

The Audacity of Nope: Meaningful fiscal accountability remains a pipe dream for Wales

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*Welsh Labour has hitherto refused to accept income tax devolution, arguing accepting such responsibilities would be economically detrimental to Wales without a reform of the Barnett funding formula. Recent comments made by Owen Smith, Shadow Secretary of Wales, however, leaves little doubt about the overall attitude of Welsh Labour to the first report of the Silk Commission and fiscal accountability: they don't want it. Combined with the blundering UK government, meaningful fiscal accountability will remain a pipe dream for Wales, writes **Adam Evans**.*



Welcome everyone to devolved Britain, where a mechanism for fiscal devolution championed by Labour in Scotland as part of a Unionist response to the SNP is opposed by Labour in Wales as a threat to the union. If this seems difficult to comprehend then don't worry, for this is the Alice through the looking glass world of post-devolution politics in Wales and the United Kingdom. I have written extensively in previous articles about the [Silk proposals on fiscal devolution](#) and the ridiculous situation whereby the decision to be fiscally accountable has been placed in the hands of the very actors with the least incentive to accept it. However, the Welsh Grand Committee's recent debate on the draft Wales Bill appears to have taken the discussion on fiscal devolution to a new and, if possible, more farcical direction.

The most significant aspect of these normally overlooked proceedings were the comments of the Shadow Secretary of State for Wales, Owen Smith on fiscal devolution. Up until now the line fed by the First Minister Carwyn Jones had sought to provide a respectable veneer to Welsh Labour's refusal to accept income tax powers, arguing that accepting such responsibilities would be economically detrimental to Wales without a reform of the [Barnett funding formula](#). Thanks to the politics of Barnett reform, this essentially rules out calling a referendum and campaigning in favour of income tax devolution. While accepting the devolution of stamp duty land tax and the landfill tax as a means of securing borrowing powers, the result is that Welsh Labour has been able to effectively evade meaningful fiscal responsibility. Overall, this has been a convenient fudge for a convenient abdication of accountability.



(Credit: Angus Wilson)

At least it was until Owen Smith spoke at the Welsh Grand Committee. During the course of his contributions not only did he make it explicitly clear that Welsh Labour would not accept income tax devolution, the manner with which he expressed his opposition leaves little doubt about what Welsh Labour's position really is. As Smith [put it](#), "I do not think I can be much clearer: I am opposed to tax competition. I think it is bad for Britain, especially those parts of Britain with lesser GDP per capita. The British Union is about a common set of labour standards, taxation standards, benefits and social security, and we unpick part of that crucial fabric at our peril."

Forget talk of Barnett reform and safeguards: it is now readily apparent that no safeguards could persuade either Carwyn Jones or Owen Smith to accept partial responsibility for income tax in Wales. Furthermore, with such strident comments regarding "tax competition", Owen Smith has managed the rare feat of making Welsh Labour's attitude to income tax clear, while simultaneously managing to add confusion to its commitment to even the "peanut taxes" of stamp duty and landfill tax. Having previously [declared in a press release](#), issued in response to the

publication of the draft Wales Bill, that “the devolution of stamp duty and landfill tax are welcome,” Smith appears now to be calling even these most minor of taxes into doubt. Rather than welcoming stamp duty and the landfill tax, Welsh Labour revisionism appears to be fully in effect, insisting that the party had actually never sought stamp duty devolution and that minor tax devolution has been [grudgingly accepted](#) as “the only way in which they [the UK government] are prepared to extend vital borrowing powers to Wales.” Reading Smith’s words one is left with the impression that Welsh Labour almost expects to be thanked by the UK coalition government for their magnanimity in accepting the yoke of landfill and stamp duty land taxes.

While Smith has, therefore, muddied the waters to some degree with this positioning on the “peanut taxes”, his rhetoric leaves little doubt about the overall attitude of Welsh Labour to Silk part one and fiscal accountability: they don’t want it. And who can blame them? The Welsh government, of which Welsh Labour has been (and is likely to continue to be for the foreseeable future) a permanent member, exists in a utopian world where they are essentially provided with no-strings-attached block grant and can spend with impunity. That the Welsh government has been given the option of turning down free money is the true failing of the Silk Commission’s first report (which was incidentally, given Smith’s rhetoric, a cross party unanimous document that counted among its membership a former Welsh Labour finance minister, Sue Essex) and the UK government’s response since.

This has been made even worse by the UK government’s mishandling of the way in which income tax would be devolved. Having spent months appearing to postpone a response to Silk, David Jones and his colleagues in the Treasury have produced a mechanism for fiscal devolution that while based on the Scotland Act 2012 has been denounced by leading economists and academics as simply unworkable. The model of income tax devolution outlined by the UK government is a lock-step model, as has been devolved to Scotland with the 2012 Scotland Act, unlike the free, independent band setting approach envisioned by Silk. Expecting Welsh Labour to not only choose to be accountable, but fiscally responsible in a system which makes any form of tax rises politically impossible (because if one band, i.e. the higher band, pays more, the lower and middle band payers have to pay more) is naivety bordering on political insanity. The lock-step is almost ideologically designed to incentivise smaller government, through across the board tax cuts or the fiscal status quo at a time where the public purse is struggling to maintain services. While Conservatives may welcome such a tax system, it would be completely unacceptable to Welsh Labour. Barring some significant political developments, it seems unlikely to ever see the light of day.

Rather than just a one-off occurrence, Smith’s comments at the Welsh Grand Committee appear to be yet another manifestation of what has been another mediocre chapter in the history of post-devolution Wales. The refusal of Welsh Labour to accept the responsibility and accountability that comes with political office and their ability to do so because of the blundering statecraft of Whitehall means that even when the draft Wales Bill becomes law, meaningful fiscal accountability will remain a pipe dream. As we await the imminent publication of Silk part two perhaps it is time to clear some space next to the Richard Commission on the bookshelf.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.

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