Essay

Public policies for private corporations: the British corporate welfare state

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One of the biggest myths of the contemporary political age is that private businesses would be stronger, more competitive, and more profitable, without the state. In reality, private businesses depend extensively on public services and state benefits – in other words, on corporate welfare. Corporate welfare describes public policies that directly or indirectly meet the specific needs and/or preferences of private businesses. Such provision assists corporations through their life-course. It makes possible the birth of corporations and helps to meet their evolving needs from 'youth' to maturity. It provides advice and protection and, more generally, socialises the costs and risks associated with private investment and profit-making. It keeps some companies on life-support and assists some companies in their death (Farnsworth, 2013). Despite the tendency to assume that citizens are the primary beneficiaries of public policies and the welfare state, there are very few examples of public policies that do not bring benefits to private businesses. The opposite is also true, of course; many forms of corporate welfare also bring benefits to citizens.

There *is* a big difference, however, in the way that social and corporate welfare are discussed, scrutinised and delivered. Social welfare is debated constantly. The costs, benefits and impact of provision on individual behaviour is the subject of heavy media and political scrutiny. Provision is based upon legally constituted rights and (relatively) clear procedures. And these rights are underpinned by duties. Corporate welfare is different in almost all respects. Whereas social welfare claimants are pilloried and castigated in the media for their irresponsible behaviour, corporate welfare claimants are often celebrated. Whereas social welfare recipients face increasingly tough conditions when they make a claim on the state, business recipients face few conditions and no real sanctions, even when their actions, for instance, on tax avoidance or lobbying against the welfare state, undermine the very future of public policy.

Such was the scale of the financial bailouts needed to assist corporations during the economic crisis that the British government had to be open about the assistance it provided. In less exceptional cases, however, corporate welfare is seldom discussed. Even during these times of austerity, where the government has challenged schools, hospitals, public sector workers and the unemployed to reduce their reliance on public expenditure, state provision for private companies is rarely questioned. This is all the more surprising given the huge amount of public money that has been directed towards saving private banks and various other companies since the post-2008 economic crisis. Indeed, where corporate welfare has been discussed, it has taken the form of calls for more help for private businesses rather than less.

The purpose of this article and the related research project is not to condemn corporate welfare but to kick-start a more informed and more open debate on the role, importance and purpose of public policies and how they are funded. Employees need good employers; businesses need to make healthy returns for their owners; and governments need to raise taxes on the profits of those very same companies. But this raises the question of how public policies might be utilised to create more responsible and more sustainable business practices that underpin, rather than undermine, effective, equitable and expansive welfare states. We need to foster corporate welfare that brings general benefits to society and condemn that which simply lines the pockets of the already rich and powerful. To facilitate such a debate, this article, along with other work (e.g. Farnsworth, 2013) sets out an analysis, critique and audit of British corporate welfare today. It maps out the various ways in which corporations benefit directly and indirectly from state provision before summarising some of the most important indicators of the value of corporate welfare in the UK. But before we can engage in this exercise, it is important to examine, in a little more detail, the context of corporate welfare.

The British corporate welfare state

The contemporary story of British corporate welfare begins in the early 1970s with the dawn of what we have since come to understand as the period of globalisation. During this period, a number of international agreements, notably those negotiated by, and through, the various guises of the European Economic Community/European Union and the General Agreement on Tariffs and Trade (GATT) and its replacement, the World Trade Organisation (WTO), have been brokered in order to eradicate market-distorting subsidies, tariffs and other protectionist measures. This shift in international governance was influenced by the growing dominance of right-wing – or so-called neo-liberal – ideas during this same period. In the UK, the rise of neo-liberalism with the election of the 1979 Conservative government led to the condemnation of the types of state assistance that artificially kept alive 'lame-duck' industries and locked the UK into an uncompetitive spiral. What business needed, according to the post-1979 Conservative government, was for the state to get out of the way. This didn't mean a complete withdrawal of corporate welfare, but it did mean a reconfiguration of public policy to that which would facilitate and boost modern private businesses in particular. In practice this meant switching from direct to more indirect and in-kind support, away from the direct subsidies and support that many older industries were reliant on.

This new strategy did not sit well with the most interventionist wing of the Conservative Party, typified by Michael Heseltine, who famously resigned from the Thatcher Cabinet in protest at the Prime Minister's decision to back a US bid to take over Westland, the UK's last helicopter manufacturer, rather than an Anglo-European consortium. This row exemplified the difference of opinion between those who favoured greater state intervention in the affairs and future direction of the company, and those who favoured allowing the company to find a new future within the marketplace.

