highly marked. Individuals in the top 1% of the population had total household wealth of £2.6m or more.

In 2009-10, after taking account of housing costs, some 13.5 million people, including 1.8 million pensioners<sup>20</sup> and 2.5 million children were estimated to be living below the poverty line<sup>21</sup> (Jin et al., 2011). With the austerity programmes, cuts in social welfare and the rising cost of living the numbers are expected to rise sharply (Brewer, Muriel and Wren-Lewis, 2009; Brewer et al., 2011). The government statistics for 2008 show that the savings ratio<sup>22</sup> in the UK has plummeted to 1.7% of total resources, the lowest recorded since 1970. Only 38% of working-age people -

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<sup>19</sup> The Sunday Times, Sunday Times Rich List 2012 – UK's Richest People, 15 May 2012 (<http://www.therichest.org/nation/sunday-times-rich-list/>; accessed 29 September 2012)

<sup>20</sup> The Daily Telegraph, 1.8 million pensioners living below the poverty line, 13 April 2011 (<http://www.telegraph.co.uk/finance/personalfinance/pensions/8448018/1.8-million-pensioners-live-below-the-poverty-line.html>; accessed 10 November 2011).

<sup>21</sup> This is defined as households with incomes below 60% of the median.

<sup>22</sup> BBC News, UK household savings lowest in 40 years says ONS, 8 April 2010 (<http://news.bbc.co.uk/1/hi/uk/8608935.stm>; accessed 10 September 2011).

11.6 million out of 30.4 million people - are able to save for a private pension<sup>23</sup>. The skewed distribution of income and wealth has consigned many people to live on credit. In October 2012 the personal debt (mortgages, overdrafts, loans and credit cards) of individuals hit £1.421 trillion and despite the recession the government expects it to reach £2.12 trillion by 2015<sup>24</sup>. The prospect of ordinary people being able to reinvigorate the economy through their spending power is bleak.

### **3.2. Shifting tax burdens**

In principle what the mode of production denies to workers can be secured, depending on social and political forces, through redistributions by the state in the shape of welfare rights and provision of public goods. This presupposes that the state can be mobilised to promote such policies. Depending upon the ideological imperatives of the day, the state may adjust taxes to stimulate or constrain demand and create the social stability necessary for smooth accumulation of profits.

The UK state's share of national income, in the form of tax revenues, has declined significantly. In 1982-83, tax revenues were 38.2% of GDP, but despite a massive increase in corporate profitability, they are expected to be around 35.5% of GDP in 2012-13<sup>25</sup>. This outcome has been achieved in two ways. Firstly, under pressure from elites, successive governments reduced corporate taxes and higher rates of income tax for wealthy individuals. Secondly, in the era of globalisation and easy mobility of money, the tax avoidance industry has aggressively enabled major corporations and wealthy elites to avoid taxes. The state has shifted taxes to labour, consumption and savings, which has further eroded the purchasing power of ordinary people.

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<sup>23</sup> Department of Work and Pensions press release, 30 December 2011 (<http://www.dwp.gov.uk/newsroom/press-releases/2011/dec-2011/dwp152-11.shtml>; accessed 3 January 2012).

<sup>24</sup>The Daily Telegraph, The debt trap time bomb, 31 October 2011 (<http://www.telegraph.co.uk/finance/comment/jeffrandall/8859082/The-debt-trap-time-bomb.html>, accessed 1 November 2011).

<sup>25</sup> Data as recorded on The Guardian website (<http://www.guardian.co.uk/news/datablog/2010/apr/25/tax-receipts-1963#data>; accessed 15 September 2012).

The UK corporation tax rate has declined from 52% of taxable profits in 1982 to 30% in 2007 and will be reduced to 21% in April 2014. In the name of economic enterprise top rates of income tax have been reduced. In 1978-79, the starting rate was 25%, basic rate 33% and higher marginal rates, depending on income, ranged from 40% to 83%. In addition, an investment income surcharge of 15% applied to very high earners and thus some individuals were taxed at a marginal rate of 98% (Adam and Browne, 2009). Since 1979, the top rates of income tax have declined significantly. For 2012-13, a basic rate of 20% applied to annual income up to £34,370 and thereafter a marginal rate of 40% applied for income up to £150,000. In 2010-11, an additional marginal rate of 50% was introduced for incomes above £150,000. This is to be reduced to 45% from April 2013. All individuals receive tax free allowances which for 2012-13 is £8,105. However, the tax free income and bands for higher rates of income tax have not kept pace with inflation. As a result, in 2011-12 alone some 750,000 middle-earners became subject to 40% tax rate for the first time and their number will swell by another 850,000 in 2014<sup>26</sup>. Due to the loss of welfare payments, higher National Insurance Contributions (known as social security contributions in some countries) and fiscal drag, thousands of middle income individuals may effectively be taxed at a marginal rate of 73%<sup>27</sup>.

The arguments that lower corporate and income tax rates would somehow reduce tax avoidance have not had the desired results. The UK government admits to a tax gap<sup>28</sup> of £35 billion though others have claimed it to be more than £100 billion a year (Mitchell and Sikka, 2011). The UK's tax authority Her Majesty's Revenue and Customs (HMRC) is scrutinising some 41,000 tax avoidance schemes, which threaten some £10.2 billion of tax revenues (National Audit Office, 2012). Despite a 65% improvement in overall corporate profitability the actual tax take from

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<sup>26</sup> The Daily Telegraph, IFS: 1.6m to pay higher rate of tax for first time, 31 January 2011

(<http://www.telegraph.co.uk/finance/personalfinance/consumertips/tax/8292286/IFS-1.6m-to-pay-higher-rate-of-tax-for-first-time.html>; accessed 14 October 2011).

