

## Ryan Bourne: Why is Sunak so taken with tax hikes – when the tax burden is forecast to be its heaviest for 70 years?

Ryan Bourne

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If we made public policy decisions by opinion polls, we'd end up with something resembling national socialism in the UK. In principle, voters say they want utilities nationalisation, price controls, and swinging cuts to foreign aid. Today, we are told they want significant tax rises – predominantly on other people.

Now, call me cynical, but taking as meaningful that voters say “corporations” or “online giants” should bear Covid-19’s fiscal costs, without giving those polled context on the consequences for investment, delivery charges, and wages, perhaps tells us more about those writing this narrative than those surveyed.

Yes, vast borrowing through this pandemic has made the national debt salient again. James Johnson, Theresa May’s former pollster, says there’s been a marked shift from spending cuts to tax rises as the favoured deficit reduction means over the decade.

But is this surprising? Since 2016, May and then Boris Johnson have talked up the “end of austerity,” “the good government can do,” and, more recently, state investment-led rebalancing. No Conservative leader has made a robust case for less spending since George Osborne. If living in the U.S. under Trump taught me anything, it’s that leaders’ pulpits substantially shape public opinion.

All this throat-clearing is to say I don’t trust these polls reflect strong, vote-deciding preferences. Tony Blair thought polling answers demanding higher taxes were voodoo. Margaret Thatcher’s view was that what mattered electorally was policies’ results, not how they surveyed.

And on that front economists are united in believing that telegraphing major tax rises – including on business – is a bad idea coming out of this recession. Strong growth with rising wages is the best means of bolstering Boris’s re-election. Post-pandemic tax hikes are a headwind against that.

Now, we have to be careful about the veracity of pre-Budget briefings. But the Chancellor apparently welcomes this polling, believing it gives him the “space” to detail future tax rises now. That’s a worry, because it suggests that he considers significant tax-led deficit reduction necessary or desirable.

The official justification for signalling future tax hikes now is that Sunak has been “spooked” by gilt yield increases. Yet economists are taught “never reason from a price change”—in other words, try to understand why yields are rising before overly worrying.

The most convincing explanation for their jump to mid-2019 levels recently is not some market concern about fiscal sustainability, but that the vaccine rollout has heightened expectations of a robust demand recovery, which will generate growth and/or inflation.

Yes, the Chancellor is right that rising yields raise debt servicing costs. But a faster recovery will also see surging tax revenues and the swifter removal of emergency measures, reducing borrowing and leaving us with a lower debt-to-GDP ratio than with slower growth.

The real economic worry now is not fiscal sustainability, but ensuring that the recovery is “real” rather than “inflationary.” We are about to see pent-up demand unleashed across sectors that have been shuttered for a year. Governments have to be careful not to *overstimulate*, but must ensure reopening is timely and the incentives are right for rebuilding market-led capacity. Investment-detering tax rises clearly harm this process. At the very least, given uncertainties about the crisis’s legacy on the structural deficit, we should avoid higher taxes announced today, making a sluggish recovery a self-fulfilling prophecy.

On this front, the pre-Budget newspaper briefings have been wild, at various times proposing windfall taxes, corporation tax to 25 per cent, aligning capital gains tax rates with income tax, an online sales tax and cuts to pension tax relief. Even if many are mischievous or testing waters for November, there are clearly prominent Conservatives telling journalists that significant tax rises are good politics with little economic downside.

Some of this is no doubt old school fiscal conservatism – trusting the central OBR forecasts that this crisis will leave a structural deficit, and so wanting to lock-in support for consolidation while the scale of this emergency is memorable. Several briefings even say the quiet part out loud, talking (quite brazenly) of tax hikes now to allow cuts before an election.

But some of the noises are clearly ideological. The One Nation wing of the party desires a bigger state and sees this crisis as an opportunity to raise the taxes they’ve always want to – so showing this isn’t Maggie’s party anymore. A useful side-effect for them is extra revenue for the industrial policy and regional bungs they are convinced are the path to prosperity.

And this is where we get to the crux of the coming debate. Total government receipts as a share of GDP were already forecast to be 38.2 per cent in 2021/22, the highest level since the early 1980s. National taxes, stripping out government receipts from rents, charges and more, are forecast to see their highest burden since 1951.

Despite an historically high tax burden, then, Conservative pre-Budget messaging implies not just deficit concern, but an implicit belief that, beyond removing emergency spending, there is no major government waste left to attack, no meaningful excesses to trim, and no major state functions ripe for reform in any fiscal repair.

Despite spending already being projected to settle at the highest sustained level since before the Thatcher revolution, in fact, swathes of the Party think the pandemic proves the need for more. Hence, the supposed inevitability of tax rises.

Do Conservative MPs agree? Do they interpret that their electoral mandate was to raise business taxes to pay for a load of green industrial policy and high street grants? Perhaps many do. But others privately worry that raising corporation tax will dampen inward investment when it is

needed most, are concerned that the Treasury apparently sees self-employment as a mere tax dodge, and think whacking taxes on online sales is “levelling down.”

Far from having confidence in their arguments, I see tax raisers’ air war assault pushing lines like “this is what voters want” or “we’re just concerned about gilt yields,” combined with aggressive briefings about the consequences if MPs vote against the budget, as a sign of weakness: a lack of confidence that their economic ideas have yet won the hearts and minds of fellow MPs.

Sunak himself sang from the sheet of the “I’m a Conservative and I believe in low taxes, but...” hymn on Sunday. My sense, however, is that vast numbers of Conservatives aren’t buying the “we just have to do this” reasoning. Certainly not economists, business donors, or experienced MPs anyway.

By all accounts, a lot of the most unpopular measures will be booted to November. Yet Conservatives already recognise what we are hearing is a choice. And with Labour outflanking the Tories on the right on taxes today, I fully expect major Conservative anger at these mooted choices to go public soon.

***Ryan Bourne is Chair in Public Understanding of Economics at the Cato Institute.***