Neither did the new strategy meet with universal approval from the business community. The Confederation of British Industry, for instance, aggressively opposed lessening direct support for British industry, whilst the City and Institute of Directors favoured it (Farnsworth, 2004; Grant and Marsh, 1977; Ingram and Ingram, 2003; Longstreth, 1979). The CBI was much more comfortable with John Major's premiership which, from the outset, signalled greater enthusiasm for the role of active government in assisting businesses. Michael Heseltine assumed the role of President of the Board of Trade within Major's Cabinet and promoted the importance of active government engagement in regional economic development.

The post-1997 Labour government's Third Way approach built on such policies to strengthen direct and indirect interventions that would underpin more productive and more competitive private businesses through more targeted public policies. From the outset of his election, Tony Blair went out of his way to assure businesses that even the most socially-centred reforms would ultimately be introduced in such a way that their negative effects on businesses would be minimised:

> Even where you may have doubts about certain parts of policy – a minimum wage or trade union representation – remember: that we are consulting business every step of the way; and that taken altogether, the entire changes proposed would still leave us with a labour market considerably less regulated than that of the USA. (Blair, 1997)

The UK economic model that emerged in the late 1990s under New Labour emphasised highly skilled, flexible, non-unionised, lightly regulated and relatively cheap labour coupled with low taxes. This strategy of prioritising the need for lower regulation went hand-in-hand with policies designed to attract higher technology companies via greater public investment in higher-level skills, more generous tax breaks, and public policies that placed corporate needs at their heart. In other words, social and economic policy in the UK has helped to promote a particular kind of capitalism; one that has sought to satisfy business needs by reducing, shifting or socialising the costs and risks associated with 'doing' business. And this strategy has tended to favour corporate predators rather than producers (as Ed Miliband would put it).

An assessment of the post-1979 corporate welfare environment reveals that governments continued to utilise a range of methods in order to support businesses, albeit in different forms. The withdrawal of state subsidies within the auto industry in the 1980s, for instance, effectively killed off the British car industry, but new forms of assistance helped to attract the likes of Toyota, Honda and Nissan to the UK, and these companies have continued to receive state support ever since. And in new industries where the UK has competed successfully, in pharmaceuticals, defence and the public-private partnerships industry, all have relied heavily on direct and indirect state assistance. But all this help has been conveniently ignored in the on-going political debate. The dominant political message from business interests throughout this period has been that governments impose costs on businesses but provide very few real benefits. The major business organisations, including the CBI and Institute of Directors, have vigorously and consistently argued against government 'red tape' and for lower business taxes over the past 40 years (see Farnsworth, 2004).

Economic crisis and the expansion of corporate welfare

This argument, that businesses could be stronger without government 'interference', was seriously challenged by the post-2008 economic crisis. It illustrated the fact that some of the companies that make the biggest demands on public services, and extract the largest benefits, are often the very same corporations that most strenuously oppose government 'intervention and interference' within markets and most assiduously avoid paying their taxes. The banking crisis provides a good illustration of the former. Two years prior to the massive state bailout of Northern Rock Bank, Matt Ridley, CEO of the bank at the time, wrote:

> In all times and in all places there has been too much government … [T]he more we limit the growth of government, the better off we will all be. (Ridley, 2006)

The paradox is that it was a lack of government, and a failure of regulation, that led to the financial crisis. It also required a lot of government to rescue, not just Northern Rock, but the whole financial system. British businesses, it transpired, didn't need less government; they needed *more* (and more effective) government. Just how important government proved to be is spelled out by Alastair Darling, Chancellor of the Exchequer in 2008:

> I came out [of a high-level meeting] to take a call from Sir Tom McKillop, the RBS chairman. He sounded shell-shocked. I asked how long the bank could keep going. His answer was chilling: "A couple of hours, maybe." If we didn't act immediately, its doors would close, cash machines would be switched off, cheques would not be honoured, people would not be paid … And what, its chairman asked me, were we going to do about it? (Darling, 2011)

