

## *Heterodox Economics Newsletter*

CORPORATE TAXATION AND SOCIAL RESPONSIBILITY, by Axel Hilling and Daniel T. Ostas, Wolters Kluwer, Stockholm: 2017, pp. 170; ISBN 978-91-39-11482-6.

*Reviewed by Aidan Rankin*<sup>1</sup>

The original meaning of ‘economics’ is ‘household management’, deriving from the ancient Greek word *oikos*: house or household. The concept, and the first philosophical work with the word economics in the title, is attributed variously to Aristotle (384-324 BCE), his successor Theophrastus (c.371-c.287 BCE) or an anonymous student of either thinker. Implicit in the idea of economics, as originally conceived, is the Aristotelian notion of the ‘golden mean’, a system of balanced and judicious management that avoids the twin pitfalls of austerity and profligacy. Buddhism has a similar definition of the ‘Middle Way’ to be found between extremes of asceticism and indulgence. Applied to the social sphere, this means avoidance of extreme ideologies, along with respect for fellow human beings, other species and the environment.

With this in mind, the Anglo-German economist and green pioneer E.F. Schumacher coined the term ‘Buddhist Economics’ in the early 1970s to describe the shift he envisaged towards local production for local needs and human-scale, co-operative enterprises. Schumacher was influenced by the village economies of Burma (as it then was), but the ideas he was formulating would have been broadly familiar to the inhabitants of ancient Greek or indeed Medieval European city states. The Aristotelian *oikos* denoted the extended as much as the immediate or nuclear family. In turn, the extended family was embedded in the surrounding community, so that the concept of *oikos* assumed a wider social dimension. ‘Social’ included the environment, while good management meant achieving a state of balance with the rest of nature. It is the environment that sustains life, thus making all forms of human progress possible. An imbalanced relationship with the environment, resulting in the despoliation of nature and the extinction of animal species, reduces the quality of life and directly threatens human survival. These connections are reflected in the fact that the word ‘ecology’ is also derived from *oikos*.

What has this to do with a study of corporate social responsibility and the attitude of business towards taxation? The answer is nothing at all, if the modern disciplines of Economics and its offspring Business Studies are placed in narrow academic compartments, abstracted from surrounding social, cultural and environmental concerns. It is this stance of disconnected pseudo-objectivity that the authors challenge from the roots upwards, making their study radical in the literal sense of the word.

---

<sup>1</sup> Aidan Rankin, PhD is a London-based writer. He is the author of several books on Indic thought, including *Jainism and Environmental Philosophy* (Routledge 2018) and is working on a book on Jainism and environmental politics. Contact: [arankin1966@gmail.com](mailto:arankin1966@gmail.com)

## *Heterodox Economics Newsletter*

Although their specialism is taxation, and in particular the relationship between the corporate sector and the tax system, it is most helpful to see taxation in this book as a case study or working example. The authors' larger aim is to re-embed Economics in human society, including the environment on which that society's cohesion depends. For the underlying problem with capital-E Economics is that it has ceased to be a humanistic and qualitative discipline and instead adopted a quantitative, bureaucratic and impersonal stance. Ostensibly rational or 'neutral', this approach to economics underscores the neo-liberal orthodoxies of the past four decades. Reason quickly gives way to a quasi-religious belief in 'the market' as an overarching entity, outside the bounds of human control and correcting itself as if by magical formulae.

Such orthodoxies, at once mechanistic and superstitious, have had a psychological effect on many professional economists and political consultants. Instead of starting with human societies and the environments that sustain them, they erect Procrustean 'models' into which people and ecosystems are expected to fit. At a more mundane level, accountants, financial advisers and corporate tax strategists are influenced by this deracinated form of economics in the advice they give and the commercial decisions they make. Concepts such as social responsibility, ecological balance and obligation or loyalty to the societies in which they operate are marginalised on supposedly pragmatic grounds. Profit maximisation becomes an end in itself, rather than a goal pursued within a larger social context, by which it is at times constrained where appropriate. Charitable giving and environmental projects take the form of impersonal corporate sponsorship and politically correct window dressing, in contrast to the direct involvement between the corporation (and its directors) and the surrounding community that characterised earlier generations of philanthropists.