<sup>27</sup> The Daily Telegraph, Why 50pc tax row misses the point: what about the squeezed middle? 29 September 2011

(<http://blogs.telegraph.co.uk/finance/ianmcowie/100012271/why-50pc-tax-row-misses-the-point-what-about-the-squeezed-middle>; accessed 7 November 2011).

<sup>28</sup> Tax gap is the difference between taxes that actually are collected and the amounts which lawfully can be collected. Its components are tax arrears, amounts unlawfully evaded and the amounts avoided.

corporations has declined from £26 billion in 2000/01 to £21bn in 2011/12<sup>29</sup>. A UK government report (National Audit Office, 2007) stated that for the year 2005-2006, 220 of the 700 largest companies paid no corporation tax and a further 210 companies paid less than £10 million each and 12 of the UK's largest companies extinguished all liabilities in 2005-2006 and many more claimed tax losses. Barclays Bank is thought to have paid corporation tax of only £113 million on its 2009 profits of £11.6 billion<sup>30</sup>. In early 2012, the UK government introduced retrospective legislation to disable two schemes that would have enabled Barclays to avoid £500 million of corporate taxes<sup>31</sup>. In 2006, it was reported that 54 identified billionaires living in the UK paid "income tax of £14.7m on a combined fortune of £126bn ... at least 32 of the individual and family groups had not paid any personal taxes on their wealth<sup>32</sup>,"

With the aid of accountants and financial advisers, companies and wealthy elites have made extensive use of tax havens, complex corporate structures, joint ventures, trusts, transfer pricing, royalty programmes, overhead allocations and a variety of income shifting techniques to avoid taxes (Sikka and Willmott, 2010; Palan, Murphy and Chavagneux, 2010; Action-Aid, 2011; Shaxson, 2011). The 100 largest companies quoted on the London Stock Exchange are estimated to have 34,216 subsidiaries, joint ventures and associated companies. Of these 8,492 (38%) are located in tax havens, many with sparse populations. With 1,649 subsidiaries the banking sector is the heaviest user of tax havens (Action-Aid, 2011). Many rich individuals have used offshore facilities and complex tax avoidance schemes to

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<sup>29</sup> The Daily Telegraph, Tax bill for giant companies falls despite surge in profits, 27 December 2012 (<http://www.telegraph.co.uk/finance/9767701/Tax-bill-for-giant-companies-falls-despite-surge-in-profits.html>; accessed 28 December 2012)

<sup>30</sup> The Guardian, Barclays bank forced to admit it paid just £113m in corporation tax in 2009, 18 February 2011 (<http://www.guardian.co.uk/business/2011/feb/18/barclays-bank-113m-corporation-tax>; accessed 30 November 2011).

<sup>31</sup> The Daily Telegraph, The Daily Telegraph, HMRC stops Barclays using 'abusive' schemes to avoid paying tax, 27 February 2012 (<http://www.telegraph.co.uk/finance/personalfinance/consumertips/tax/9109717/HMRC-stops-Barclays-using-abusive-schemes-to-avoid-paying-tax.html>; accessed 28 February 2012).

<sup>32</sup> Cited in Accountancy Age, UK is the first onshore tax haven for billionaires, 4 December 2006 (<http://www.accountancyage.com/aa/news/1769449/uk-onshore-tax-haven-billionaires>; accessed on 30 October 2011).

reduce their taxes (Mitchell and Sikka, 2011). Despite some reforms<sup>33</sup> the leakages of tax revenues has continued. Successive governments have shifted taxes away from corporations and wealthy elites to consumption, savings and labour. For example, tax free personal allowances and tax bands for higher rates of tax have not kept pace with inflation, Value Added Tax (VAT), excise duties and National Insurance Contributions have been raised. As indirect taxes tend to be regressive the incidence of taxation on the less well-off has increased. In his 2011 budget speech UK Chancellor George Osborne told parliament that “Some of the richest people in this country have been able to pay less tax than the people who clean for them<sup>34</sup>”. Official government statistics (UK Office for National Statistics, 2011a) show that for 2009-10, households in the bottom 20% of income bracket paid 35.5% of their gross income in direct and indirect taxes, compared to 33.7% for the top 20% of households. Individuals in the top income brackets paid a higher proportion of their income in direct taxes, but the differences are very stark for indirect taxes. The poorest 20% of households paid 25.3% of their income in indirect taxes compared to just 9.3% for the top 20%.

This section has drawn attention to two developments. Firstly, the workers’ share of national wealth has declined. The gains have primarily been made by corporations whose rates of profitability have significantly increased. Secondly, the state’s share of tax revenues has declined and constrained its ability to redistribute wealth and stimulate the economy. Successive governments have shifted tax obligations away from mobile capital and wealthy elites to labour, consumption and savings. As a result, people at the bottom of income and wealth distribution pay a greater proportion of their income in taxes compared to the rich. These changes have eroded the purchasing power of ordinary people and constrained their capacity to stimulate economic activity.

#### **4. The hand of accounting and accountancy firms**

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<sup>33</sup> The UK Finance Act 2004 introduced the “Disclosure of Tax Avoidance Schemes” (DOTAS) rules and required promoters of avoidance schemes to disclose the main elements of the schemes to Her Majesty’s Revenue and Customs (HMRC) within a specified time period. The UK disclosure requirements are themselves modelled on the US Tax Disclosure Regulations. They have had modest success.

<sup>34</sup> See [http://www.hm-treasury.gov.uk/junebudget\\_speech.htm](http://www.hm-treasury.gov.uk/junebudget_speech.htm); accessed 30 September 2011.

