

THE TIMES

Tories abandoned Nigel Lawson's legacy of protecting households from inflation

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April 6, 2023

Much has been written about the late Nigel Lawson's legacy of privatisations and tax cuts. Less appreciated is an important tax policy the former chancellor helped to deliver from the opposition benches.

By 1977, rampant wage and price inflation each year threatened to ensnare significantly more people in higher income tax bands unless politicians raised thresholds, a phenomenon known as "fiscal drag".

The Labour backbenchers Jeff Rooker and Audrey Wise, together with Lawson, an opposition whip, produced a successful amendment to the chancellor Denis Healey's Finance Act: from then on, income tax thresholds would automatically go up each year based on the retail price index. This meant that the government would need to pass legislation if it wanted to freeze or raise thresholds slowly and sneakily to increase tax revenues.

Lawson wanted to "prevent the [tax] system being insidiously subverted by inflation without parliamentary approval". And the amendment proved somewhat successful. Yes, chancellors overrode it at critical times. David Cameron's coalition government changed the inflation measure to the consumer price index, too. But Lawson's intervention left a mark: from 1977 to 2019 there were only six years when the personal allowance failed to keep up with inflation.

Regrettably, today's Conservatives have abandoned the spirit of his indexing wish. The Rooker-Wise-Lawson provision might still be on the books, but Rishi Sunak's government is freezing all income tax and national insurance thresholds for six years. Household finances are once again at the mercy of inflation's vagaries.

Today, April 6, tax thresholds should have increased by more than 10 per cent based on last September's inflation rate. Yet rather than the personal allowance and 40p tax rate thresholds going up to £13,840 and £55,440, they remain stuck at £12,570 and £50,270. With national insurance thresholds also frozen, typical basic and higher rate taxpayers will face real tax increases of £500 and £1,000 this year alone.

Tom Waters from the Institute for Fiscal Studies predicts there will be 3.2 million more people paying income tax and 2.1 million more 40p rate payers by 2028. If high inflation persists for longer than forecast, the tax hike will exceed the £28 billion in revenue expected per year, a figure already more than triple the original estimate, due to unexpectedly strong inflation.

All taxpayers now suffer the uncertainties the rich have endured for 13 years. Rooker-Wise-Lawson has never applied to the threshold beyond which people's personal allowance is withdrawn. The Tories have kept this threshold at £100,000 since 2010, leaving 600,000 more people affected, with an estimated 300,000 more to come by 2025.

The 45p tax rate threshold will lose even more value. It's been stuck at £150,000 since Gordon Brown was prime minister and the number of people paying the rate has tripled. In fact, Jeremy Hunt's recent budget actually lowered it to £125,140, a figure dwarfed by the £205,000 or more it would be if it had kept pace with prices.

Economists have, in the past, debated whether thresholds should track earnings growth rather than prices, so that the tax system takes a constant share of the public's income. What all

agree is that households should not endure volatile living standards owing to wild changes in the real value of taxes and benefits.

Nick Macpherson, a former Treasury mandarin, tweeted that Lawson thought he deserved more credit for seeking to protect households from these arbitrary inflation taxes. Conservative MPs have rightly paid tribute to this historic chancellor. A fitting testament would be to re-establish the public finance honesty Lawson sought across the tax code.

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