What the government did about it was to put together a financial rescue package that was without precedent in the UK. The total value of the rescue package was more than £1 trillion, equivalent to around three quarters of the size of the entire GDP of the UK economy. Mervyn King, the Governor of the Bank of England at the time, described the size of the intervention as 'breathtaking' and invoked the memory of Churchill when he stated that 'never in the field of financial endeavour has so much money been owed by so few to so many' (King, 2009). Put simply, the crisis threatened to undermine British capitalism and a mixture of corporate and social welfare measures came to its salvation. The huge costs of this intervention have subsequently been borne by citizens – in the form of job losses, tax increases, house repossessions, falling wages, benefit cuts, and cuts in public services. In June 2010, the Conservative Chancellor, George Osborne, announced cuts of up to 25 per cent in the worst hit government departments. This initially amounted to £18 billion in social welfare benefit cuts by 2014-15, but in October 2012 and again in December 2013 the Chancellor announced further cuts in welfare (Browne, Hood and Joyce, 2013). These cuts are unprecedented and it is the poorest citizens, in the poorest regions, who are being hit the hardest (Oxfam, 2012).

At the same time that these cuts in social welfare have been introduced, the Coalition has sought to expand corporate welfare, including more generous subsidies and grants, plans to award more generous government contracts to British companies, new measures to ease mortgage lending, and reductions in corporation tax (Oxfam, 2012; DCLG, 2013).

It is against this backdrop that a renewed interest in industrial policy has emerged, and this is not limited to the UK, but extends to international organisations. In 2007, the United Nations Conference on Trade and Development launched a report which called for a 'rethink' of industrial policy (Haque, 2007). In 2010, the European Commission argued for a fresh approach to industrial policy (EC, 2010) and that same year, the International Monetary Fund debated the merits of a new industrial policy as a way out of crisis in developing countries (IMF, 2010). The OECD also asked in 2011 whether industrial policy may have a role in fostering new sources of growth (OECD, 2011).

In the UK, renewed interest in industrial policy spans all three political parties. Labour, under Ed Miliband, has called for state intervention to encourage responsible producers rather than corporate predators. And in an attempt to satisfy the Liberal Democrats in the Coalition, as well as some of the more interventionist One Nation Tory backbenchers, Michael Heseltine was tasked with writing a new report into future growth strategies in which he called for more active government in encouraging businesses to invest in the UK. In launching the report in 2013, Heseltine stated:

> The nation state in pursuit of growth is subject to disciplines that are unavoidable – footloose capital, the world market, world opportunities. Unless we make it worthwhile for footloose capital to come here, it won't. (Heseltine, 2013)

The pursuit of growth for Heseltine meant bringing government and business closer, providing more support to businesses, especially in long-term financing and skills development, and such arguments have been translated into Coalition policy. Vince Cable cited the case of Haribo in an interview with the *Daily Telegraph* in April 2011 as an example of the types of direct interventions he and his Department regularly make:

> [Haribo's is] a factory that would probably have closed down and moved somewhere else, but because of the additional investment we are willing to make, through a project on the same site, both have been safeguarded and expanded. So we are safeguarding over 500 jobs and creating almost 300 new ones. (Tyler, 2011)

Taken as a whole, these moves represent a major redistribution of state effort and state resources away from social welfare and towards corporate welfare. This is not the same as stating that they were not necessary to the economic well-being of citizens, nor that they didn't bring essential benefits to workers, communities and a whole range of businesses that did not directly benefit from emergency state assistance. Trade unions are often the most vigorous campaigners for such support on the basis that it may protect jobs. The point in highlighting this shift is to emphasise the important benefits that businesses extract from various forms of state provision and to shift the debate away from the welfare state as something that benefits only poorer citizens and undermines commerce and entrepreneurialism. In reality, the line between social welfare and corporate welfare is sometimes very fine, and often disappears completely. To go back to the argument raised at the beginning of this paper, businesses need public services; how they are delivered and how they are paid for is a matter for debate. In highlighting the relationship between corporate and social welfare, the following section helps us to begin this debate.

What do businesses need?

Corporate welfare is shaped by various, often conflicting, political and economic pressures. It may be driven by government strategies to boost economic growth, protect jobs and/or consumers, or protect particular corporate friends or supporters. It may also be spurred by the specific demands of business interests, trade unions and wider civil society or it may, as was the case in 2008, be the only thing keeping the whole economy from collapsing. More often than not, it is aimed at meeting some perceived business need or preference expressed by key interests within the business community. But such needs vary between businesses and over time and are shaped by their environment. Moreover, although some forms of corporate welfare may bring significant benefits to businesses and the wider community, other forms may operate neither in the interests of citizens nor even in the wider interests of the vast majority of businesses.