The evidence cited above shows that the workers' share of income and wealth has been eroded. Some may attribute this to labour markets, reserve army of labour, globalisation and deskilling, but such shifts are built around the logics of capital, often legitimised by accounting calculations and naturalised in everyday life. Following the worldview that private profits and welfare of capital is vital, organisations are urged to design "accounting systems to provide information on resource allocation, revenues, costs, assets and liabilities ... performance measurement and evaluation of people ..." (Horngren et al., 2002, p. 5). Accounting text-books are replete with examples of techniques which can be used to extract surpluses from labour at reduced costs. These include standard costs, budgets, ad hoc reports and variance analysis. Lucey (2009) adds that the purpose of variance analysis is to enable management to "improve operations, increase efficiency, utilise resources more effectively and reduce costs" (p. 461). The traditional books may promote accounting as a technical activity, but these are also social practices for reproducing patterns of organisational, social, and political life (Sikka et al., 2007). They normalise the logic that reducing labour's share of surpluses is a desirable solution to the welfare of capital.

Accounting has played a key role in downsizing, factory/mine closures and disempowerment of labour (Radcliffe, Campbell and Fogarty, 2001). Accounting numbers were central to one of the most decisive engagements between labour, capital and the UK state. In the early 1980s, the UK government and the National Coal Board (NCB) sought to close coal-mines on the basis of private costs (Berry et al., 1988) which regarded wages as a drain on the enterprise. The NCB was advised by Price Waterhouse. Even though the entity was state-owned, it adopted the logics of private capital and the main argument was that the closure of selected mines would lead to cost savings and thus improve the bottom-line, a prelude to privatisation of a public owned enterprise. The accounting numbers emphasised private costs and ignored the negative impact of the job losses on the local community and even the state finances since those deprived of jobs would have qualified to receive social security payments. With alternative assumptions, it could have been shown that the mines designated for closure made a positive contribution and were not loss-making. This was a pivotal moment in the recent UK history and



trade unions did not appreciate the power of accounting in constructing logics of downsizing and closures. This particular battle was lost and “paved the way for the end of trade union power in Britain<sup>35</sup>”.

However, arguing against the logic of welfare of capital, reductions in cost, efficiency and national wellbeing is difficult because these discourses are embedded in everyday life and arguments against them are portrayed as favouring the negatives. Thus, critics are accused of favouring inefficiencies, jeopardising the survival of enterprises and the wellbeing of the nation. The supporters of status-quo can wheel out accounting numbers, no matter how imperfect, to make their case and due to information asymmetries critics find it difficult to provide alternative numbers.

The negative representations of wages paid to labour are all too evident in the current economic crisis. Academic researchers claim that rising labour costs are a threat to the wellbeing of the economy<sup>36</sup>. Michael Porter, an influential business strategy guru, identified five threats to a corporate profitability and one of these is apparently unionised labour’s ability to secure rewards (Porter, 2008). Despite a massive reduction in labour’s share of national income, companies claim that they are migrating because of high labour costs<sup>37</sup>. Unsurprisingly, daily newspapers claim “that economic revival is conditional upon employers being able to “reduce labour costs ... employers will seek to contain wage costs in the coming years<sup>38</sup>”. Without ever mentioning the gains in corporate profitability, Ernst & Young (2011) claims that higher labour costs are driving the “production of certain goods away from the UK towards emerging markets”. The negative association of labour to the interests of

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<sup>35</sup> The Guardian, How miners' strike twice came close to being settled, 9 March 2009 (<http://www.guardian.co.uk/politics/2009/mar/09/miners-strike>; accessed 18 November 2011).

<sup>36</sup> The Daily Telegraph, Rise in running costs slows but labour costs high, 15 December 2008 (<http://www.telegraph.co.uk/finance/yourbusiness/3777639/Rise-in-running-costs-slows-but-labour-costs-high.html>; accessed 20 November 2011).

<sup>37</sup> The Daily Telegraph, High labour cost drives Samsung out of Britain, 16 January 2004 (<http://www.telegraph.co.uk/finance/2874177/High-labour-cost-drives-Samsung-out-of-Britain.html>; accessed 20 November 2011).

<sup>38</sup> The Guardian, Unemployment to keep rising next year, says CIPD, 29 December 2009 (<http://www.guardian.co.uk/business/2009/dec/29/unemployment-keep-rising-in-2010>; accessed 27 November 2011).

capital is amplified by the London Chamber of Commerce<sup>39</sup> (2011) stating that “labour costs are now eating up all the benefit to businesses of cheaper borrowing costs ... businesses will need to keep their labour costs under control ... Overall cost inflation is low, but it will only stay that way if wage growth is held down ... employers will need to keep wage costs down if firms are to rebuild their margins”. The idea that wages paid to labour can be destructive is amplified by the professional accountancy bodies. For example, the Association of Chartered Certified Accountants (ACCA) has long opposed the national minimum wage on the grounds that it damages profitability of small businesses (Mitchell and Sikka, 2006). Neither the professional bodies nor the mainstream accounting text-books stimulate any discussion of whether returns to capital should be controlled. They rarely note that lower wages may not enable workers to buy the goods and services produced by capitalist enterprises and thus fuel the economic crisis (Sikka et al., 2007).

The discourses of cost minimisation, profit maximisation and efficiency have combined with broader capitalist concerns about maximising welfare of capital to undermine tax revenues accruing to the state. For example, a text-book specifically produced for the Association of Chartered Certified Accountants (ACCA) claims that the “primary objective of setting transfer prices is to maximise the profit of the company as a whole” (FTC Foulks Lynch, 2004, p. 447). Another text-book published by the Chartered Institute of Management Accountants (CIMA) claims that there is a “natural inclination to set transfer prices in order to minimise tax payments” (Scarlett, 2004: 447). Minimisation of tax payments is promoted as universal and natural rather than the outcome of institutional structures and ideologies. There is no commentary on what promotes this ‘natural inclination’ and how it may be checked, especially as the capitalist drive to reduce taxes undermines the capacity of the state to redistribute wealth and reinvigorate economic activity. Thus generations of accountants are socialised into the view that designing accounting practices to avoid taxes is normal.

