



## The tax hikes that could fall in the south. And tear the Tory coalition apart

Ryan Bourne

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Who's going to pay for all this? Andrew Neil's [GB News interview of Rishi Sunak](#) has changed the fiscal conversation. The Chancellor deflected the question by saying he couldn't discuss tax policy outside of Parliamentary "fiscal events." Convenient. But many commentators are ["rolling the pitch"](#) for higher taxes to fund all this higher government spending already – often devoid of context of today's true burden.

Much debate starts with the ahistorical view that the UK is a "low tax" economy. Yet revenues from taxes are already forecast to exceed [34 percent of GDP](#) every year from 2023/24 onwards—a threshold not breached in consecutive years since Hugh Gaitskell and Rab Butler were Chancellors in the early 1950s. The world wars don't bode well for the [longer-term legacy](#) of an acute borrowing shock either. Ten years' after World War One, the tax burden was 12.5 per cent of GDP higher than pre-war; ten years' after WW2, it was 11.4 percent higher again.

The pandemic is shorter and less destructive than mass mobilisation wars. We also don't need a second welfare state. But we do have an aging population and slower growth. With those pressures, any government unwilling to reform age-related entitlements and committed to major new state investments will need revenues eventually.

Internationally, many Western European countries tax their populations more heavily than us. The UK was just below the OECD average as a share of GDP in 2019. But UK taxes are already higher than in English-speaking developed economies: Australia, New Zealand, Ireland and the United States. The rises that Sunak has pre-announced would take us close to the levels of pre-pandemic Spain and Poland. Go a bit further, and we will have gone Germanic.

That, sadly, appears where we are headed. [ConHome's Editor explained](#) yesterday that "levelling up" need not mean just more tax-and-spend, but might be centred on the supply-side. He should tell CCHQ. The "levelling up" member survey recently used that banner to ask for views on more NHS spending, the "lifetime skills guarantee," catch-up schools funding, infrastructure investment, the Towns Fund, and money for high-street regeneration. The direction of travel is clear: levelling up means more redistribution—hence why a strange coalition of fiscal

conservatives and certain level-uppers want to whack up taxes on the old Tory base to shower the new.

This is where the politics of tax becomes interesting though. For the “progressives of all the parties” have talked so far as if “someone else will pay” for any largesse. Polly Toynbee says that UK voters want a Scandinavian welfare state with US-style tax rates. But it’s the redistributionists that are selling the Red Wall something for nothing. How about “asking for more” from the top one per cent, big tech companies, wealthy homeowners, tax-avoiding multinationals or other bogeymen, they say? Ordinary hard-working families will be spared for all the goodies.

As a new Institute for Fiscal Studies tax tool shows, however, the difference between the UK and the big governments of Western Europe is not lower taxes on the rich. No, broad-based social security contributions are higher in Europe. The evidence there suggests a more generous welfare state or higher permanent spatial redistribution requires tax rises “larger for the median worker than for one near the top of the distribution”. Good luck selling to your new blue-collar voters.

And so, thus far, an unwillingness for broader hikes, coupled with an uncertainty about the wisdom of burning the old base, has meant that the “tax debate” has been all smoke and mirrors. Efforts to raise revenues have been stealthy. The headline Corporation Tax rate is being raised again, with Sunak stating that it was “fair and necessary to ask businesses to contribute.” Of course, research shows the ultimate burden of profit taxes falls on workers, as well as shareholders – not the message the Chancellor would be keen to promote.

Income tax thresholds have similarly been frozen until 2026, and the 45p rate threshold has been kept at £150,000 since 2010. This will slowly lure more and more upper middle income families into higher tax nets. The problem is that spiralling spending demands quickly use up the options which voters don’t notice. Eventually you need other big sources of revenue, and that’s when the discussion usually re-centres on taxing savings income or pensions more heavily, or indeed hiking property taxes—despite the fact that the UK has the highest overall property tax burden in the OECD already.

Let’s leave aside the economics here. What do these policies all have in common? Well, the highest earners, the more expensive properties, and those with the highest savings are more likely to reside in the South East. The only Conservatives making the running on the “who is going to pay for it?” question so far, then, are those level-uppers who want to whack the South East to keep the goodies for the north flowing.

Yet not all are convinced. This is a growing Conservative faultline among MPs and the party’s voters. The Brexit coalition incorporated relatively affluent home counties’ areas and a working class elderly base nationwide. For some Westminster types, it simply makes sense to deliver for the new voters by squeezing the south.

Others, though, think the older working class Northerners don’t want Labour-lite, and that the best way to deliver for both would be targeted hawkishness on spending. For what it’s worth, Dominic Cummings told me: “the gvt wastes so much I’d rather save and not put up taxes.” He

usually understands what these voters truly want, but would Johnson's government slay any meaningful spending projects without him?

Tax policy, I suspect, will really test this Tory coalition. Hot housing markets in the South East have widened regional wealth inequality in the past 15 years, but after-housing-cost incomes have risen slower in London as people rent or service large mortgages. So many people feel squeezed, even before new tax bills come in. And massive geographic redistribution occurs already: London and the South East generate large public sector surpluses—averaging net public surpluses of £4,350 and £2,380 per person.

Now I'm not going to go all Mary Riddell and suggest last week's by-election result already reflected a middle-class tax revolt. But if the mood music is for higher and higher spending in the North, and the conversation about paying for it focuses on raising property taxes, raiding pension pots, taxing savings, alongside stealthy income tax squeezes for the middle-classes, would it be surprising if voters in traditional Tory heartlands reassessed their allegiances? In a world of ever-rising spending and an unwillingness for broadening tax bases, there's only so long the Chancellor can obfuscate on who will really pay.

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