Government helps to meet these variable needs in different ways. Start-up grants, cash benefits, equity support grants, and tax breaks for research and development are all provided in order to support new ventures. The government also provides ongoing support in the form of research and development grants, tax breaks, and loans for new capital investment, not to mention wage subsidies for current employees. State education and training and health-care are also important to productive workplaces. And as the recent crisis illustrated all too well, governments provide a vast range of support for (some) companies faced with the prospect of collapse. When companies do fail, government (and individuals) bear the costs of providing state benefits and satisfying other needs. If readers require any more persuasion of the importance of such a broad range of government services to private businesses they would be well advised to look at the most recent reports written by the World Economic Forum (WEF). As one of the leading organisations of the voice of global business, the WEF stated in 2013:

> The key for the future of any country and any institution lies in the talent, skills and capabilities of its people ... For the individual, as well as for societies and economies as a whole, investing in human capital is critical ... [The] World Economic Forum seeks to provide a holistic, long-term overview on how well countries are leveraging their human capital and establishing workforces that are prepared for the demands of competitive economies ... [and] highlights countries that are role models in investing in the health, education and talent of their people and providing an environment where these investments translate into productivity for the economy. (World Economic Forum, 2013, v)

If there is one theme that emerges from the WEF's recent work, and recent British history, it is that public policy is, or should be, driven by the 'needs' of business. The policy prescriptions for achieving this have varied over time, but the key driver of policy remains the same. The Conservative government in the 1980s and 1990s sought to ensure a better fit between what the government perceived to be the needs and priorities of businesses and public policies. It brought the private sector directly into public services to serve on management boards and to deliver services directly (Clarke and Newman, 1997). One of the defining features of New Labour in the late 1990s and 2000s was its prioritisation of business needs and business preferences in a number of policy areas, but especially education. It sought to ensure that education would be 'more responsive' to the needs of local employers (DWP, 2001-2002, section IX). Today, whole government departments operate to satisfy business needs as, indeed, they have in the past. One of the primary objectives of the Department for Business, Innovation and Skills is to 'support British businesses to increase productivity' and ensure they can 'compete anywhere in the world' (BIS, 2013).

There are several problems with a policy of prioritising 'business needs' in public policy. Any attempt to satisfy a particular set of business needs may have unintended or undesired consequences. Such policies may satisfy one set of business interests but undermine another. They may also impose costs elsewhere, for example in higher taxes on citizens, a squeeze on other public services, higher prices for consumers, and declining working conditions for employees. If we are to build an economy that serves people, rather than the other way around, we need corporate welfare programmes that complement rather than undermine social welfare and that do not undermine the tax base. Government policy needs to recognise this. Corporate welfare should be shaped and organised in such a way as to boost responsible capitalism – promoting sustainable investment capitalism as opposed to predatory capitalism. Delivered in the right way, corporate welfare can and should encourage responsible and sustainable corporate business behaviour that is entirely compatible with the aspirations and well-being of citizens. But to achieve this requires careful planning to expand the types of policies that ensure the fulfilment of social and corporate needs rather than throw both into conflict with each other. The following section maps various public policies along a continuum that spans corporate and social welfare.

In responding to short-term business needs, governments risk locking themselves into particular economic trajectories that are not in the long-term national interest. A country that responds to the needs of mobile capital by providing subsidies to inward investors, reducing regulatory constraints, and cutting taxation – all familiar practices in the race to acquire new foreign investment – will find it difficult to subsequently cut subsidies, increase regulations, and increase corporate taxation for fear of the impact that this would have on existing and new inward investment. This is the classic globalisation problem. Sure, private companies are less mobile than is often assumed, but governments nevertheless respond to this perceived ability of corporations to play states off against each other in securing favourable investment environments. In such scenarios, businesses come to depend on subsidies, low regulations and low taxation in order to remain profitable in the face of competition from elsewhere. What is clear, therefore, is that, beyond the basic need of business to make profit, supplementary needs may be relatively fixed in the short-term but relatively flexible in the longer run. Thus, the 'needs' of business may be presented in a particular way by particular companies with the aim of securing better deals from government. They will then be observed or perceived by governments in particular ways and they may respond to these needs. This is not the same as saying that governments always positively respond to the demands of business. The ongoing challenge for governments is to distinguish between needs and wants and, beyond this, to attempt to shape needs in various ways. The key point here is that, whilst the basic need of business is clear – profitability – this begs the question of *how much* profit corporations need and which particular need satisfiers will be utilised. The particular constellation of social policies within nation states force businesses to evolve, adapt and thrive and, for their part, governments can help to ensure that businesses can thrive within diverse welfare regimes by selectively employing different policies and programmes that variously reduce the risks encountered by businesses or compensate them in some way for the costs associated with them. Businesses in such environments will therefore grow to depend on quite different constellations of need satisfiers, and this includes state welfare itself. This helps to explain variation in business opinion on social policy over time and between states (Farnsworth, 2004). This point is captured well by Pierson when he argues:

> Employers will gradually seek to adjust their own practices in important respects to fit the incentives that social programmes create. Survival rates among the types of firms that are able to make such adjustments are likely to be higher over time. Thus, *capitalists adjust the welfare state, and the welfare state adjusts capitalists*. Over time, national welfare states become an important part of the institutional matrix shaping practices at the level of the firm and influencing broader efforts at national economic management. (Pierson, 2001, 6)

This whole process of negotiation, perception and action is complex, of course, and takes place within the particular political and economic structures and institutions of different states with variable outcomes.

Putting corporate welfare back into the picture

The integration of corporate welfare into social and public policy analysis requires nothing less than a radical reconceptualisation of the approach to public policy and the welfare state. The majority of work carried out into welfare states centres on a relatively narrow conception of welfare as social provision and the extent to which various collective interventions meet the needs of the individual. There have been notable exceptions to this of course. Although he did not look specifically at the benefits extracted from the state by businesses, Titmuss (1976) did highlight the importance of fiscal welfare as a key pillar of welfare (alongside social and occupational welfare), suggesting that individual firms, as well as individual citizens, benefitted a great deal from various tax benefits (fiscal welfare). The notion of occupational welfare also firmly tied together production and social policy in a way that echoes some of the arguments presented here. Later, Goodin and Le Grand (1987) reminded us that the middle classes extract as much, or even more, out of welfare provision than lower income groups do. During the 1970s, neo-Marxists pointed to the role of social welfare in stabilising and promoting economic development and system legitimacy. Others, including Gough (2000, introduction), have discussed the ways in which governments service the needs of business (or capital) and capitalist economies, and still others have discussed the important role that social policies play in the creation of competitive markets (Cao, Prakash and Ward, 2007, 301-27). More recently, in the aftermath of the post-2008 economic crisis, academics, journalists and campaign organisations have begun to focus their attention on corporate bailouts and various forms of in-kind assistance. The importance of developing a clearer conceptual framework of such provision is therefore even greater and more urgent in the post-2008 environment.

Corporate welfare remains important to a more complete analysis of welfare states, especially in capturing the varied role of the state and the close and intricate relationship between economic and social welfare functions. As already noted, governments often attempt to fulfil the systemic needs of capitalism and the needs of individual capitalists – manipulating macroeconomic demand and variously propping-up, protecting and preserving individual corporations. At the same time, various social policies help to meet the needs of citizens in various ways. For much of the time, there are few contradictions between these policy aims; at other times, they appear completely at odds with each other (Gough, 2000). The following sections explore some of these contradictions, tensions and incoherencies in more detail.

Whose benefits and who's benefitting?

This section looks at the types of provision that make up corporate and social welfare. Figure 1 maps state services along a vertical continuum between corporate and social welfare, indicating which forms of provision are most likely to satisfy the needs and interests of business (collectively) or citizens. Plotting provision along a continuum in this way is useful in that it recognises that even provision at the extremes may bring some benefits to both business and citizens.

There is a second continuum indicated in Figure 1 that distinguishes 'general' business interests (towards the left hand side) – this might be considered to relate to the way in which public policy operates to facilitate the operation of the economy – and the more specific needs of individual companies towards the right. This distinction highlights the difference between businesses in general (even the most basic jobs require literate and numerate employees) and the needs of specific companies, including high-tech businesses that require highly educated workers with specialised skills.

Dealing first with the vertical continuum that extends between corporate welfare at the top and social welfare at the bottom: provision towards the top might be said to most directly meet the needs of citizens; provision towards the bottom most directly meets the needs of business. Provision in the middle of Figure 1, which is the largest category, clearly satisfies the needs of both.