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<sup>39</sup> London chamber of Commerce, Press Release: Business suffer rising labour costs, 17 May 2010 ([http://www.londonchamber.co.uk/lcc\\_public/article.asp?id=0&did=47&aid=4317&st=&oaid=-1](http://www.londonchamber.co.uk/lcc_public/article.asp?id=0&did=47&aid=4317&st=&oaid=-1); accessed 25 November 2011).

Despite a massive reduction in corporate tax rates, accountancy firms routinely claim that high corporate tax rates are driving businesses away from the UK even though they may be attracted by comparatively better roads, railways, education, healthcare, social infrastructure and public goods funded by tax revenues. Ernst & Young, together with banks and the Institute of Directors, advised the government that “cuts in corporation tax were desirable<sup>40</sup>” The firm campaigned for tax cuts for the wealthy by claiming that the “50p tax rate is damaging UK competitiveness<sup>41</sup>”. The firms encourage a race-to-the-bottom by arguing that unless countries reduce taxes for corporations and wealthy entrepreneurs they are somehow left behind and become uncompetitive. KPMG (2010) notes that the “headline corporate tax rates are being reduced in many countries, but it is critical to look deeper, and broader into the entire scope of taxation for companies ... Tax is one of the important environmental variables, and has an impact on what kind of corporate structure is appropriate, where intellectual property should be located and how global supply chains should be configured to help control the overall effective tax rate ...It is becoming very clear that actively managing indirect tax performance can add to the bottom line of the business. Basic measures, such as reducing the impact of VAT/GST on cash flow and effectively reducing the amount of unrecovered VAT/GST can contribute to enhanced profitability” (p. 5, 7 and 9). The concern for the welfare of capital is not matched by any reflections on the implications of the cuts for citizens.

Major accountancy firms (PricewaterhouseCoopers, KPMG, Deloitte & Touche and Ernst & Young) are a significant fraction of capital in their own right and are key players in the global tax avoidance industry as it enables them to earn private profits (Mitchell and Sikka, 2011). In 2004, the UK Chancellor called in senior partners from Deloitte and Touche, Ernst and Young, KPMG and PricewaterhouseCoopers to warn them that the Government was concerned about the “rising scale, seriousness

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<sup>40</sup> The Daily Telegraph, Business calls for Brown to slash tax, 12 March 2007 (<http://www.telegraph.co.uk/finance/2805630/Business-calls-for-Brown-to-slash-tax.html>; accessed 25 November 2011).

<sup>41</sup> Ernst & Young press release, 50p tax rate is damaging UK competitiveness but mansion tax debate is a red herring, says Ernst & Young, 4 August 2011 (<http://www.ey.com/UK/en/Newsroom/News-releases/50p-tax-rate-is-damaging-UK-competitiveness-but-mansion-tax-debate-is-a-red-herring-says-Ernst---Young>; accessed 24 November 2011).

and aggression” of tax avoidance marketing. He told them it was wrong for firms to market loopholes when they knew the Revenue would close them down as soon as they could”<sup>42</sup>. The Finance Act 2004 requirement for promoters to register their tax avoidance schemes with the tax authorities may have encouraged some reflections, but has not dampened the pursuit of private profits. Some countries, most notably the United States of America, have levied fines on firms and some of their partners have been sent to prison for facilitating tax evasion and fraud, but tax avoidance continues to be a growth area for major firms (Mitchell and Sikka, 2011).

The Big Four accountancy firms are estimated to have over 80 offices in offshore tax havens that do not impose personal/corporate taxes or require companies to submit audited financial reports (Harari, Meinzer and Murphy, 2012). They also design tax havens to enable capital and wealthy elites to escape taxes. For example, in July 2008, PricewaterhouseCoopers partner Eric Crawford, also a past president of the Institute of Chartered Accountants of Jamaica, submitted a report to the Jamaican government<sup>43</sup> listing the steps it needs to take to become a tax haven. Accountancy firms are skilled at arbitraging tax laws and one partner declared<sup>44</sup>, “No matter what legislation is in place, the accountants and lawyers will find a way around it. Rules are rules, but rules are meant to be broken”. Christian-Aid added that “Accountancy firms – many of them global corporations – are champions of ‘tax planning’ whereby, along with their clients, they organise networks of offshore subsidiaries to avoid paying tax” (Christian-Aid, 2005, p. 17) and “giant accountancy firms such as KPMG, PricewaterhouseCoopers, Ernst & Young and Deloitte – who specialise in exploiting the existence of havens to minimise the tax liability of their clients, [are] impervious to the social consequences” (Christian-Aid, 2008, p.2).

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<sup>42</sup> The Times, Brown hits at 'aggressive' tax avoidance advice, 12 March 2004 (<http://www.thetimes.co.uk/tto/business/article2104496.ece>; accessed on 25 July 2011).

<sup>43</sup> Jamaica Gleaner, Offshore centre won't cave to market turmoil, 3 October 2008 (<http://jamaica-gleaner.com/gleaner/20081003/business/business3.html>; accessed 29 October 2011).

<sup>44</sup> The Guardian, 'Be fair' plea as tax loopholes targeted, 18 March 2004 (<http://www.guardian.co.uk/business/2004/mar/18/budget2004.budget2004>; accessed 15 November 2011).