In this climate of opinion, corporations increasingly view the avoidance of tax as a financial virtue and often devote considerable energy and resources to pursuing this goal. They do this primarily by exploiting loopholes in the relevant legislation or cleaving to literalist interpretations of the law that militate against that law's original spirit. For individual citizens meanwhile, reducing tax payments as far as possible, preferably with the help of a 'clever' financial adviser, confers a sense of personal triumph and even social prestige. In both cases, social responsibility gives way to a mentality best expressed by the infamous Thatcherite maxim that 'there is no such thing as "society", only individuals and families', the latter defined in exclusively nuclear terms. Pushed to its logical conclusions, the neo-liberal experiment has paved the way for financial crises, extreme and growing inequalities at global level and within nation states. These developments, against a background of increasing cynicism tinged with anger, have fuelled populist backlashes based on justified resentments but offering mainly negative solutions.

What, therefore, is to be done? Hilling and Ostas offer an approach to financial management that has strong ethical foundations. They call for jurisdictions to 'breathe life into anti-avoidance' doctrine and for tax advisers to 'respect the rule of law' in the

## *Heterodox Economics Newsletter*

advice they give to companies and individuals alike, ‘rather than seek ways to exploit legal loopholes and under-enforced laws’. Corporate executives, they conclude, ‘must embrace the ethical obligation to cooperate with the creation, implementation, and reform of business regulations in local, national and global arenas. This includes the obligation to comply with corporate taxation’.

The ‘must’ in the above passage exemplifies the profoundly moral tone of the authors’ writing, a welcome rejoinder to the quasi-neutral orthodoxies of the academy. However the moral imperative to regulate the market is a powerful current in Western economic thought, forming the basis of the Progressive Era reforms in the early twentieth century United States and subsequently the New Deal and Great Society of the 1930s and 1960s respectively. Hilling and Ostas’s book is part of a broader revival of ethical opposition to ‘concentrations of wealth’, which should be ‘challenged ... on democratic grounds [and] grounds of equity’. Their critique nonetheless transcends solely moral opposition to increasing inequalities and out-of-control capitalism, persuasively arguing that neo-liberal excess is ultimately self-defeating. Inequalities of income and the political polarisations arising from them ‘may have a negative impact on economic growth’. The insecurity of short-term contracts, lack of access to the property market, student debt, set against a background of under-funded public services and poor infrastructure is in economic terms highly inefficient. Hilling and Ostas highlight the increasingly uncertain position of the middle class, the mainstay of stable democratic societies. In the United States and other Western democracies, middle class professionals have found themselves squeezed between a detached financial elite and impoverished communities whose members’ aspirations are increasingly thwarted, despite the lip service paid to equality of opportunity.

These themes have been adopted enthusiastically by Elizabeth Warren in her campaign for the Democratic nomination. The British economist Guy Standing has also written extensively about the rise of the ‘precariat’ and its disturbing implications for political stability. Hilling and Ostas’s book contributes to what might be called a paradigm shift, arising out of a slow but steady change of consciousness. In the area of taxation, the authors stress the need for political and legal reform tipping the balance towards compliance and ‘anti-avoidance doctrine’. Equally, they emphasise the importance of a ‘shift in attitude’ on the part of corporations and private citizens alike.

In practice, such a shift involves a rediscovery of the sense of public virtue obscured by neo-liberal dogma: a judicious blend of altruism and rational self-interest. Paying tax, in this context, becomes more than a legal obligation or public duty. It is quite simply *the right thing to do*. Hilling and Ostas cite the example of the social market economies of Scandinavia where (despite some recent political turbulence) tax revenues are collected with a high degree of compliance and continue to ‘support universal health coverage, free public schooling, and supplemental retirement income’.

For the authors, the social democratic ethos of public responsibility is a model to emulate. To an extent, they overlook the fact that Scandinavia’s democracies are

## *Heterodox Economics Newsletter*

characterised far more than others by their high levels of transparency, along with fair voting systems in which political preferences and anxieties can be clearly articulated, and a governmental system with a strong tradition of consensus seeking. These qualities do not fully inoculate Scandinavian societies from the problems highlighted by Ostas and Hilling. Inequality is increasing in some Nordic countries and consensus is stretched to breaking point at times by tensions over immigration and multiculturalism. That said, the strong civic culture and sense of political accountability in Scandinavia contrasts quite markedly with the United States and Britain. There, the ‘political class’ is widely perceived as unresponsive (except to corporate lobbies or interest groups) while the electoral system prevents a truly representative range of opinions from being articulated. In the British case especially, tax revenues are wasted on vanity projects while essential infrastructure is neglected and taxation weighs heaviest on an already compressed middle class. The re-establishment of a social contract with ethical underpinnings should therefore be seen as part of a larger project of political and electoral reform.