Figure 1: The corporate-social welfare continuum

	Systemic need satisfiers (collective and general business needs)		Specific need satisfiers (individual companies)
Social welfare Covers benefits and services that most directly meet the needs of individual citizens and bring fewest benefits to corporations. This is not to suggest that such benefits exclusively benefit individual citizens. They may bring real benefits to individual companies that, for instance, contract with the state to deliver services in these areas. More generally, social spending helps to distribute and reduce some of the risks associated with 'doing business', including helping to create social harmony, reduce crime, and create better environments for retail. Social welfare expenditure can also increase labour market flexibility and provide natural 'stabilising' effects by shoring up consumption during economic downturns when some will lose their jobs.		Personal/social services Social housing Criminal justice policy Health-care	
'Social-corporate welfare' Helps to satisfy (and possibly reconcile) the key needs of citizens and businesses. It includes provision that is closely linked to tackling the inefficiencies of employment markets and smoothing the natural cycle of boom and bust within capitalist economies. Much of this provision tends to be thought of as 'citizen-centred' but it is often shaped as much by the needs and demands of businesses as it is the needs of citizens.	Unemployment benefits State pensions	Infrastructure spending on road/rail network and postal system Education Professional training programmes Wage subsidies	Tax breaks (fiscal welfare) for private housing, health-care, education, etc.
Corporate welfare Constitutes provision that is most directly targeted at businesses. Without this provision, it would be difficult or impossible to establish and grow a modern business. Not all businesses need the same forms of provision and in the same quantity, and businesses are likely to need different forms of provision at different times throughout their 'life course'. But benefits and services delivered by government under this category help to satisfy general business interests and maintain and even shape the particular form of capitalism that evolves and prevails.	State legal instruments that define and facilitate the basis of ownership, trade, employment and appropriation of profits. Fiduciary system and sufficiently liquid cash supply	State-sponsored marketing and promotional activities Publicly funded research programmes Private sector transfers and favourable purchasing agreements, including privatisations	Procurement Government equity purchases (agreement to buy significant shares) Government advice and support services Targeted state training programmes Insurance and risk-management services Low-cost government loans/loan guarantees Direct grants Investment and R and D subsidies Corporate tax breaks

Corporate welfare constitutes provision that most clearly and directly meets the needs of corporations. Indeed, some forms of provision under this heading, including make-work schemes and job subsidies, may distinctly disadvantage individuals by forcing them to take jobs they would otherwise have not taken and keep them locked in relatively low-paid, low skilled and precarious employment.

This mapping of the corporate-social welfare continuum facilitates a greater understanding of the multiple benefits that accrue from public policies to citizens and business, and between business in general and individual corporations. There are very few examples of public provision that do not bring wider benefits beyond those received by the original recipient, but some forms of provision bring greater collective benefits than others. There is also another disjuncture within corporate welfare between policies that benefit large and established businesses – e.g. public support for nuclear industry – and those that work for smaller and more innovative new businesses. One of the problems of the UK corporate welfare state may be that too much emphasis and effort goes into protecting and subsidising the former with too little assistance for the latter. The key is to:

1. Identify how public policies satisfy the different needs of citizens and corporations and deliver them in such a way that maximises the benefits for both;
2. Investigate how to maximise fairness and sustainability in the distribution of services and the distribution of taxation needed to pay for them;
3. Recognise that public policy can shape corporate needs as well as meet them;
4. Deliver public provision in a way that locks businesses into long-term and more sustainable business models;
5. Bring corporate and citizen interests together in formulating public policies that operate in everyone's interests; and,
6. Utilise public policy so that it supports 'investor' capitalists and discourages 'predatory' capitalists, e.g. by undertaking a new deal with business – to invest more heavily in business investment activity that underpins good quality jobs and promotes the development of new markets. At the same time, business has to fulfil its part of the deal. Investor capitalists must invest in public policies as well as the wider economy by contributing more through the tax system. In exchange, the state should ensure it invests more heavily in the kinds of businesses and business practices that offer most to society.

To achieve these aims requires a different debate about corporate welfare. It also requires a complete and detailed examination of the value of corporate welfare set against the contributions of business to the exchequer. This is the aim of the current project I am undertaking, the first report of which will be published by Oxfam in the coming months. The next section summarises some of the key findings from that report.