In 2005, an internal study by Her Majesty's Revenue and Customs (HMRC) concluded that the UK-based Big Four accountancy firms were "behind almost half of all known avoidance schemes<sup>45</sup>". Much of the trade is built around the notion of 'cost minimisation' i.e. taxes are burdens which must be reduced and eliminated even though they enable the state to provide the necessary infrastructure and social order to enable capital to accumulate surpluses. The notion that tax is a cost, rather than a return on the investment of social capital, is routinely amplified by accountancy firms. For example, an Ernst & Young partner argued that "Tax is a cost of doing business so, naturally, a good manager will try to manage this cost and the risks associated with it" (Irish Times, 7 May 2004). Another Ernst & Young partner claimed that "Companies are constantly looking to save costs, and tax is a major cost<sup>46</sup>". KPMG markets its consultancy services by stating that "By more effectively using transfer pricing, losses can be better utilised, the group's effective tax rate may be lowered, or a decrease in quarterly corporation tax payments may be achieved, all resulting in immediate cash tax savings ... a proven track record of using transfer pricing in the commercial environment to generate real cash tax savings for clients ... we remain at the forefront of technical developments and thought leadership, having managed and delivered transfer pricing services on a global basis for some of the world's largest and most complex multinational groups; we have delivered savings for one client of £80m over a three year period and £14m for another ... [We offer] Bespoke transfer pricing policy that minimises the group's overall effective tax rate<sup>47</sup>". Unsurprisingly, accountancy firms are key players in using transfer pricing to enable clients to reduce tax obligations (Sikka and Willmott, 2010).

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<sup>45</sup> The Guardian, Gilt-edged profits for profession's 'big four', 7 February 2009 (<http://www.guardian.co.uk/business/2009/feb/07/tax-gap-avoidance-schemes>; accessed 16 November 2011).

<sup>46</sup> New York Times, Corporate Tax Loopholes Ripe for Crackdown, Some Say, 7 April 2009 ([http://www.nytimes.com/2009/04/08/business/global/08tax.html?pagewanted=1&\\_r=1&sq=tax&st=nyt&scp=2](http://www.nytimes.com/2009/04/08/business/global/08tax.html?pagewanted=1&_r=1&sq=tax&st=nyt&scp=2); accessed 7 November 2011).

<sup>47</sup> KPMG website (<http://www.kpmg.com/uk/en/whatwedo/tax/corporatetax/pages/transferpricing.aspx>; accessed 30 November 2011).

The logic of profit/wealth maximisation and cost minimisation has resulted in the creation of novel tax avoidance schemes (for further details see Mitchell and Sikka, 2011) which boost the profits of corporations and income of the wealthy. For example, Ernst & Young designed a scheme enabling directors of Phones4u (part of the Dextra Group of Companies) to pay themselves in gold bars, fine wine, and platinum sponge<sup>48</sup> and avoid income tax and National Insurance Contributions (NIC). As the legislative changes blocked this scheme, the firm devised another to enable directors of Phones4U (and other companies) to avoid NIC and income taxes by securing payments through an offshore employee benefit trust in Jersey<sup>49</sup>. In another scheme, Ernst & Young advised its audit client, a media company, to treat its newspaper mastheads as a new asset. These were transferred from subsidiaries to the parent company for a nominal sum and then leased back for annual royalties. Over a five year period, the subsidiaries paid royalties of £51.6 million. This intergroup transaction did not result in any transfer of cash to an external party, but the subsidiaries claimed tax relief on the royalty payments. The claim was rejected by a tax tribunal. The court papers showed that Ernst & Young (company auditor) had privately assured the client that the adoption of its tax avoidance schemes “would significantly lessen the transparency of reported results” (paragraph 54 of *Iliffe News and Media Ltd & Ors v Revenue & Customs* [2012] UKFTT 696 (TC) (01 November 2012)). The firm was also behind a novel scheme to enable major high street retailers to avoid VAT and increase their profits<sup>50</sup>. The scheme was ultimately thrown out by the courts and a Treasury spokesperson said that it was “one of the most blatantly abusive avoidance scams of recent years, and the court's decision to quash it is very welcome<sup>51</sup>”.

KPMG designed complex schemes to enable rich clients to avoid taxes through the use of IOUs and specially-created trusts. The resultant IOUs were then traded to banks at an apparent loss. The "loss" could then be offset against personal tax

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<sup>48</sup> Mail on Sunday, £6m tax threat to Phones4U founder, 15 February 2004.

<sup>49</sup> For details, see *HM Inspector of Taxes v Dextra Accessories Ltd* [2005] UKHL 47

<sup>50</sup> *Debenhams Retail Plc* [2005] EWCA Civ 892, 18 July 2005 (available at <http://www.bailii.org/ew/cases/EWCA/Civ/2005/892.html>).

<sup>51</sup> *The Daily Telegraph*, *Debenhams lose VAT case*, 19 July 2005 (<http://www.telegraph.co.uk/finance/2919204/Debenhams-loses-VAT-case.html>; accessed 29 November 2011).

bills<sup>52</sup>. A KPMG scheme enabled companies and their employees to avoid National NIC and income tax<sup>53</sup> by paying their directors with the debts of the company instead of cash<sup>54</sup>. Another KPMG scheme used specially created offshore entities in an attempt to boost a company's profits through avoidance of VAT. The scheme was not developed in response to any request from the company; KPMG cold called the company. Its presentations were subject to a confidentiality undertaking being given. KPMG charged an initial fee and also received a share of the tax avoided. KPMG was aware that the tax authorities will consider the scheme to be "unacceptable tax avoidance and will seek to challenge the arrangements" (paragraph 22 of RAL (Channel Islands) Ltd v Customs and Excise [2002] UKVAT V17914) but still sold the scheme because it felt that the countermeasures will take some time to come into effect. The case subsequently went to the high court and the European court of justice and the scheme was quashed.

In May 2012, a prime time documentary on BBC's Panorama programme<sup>55</sup> showed how PricewaterhouseCoopers devised schemes to enable multinational corporations, such as GlaxoSmithKline and Northern & Shell, to move profits to offshore tax havens via Luxembourg. The schemes involved a variety of intergroup loans, contrived interest payments and transfer pricing arrangements to reduce profits in the UK and avoid corporate taxes. Another PricewaterhouseCoopers designed scheme was sold to over 200 wealthy entrepreneurs to enable them to avoid tax on the gains made on sale of investments and businesses. Some £100 million of tax revenues were at stake. A test case heard that an entrepreneur made a gain of £10,726,438 on the sale of his business, but was not keen to pay capital gains tax on it. For a fee of £200,000 PricewaterhouseCoopers devised a scheme which would generate £11 billion paper loss through a series of self-cancelling transactions thus wipe out the tax liability. The scheme was eventually thrown out by

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<sup>52</sup> <http://www.financeandtaxtribunals.gov.uk/judgmentfiles/j3422/SPC00628.doc>

<sup>53</sup> Spectrum Computer Supplies Ltd v Revenue and Customs Commissioners; Kirkstall Timber Ltd v Revenue and Customs Commissioners [2006] STC (SCD) 668.

<sup>54</sup> Accountancy Age, KPMG scheme advised paying directors with debt, 21 September 2006 (<http://www.accountancyage.com/aa/news/1785797/kpmg-scheme-advised-paying-directors-debt>; accessed 15 October 2011)

<sup>55</sup> BBC News, Major UK companies cut secret tax deals in Luxembourg, 11 May 2012 (<http://www.bbc.co.uk/news/business-17993945>; accessed 15 May 2012).

the Court of Appeal in the case of *Schofield v HM Revenue and Customs* [2012] EWCA Civ 927. The presiding judge said that for “capital gains purposes, there was no asset and no disposal. There was no real loss ...” (paragraph 42).

Deloitte & Touche is under the spotlight for its links with the Royal Bank of Scotland (RBS), which was bailed out by the UK taxpayer, and is accused of avoiding £500 million of taxes through complex avoidance schemes<sup>56</sup>. Another Deloitte scheme was manufactured to enable highly paid UK bankers to avoid income tax<sup>57</sup>. More than 300 bankers participated in the scheme which operated through a Cayman Islands-registered investment vehicle. A court held the scheme to be unlawful and said that “... the Scheme as a whole, and each aspect of it, was created and coordinated purely for tax avoidance purposes”.

Interestingly, accountancy firms also invoke the notion of costs and competitive advantage to oppose clampdown on organised tax avoidance. In response to the UK government’s proposals requiring firms to accountants and other sellers of tax avoidance schemes to disclose their products to the tax authorities, a Grant Thornton partner said that “It will add to the cost to business as companies will have to take advice on what is allowed. Then they will have to wait for schemes to be approved. It’s extra red tape for all concerned<sup>58</sup>”. In response to another government proposal to judge tax avoidance schemes on the basis of their economic substance rather than the form, a KPMG partner said that “It will make the UK less competitive. Inward investors will have a sword of Damocles over their head. Either they will do no planning at all or they will do it not knowing when this will be invoked<sup>59</sup>”.

## 5. Summary and discussion

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<sup>56</sup> The Guardian, RBS avoided £500m of tax in global deals, 13 March 2009 (<http://www.guardian.co.uk/business/2009/mar/13/rbs-tax-avoidance>; accessed 29 October 2011).

<sup>57</sup> *Deutsche Bank Group Services (UK) Ltd v Revenue & Customs* [2011] UKFTT 66 (TC) (19 January 2011)

<sup>58</sup> The Daily Telegraph, Crackdown on avoidance 'will hit firms', 18 March 2004 (<http://www.telegraph.co.uk/finance/2880308/Crackdown-on-avoidance-will-hit-firms.html>; accessed 17 October 2011).

<sup>59</sup> Financial Times, Tax avoidance law under fire, 12 June 2012 (<http://www.ft.com/cms/s/0/b1848022-b4bc-11e1-aa06-00144feabdc0.html#axzz1xnxjNhoF>)



There is an emerging consensus that inequalities in the distribution of income and wealth are a key cause of the deepening economic crisis (Iacoviello, 2008; Rajan, 2010; Kumhof and Rancière, 2010; Stiglitz, 2012). The erosion of the share of national wealth going to labour has reduced the purchasing power of ordinary people. In principle, the neoliberal state can redistribute wealth to boost the purchasing power of middle classes and the low-paid groups, but tax revenues are under attack not only from the race-to-the-bottom logic of neoliberal globalization but also from accounting firms, key players in a highly organised tax avoidance industry.

The negative signs assigned to the payment of wages and taxes have increased inequalities and eroded the ordinary person's capacity to spend and maintain a sustained economic recovery. The UK workers' share of the national income, expressed as a percentage of GDP, has declined from 65.1% to 53.8%. The reduction in the workers' share is enmeshed in the institutional structures specific to the UK. The 1980s state sponsored restructuring of the economy and trade union reforms have severely eroded the market and political power of workers' and their ability to maintain share of national income. At the same time unlike many other western countries (e.g. Scandinavian countries), there has been no attempt to enrol workers and/or trade unions to any corporate governance mechanisms where issues about share of economic surpluses could be discussed. Since the 1990s, a number of corporate governance codes have been issued (for example see Committee on the Financial aspects of Corporate Governance, 1992; Committee on Corporate Governance, 1998; Financial Reporting Council, 2010) to deal with executive remuneration, but the codes are silent on the rights of workers to equitable wages or the payment of democratically agreed taxes,

The UK state has significantly tilted to the right and prioritised the interests of capital. Thus the rate of corporate profitability, before tax and interest payments at current replacement cost, rose from 3.9% in 1975 to over 12% in 2011. The increase has primarily been at the expense of workers. The UK state also reduced the tax rates for corporation and rich individuals, shrinking the tax revenues accruing to the state from 38.2% of GDP in 1982-83 to 35.5% in 2012-13. This decline has also been aided by accounting firms selling tax avoidance schemes. The result has

been a shifting of tax burdens with the consequence that households in the bottom 20% of income distribution pay 35.5% of their gross income in direct and indirect taxes compared to 33.7% for the top 20% of households.