Cash benefits: subsidies and grants

This section examines official data on subsidies and capital grants. Tables 1 and 2 present data from the UK Government's Public Expenditure Statistical Analysis (PESA) accounts which show expenditure (and projected expenditure) between 2004-5 and 2014-15 in real terms and in 2012-13 prices. This reveals that capital grants have become more important as a means of supporting business than traditional subsidies, especially during the economic crisis. The former are provided to support private business investments, the latter support everyday business activities connected with the production, delivery and sales of goods or services. According to the PESA data, subsidies, plus capital grants to private companies were worth £11 billion in 2004-5, peaked at £25 billion in 2008-9, and fell back to £13 billion in 2012-13 (see Table 1). Looking forward, the PESA data suggests that subsidies and grants are set to increase over the next few years. Against the backdrop of severe austerity cuts in many areas of public policy, subsidies (excluding grants) are set to expand between 2012 and 2015, from £13.2 billion in 2011-12 to £17 billion in 2014-15 (see Table 3).

Table 1: Subsidies and capital grants, actual amounts (£bn)

	2004-5*	2005-6*	2006-7*	2007-8*	2008-9**	2009-10**	2010-11**	2011-12**	2012-13**
Subsidies to private sector companies	7.8	7.8	7.8	7.4	7.2	8.3	7.9	8.2	7.5
Capital grants to private sector companies	3.1	3.3	5.2	7.2	17.6	13.1	7.1	6.6	5.8
Total	11.0	11.2	13.0	14.6	24.8	21.4	15.1	14.8	13.3

*Sources: *PESA 2010; **PESA 2013*

Table 2: Subsidies and capital grants, 2012-13 prices (£bn)

	2004-5*	2005-6*	2006-7*	2007-8*	2008-9**	2009-10**	2010-11**	2011-12**	2012-13**
Subsidies to private sector companies	9.5	9.3	9.0	8.3	7.9	8.9	8.3	8.4	7.5
Capital grants to private sector companies	3.8	4.0	6.0	8.1	19.4	14.3	8.0	6.5	5.2
Total	13.3	13.3	15.0	16.4	27.3	23.1	16.3	14.9	12.7

*Sources: *PESA 2010; **PESA 2013*

Table 3: Calculation of grants and subsidies, 2012-15 (£bn)

	2011-12*	2012-13	2013-14	2014-15
Subsidies to private sector companies	8.2	7.5	9.7	11.8
Capital grants to private sector companies	6.6	5.8	5.2	5.2
Total	14.8	13.3	14.9	17.0

*Source: PESA 2013; *= 2012-13 prices*

Fiscal welfare and corporate tax benefits

According to analysis undertaken by the OECD, the UK is one of the most generous providers of corporate tax benefits (OECD, 2009). The most valuable form of tax benefit in cash terms is delivered in the form of capital allowances, which allow companies to write off investment in machinery and other forms of capital against taxation. They were originally provided in recognition of the fact that the current 'assets' of companies – in the form of existing plant and machinery – inevitably depreciate over time. In their contemporary usage, capital allowances do not simply provide an allowance for depreciation, they are used in order to encourage, and 'socialise' the costs of, new investment. The relative generosity of such schemes has tended to increase over time so that taxpayers bear an increasingly greater share of such costs. Companies can often claim close to, or even in excess of, 100 per cent of the costs of depreciation and they can do so *upfront*. The current UK scheme allows companies to write off 110 per cent of the costs of investment within the first year of the investment. Thus, taxpayers not only effectively pay the costs of the entire investment, the government provides an additional 'bonus' equivalent to 10 per cent of the total cost of the outlay. The cost to the taxpayer of such support was £21 billion in 2011-12 (1). The government also provides assistance to companies through the tax system in other ways. Companies can claim tax deductions on their research and development activities which could include a range of activities, from product development to 'investment' in new management techniques. There are also tax exemptions to protect returns on capital, share incentive plans, and venture capital trusts. Such schemes provide tax-exempt investment opportunities for those investing in small but high-risk ventures. Including tax breaks for R&D and investment would bring the total value of corporate tax benefits to £36.7 billion in 2011-12, falling slightly to £36 billion in 2012-13.

Taken together, the value of these direct forms of tax benefit has increased over time and this increase can only be partly explained by the financial crisis. In 2000, the equivalent real terms expenditure (at 2011-12 prices) was £30 billion, with the largest increases recorded between 2004-5 and 2007-8 (before any 'corrective' measures introduced in response to the financial crisis). They did peak in 2011-12 as a result of corrective measures introduced to manage the economic crisis, but this is against a steady increase since 2000.