This paper has argued that everyday accounting practices and the fee earning opportunities of major accounting firms are central to an understanding of the inequitable distribution of income and wealth, a major cause of the economic crisis. Daily accounting practices are political in that they influence the lived experiences of the citizens through transfers of wealth and enactment of controls. Accounting practices prioritise the welfare of capital and aid capitalist calculations in two ways. Firstly, to advance discourses of efficiency, competition and profits for the benefit of capital, they give visibility to things that are to be controlled, manipulated and reduced. Thus accounting technologies refer to payment of wages and taxes as costs or burdens that obstruct the expansion of capital and managers are invited to take action to reduce the burdens. Accounting practices affirm the commonsensical understanding that higher return to capital is good, higher profit is preferable to a lower profit and that lower rewards for labour and tax payments are desirable. Secondly, accounting creates invisibilities as the welfare of employees and citizens is reduced to anonymous numbers who can be ignored and made irrelevant. Accounting practices celebrate the gains to capital, but do not give visibility to the human consequences of the drive to reduce wages and tax payments.

Accounting firms enhance their social legitimacy through promises of ethical conduct and claims of serving the public interest. However, such matters rarely form part of their business models. As Hanlon (1994) puts it, within major firms “the emphasis is very firmly on being commercial...rather than on being public spirited on behalf of either the public or the state” (p. 150). The firms are promoters and beneficiaries of the discourse of cost minimization to enable their clients to avoid taxes. Some of the internal documentation relating to design and marketing of tax avoidance schemes by accounting firms has become publicly available through parliamentary hearings (for example, US Senate Permanent Subcommittee on Investigations, 2003, 2005) and court cases (see Mitchell and Sikka, 2011), and shows that the firms pay no attention to the social consequences of their trade.

It may be argued that accounting is a benign and neutral technology (Solomons, 1991) and thus cannot facilitate inequalities and economic crisis. One response is that like other social technologies accounting practices and their enmeshing with contemporary ideologies and worldviews is constituted by particular histories, institutions and interests. It represents the interests of the dominant class and in return accountants are rewarded with status and niches (Johnson, 1972). However, the effects of accounting are filtered through institutional structures. The negative signs assigned to wages and taxes can be resisted by countervailing power structures, but the market and political power of UK trade unions is comparatively weak. For example, the state has tilted to the right and only 26.6% of UK workers are in trade unions compared to 69.2% in Finland, 68.4% in Sweden, 66.6% in Denmark and 54.4% in Norway<sup>60</sup>. Unlike the UK, Scandinavian states have co-opted trade unions into corporate governance mechanisms. Thus there are opportunities for influencing the division of income. Perhaps, that is why the logics of accounting are less influential and income and wealth inequalities are lower in Scandinavian countries (Roine and Waldenström, 2009).

Income and wealth inequalities matter not only on the grounds of social justice, but also on pragmatic economic grounds. In his influential work Keynes (1936) argued that the marginal propensity to consume is weaker in wealthy sections of the society whereas it is much higher in the middle and lower income and wealth brackets. The less wealthy people are likely to spend a greater part of their income on consumption and thus stimulate the economy. Their spending has a greater multiplier effect on the economy. On the other hand, the more wealthy people spend a comparatively small part of their income to meet their needs and are more likely to engage in esoteric expenditure which may create a few jobs for advisers and intermediaries, but generally have a low multiplier effect. The patterns of distribution and income and wealth, therefore, have crucial impact on economic activity. The changes in the UK income and wealth distribution have sapped ordinary people's

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<sup>60</sup> The Spectator, To reduce inequality, we need stronger trade unions, 22 September 2011 (<http://www.newstatesman.com/uk-politics/2011/09/trade-unions-british>; accessed 29 November 2011).

ability to stimulate the economy and many have turned to personal debt. The banking crisis has made it harder for the less well-off to borrow and in any case it is difficult to see why they should continue to borrow to stimulate the economy.

The inevitable question is what can be done to secure an equitable distribution of income. Such inquiries raise profound questions about the nature of capitalist economies, neoliberal democracy and power structures. The creation of a more equal society would involve politics and public campaigns to change the nature of corporations, democracy and policymaking apparatuses. However, there is always accounting lurking in the background, constantly adjudicating on social conflicts and taking sides by attaching negative signs to the payment of wages and taxes and measuring income by privileging the interests of shareholders. In public spaces, accounting numbers have the aura of exactness and their partisanship is rarely questioned. Then there are accountancy firms who promote the interests of capital and wealthy elites through tax avoidance schemes and undermine the possibilities of redistributing wealth and reducing inequalities. Therefore, emancipatory is unlikely without sustained public engagement with accounting and accountancy firms. Cooper (1995) draws attention to the difficulties of mobilising accounting for emancipatory change by noting that “Accounting rhetoric is ideologically authoritative in advanced capitalism. Arguments using terms outside of dominant discourses fail to win credibility and are often viewed through the spectacles of common sense as being illogical, irrational, or are not even heard or considered ... on a practical level, those who fight for their position using accounting rhetoric may quickly find themselves trapped in circular debates about which are correct figures ...” (p. 202). These are powerful arguments and provide opportunities to reconstruct accounting by highlighting the negative social consequences of conventional practices. Though, theoretically, it is possible to develop alternative accounting models which emphasize welfare of employees and society (Thomas and Williams, 2009), accounting academics have been somewhat reluctant to popularise competing discourses through public critiques of conventional wisdom (Shaoul, 1997). This reluctance could be assuaged by reflections on historical episodes which show that democratic politics can be refreshed through alternative analysis, media reports, oratory, populist leaflets, comedy, satire, art, theatre, music and other

public interventions (Thompson, 1963) and thus create possibilities for millions of people to live fulfilling lives.