Corporate welfare as company welfare

This final section drills down into the data on corporate grants in a little more detail in order to reveal something of the distribution of government provision to individual companies. The UK government reported around £323 million worth of 'large-scale' (in excess of £1 million per company) support between 2005 and 2011 to the European Commission. Rolls-Royce tops the list of companies that received the most (in excess of £34 million from the UK government in 2010 alone) (2). Airbus was awarded £28 million by the Welsh Assembly in 2009 (and this is on top of the £1.9 billion worth of export credit guarantees) (BBC News, 2009). Ford Motor Company was given £12 million in 2005 and an additional £19.7 million in 2008 to support its investment in Wales. Toyoda Gosei, an engineering company, was also awarded £13.3 million in 2009 to support new investment in Wales. Zytek Automotive Technology was awarded £4.5 million in 2009 by the Technology Strategy Board to support the building of a new electric car (3). Other companies to be awarded well in excess of £1 million in aid included Nissan, awarded over £25 million between 2005-10, Hewlett Packard, awarded £7.3 million in 2010, Dell Corporation, awarded £7.3 million in 2005, and Vauxhall Motors, awarded £6.8 million in 2006 (4).

But perhaps most noteworthy here is the £7.7 million that was granted to Amazon in 2011 to support the building of a distribution centre in Fife, Scotland, together with the £8.8 million awarded to it by the Welsh Assembly (5). In addition to this, the Welsh Assembly built the 'Ffordd Amazon Road' to link the distribution centre with other road networks at a cost of £3 million (6). This case is especially interesting because Amazon was accused by the Public Accounts Committee of the House of Commons in 2012 of aggressively avoiding tax. In particular, it was accused of masking profits by claiming that its major 'economic activities' take place outside the UK and for avoiding VAT by shipping

CD and DVD products direct from Jersey while charging the customer the full VAT rate (Murphy, 2009).

Conclusions: the future of British corporate welfare

Direct and indirect public provision that is aimed at private companies accounts for a significant share of state expenditure. During these times of austerity and public sector cuts, a detailed analysis of the costs and benefits of corporate welfare is essential to weigh the direction, emphasis and trade-offs associated with corporate welfare.

Despite much rhetoric to the contrary, businesses need government and comprehensive public policy. This was made clear by the massive state intervention in 2008 and afterwards, which was necessary to save British capitalism from itself. It was also made clear by the fact that policies pursued prior to 2008 created the very ingredients for the depth of the crisis in Britain. And it is made clear by the fact that cuts in public policy have had a damaging effect on citizens, especially the poorest and private businesses.

In the face of prolonged economic crisis, the Coalition has been forced to recognise its damaging effects on businesses. But it has sought to assist these corporations utilising a narrow range of tools – lowering taxation and regulations and increasing the scope for private sector engagement in public services. But such tools bring relatively few benefits to citizens and can increase the hardship they experience. This article has sought to highlight the ways in which a range of public policies benefits private businesses; the key is to utilise public policy so that it brings the widest possible benefits to society as a whole.

To achieve such aims will require a different debate on public policy. Such a debate is common elsewhere, but it is virtually non-existent in the UK. In the British brand of adversarial capitalism, employers and employees fail to see that they have many common, but unacknowledged, interests. Part of the problem is that there is very little recognition or acceptance of the fact that public policies operate in the interests of business. Too often it is assumed – by business people and by organisations that speak on their behalf – that public policies simply impose costs and inconveniences. The benefits of public policy to businesses are not widely acknowledged. Little surprise, therefore, that business interests resent paying taxes for benefits and services that they perceive as peripheral to their concerns.

But business people also need to accept that they have to contribute more to meeting the corporate welfare bill, just as other welfare recipients have been told that they must accept their own responsibilities. Reductions in corporate tax avoidance would be a start. And higher contributions would boost the very public policies that might deliver most benefits to businesses. Quite what policies might be put in place to maximise benefits to citizens and businesses will be the subject of future work.

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Notes

1. See http://www.hmrc.gov.uk/statistics/expenditures/table1-5.pdf.
2. See http://ec.europa.eu/competition/state_aid/register/msf_2013.pdf.
3. See http://www.innovateuk.org/content/press-release/9m-for-new-electric-city-car-that-can-be-sustainab.ashx.
4. See http://ec.europa.eu/competition/state_aid/register/msf_2013.pdf.
5. See http://wales.gov.uk/publications/accessinfo/disclogs/dl2013/aprjun/business1/dlbus354/?lang=en.
6. See http://wales.gov.uk/newsroom/businessandeconomy/2012/121128amazon/?lang=en.

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