In due course, it may be possible to develop social cost accounting and highlight the social impact of corporate practices, though that has proven difficult (Bebbington and Gray, 2001). Even if social cost accounting could be refined there is no guarantee that on its own it will necessarily have the ideological effects sought because the new signs will need to displace the dominant discourses which see wages and tax payments as costs and are already embedded within the capitalist system, media, education and daily practices. Thus, a public engagement with the conventional logics of accounting is unavoidable and requires development of political strategies to highlight the partisan nature of conventional accounting.

Another possibility is to build on accounting's capacity to give visibility to labour costs and draw attention to the shrinking share of workers. Currently, the UK companies publish the total amount of wages and salaries paid to workers. These are not expressed as a ratio, or a percentage of value-added. Therefore, the workers' shrinking share is not easily evident. Even if companies do not publish the ratio of value-added gained by workers, such a calculation could be made and publicised by critical academics. The disclosures can stimulate debates and draw attention to exploitation of workers, which also undermines the ability of business enterprises to make profits. The disclosures may also encourage some consumers to boycott companies engaged in excessive exploitation of workers and mobilise demands for enhanced worker rights. The invisibilities created by the logics of accounting could be problematised by stories of how life on low income blights social mobility, access to education, healthcare and homes (Abrams, 2002; Toynbee, 2003); yet accounting calculations fail to acknowledge any of the social problems. Such politics hold out the possibilities of transcending the narrow instrumental worldviews embedded in capitalist calculations and promote an equitable distribution of income.

On tax matters, accountancy firms should be reminded that they enjoy state guaranteed markets (e.g. external audits) and that in return society expects a certain code of ethical behaviour. This part of the social contract should be enforced by

public investigations, fines and penalties (US Senate Permanent Subcommittee on Investigations, 2003, 2005) and withdrawal of all state guaranteed contracts and privileges for firms engaging in aggressive tax avoidance. Accountancy firms should be required to disclose the income derived from the sale of avoidance schemes. Corporate financial statements also need to be reformed. Currently, they provide little information about tax avoidance. Consolidated financial statements generally publish just one amount for the tax charge in the profit and loss account, or tax payment in the cash flow statement for the whole entity, even though it may trade in dozens of countries. Sikka (2011) draws attention to the case of Google Ireland Limited which with around 1,500 staff generated a turnover of €10.9bn. The company reported pre-tax profits of only €18.5m and paid €5.6m in corporation tax. A key to reduction of taxable profits is the royalties paid to offshore subsidiaries, which count as deductible expense in one place, but tax-free income elsewhere. This begs questions about the amount of taxes, if any, paid in countries where the economic transactions take place. One response to this is to require companies to embrace country-by-country reporting (Murphy, 2003). This would require corporations to publish a table showing their sales, profits, costs, employees and tax paid in each geographical jurisdiction of their operations. This would immediately give some visibility to anomalies of companies having a large volume of sales in one country, but with revenues and profits booked at another place with relatively few employees. This information could be accompanied by public availability of the tax returns of corporations and wealthy elites so that citizens can see how they have managed to avoid their tax obligations and thus perpetuate inequalities. This information would also enable people to develop counter accounts and challenge the narratives offered by corporations and their advisers.

The reforms need to be accompanied by processes that enable people's voices to be heard, especially in arenas which make decisions about tax avoidance and erosion of workers' wages. Corporations are key sites for such decisions and have generally disenfranchised workers. This could be addressed by political demands that permit workers to elect directors, have representatives on remuneration committees and vote on executive remuneration. However, given the right-wing tilt of the UK politics these possibilities are unlikely to be realised in the short/medium term. On the other hand, the concern with the long-term welfare of capital requires

that the state develop (re)distributive policies to prevent chronic underconsumption. The state's own legitimacy depends on consent from the masses and it needs to be seen to be processing demands for an equitable distribution of income and wealth. This suggests that trade unions need to develop political strategies to change the ideological climate not only by appealing to their members, but also to other social constituencies by building alliances with pensioners, the unemployed, part-time workers and the underprivileged so that they are seen as representing a larger section of the community rather than just those with regular incomes.

This paper has primarily focused on the UK, considered to be an exemplar of neoliberalism. However, neoliberalism is actively promoted by contemporary economic theories and the UK is not alone in pursuing policies which have eroded ordinary person's purchasing power. Thus, the general analysis of the paper is likely to have some application to other neoliberal societies. For example, income and wealth inequalities have also widened in the US and are considered to be a key cause of the economic crisis (Wilkinson and Pickett, 2010; Stiglitz, 2012). It is quite likely that accounting practices and accountancy firms have also played a major role in creating and sustaining the inequalities in other places too. The extent to which the power of accountants and the logic of accounting is naturalised, or is resisted depends on local politics, countervailing institutional structures, trade unions, modes of corporate governance, policies of the state, response of civil society and the media.

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