

Opinion Budget 2023

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The Tories could raise billions in this budget and not spook the markets - but they haven't got the guts

Polly Toynbee



Rational reforms of our wildly unjust tax system could harvest huge sums. But don't expect Jeremy Hunt to listen to the experts



'Our multimillionaire chancellor and a prime minister richer than the king will unveil their budget on Wednesday.' Rishi Sunak and Jeremy Hunt at No 10 Downing Street. Photograph: Simon Dawson/No10 Downing Street

Was it that Mayfair launch of bottles of Bollinger at £350 a pop? Was it flicking through glossy newspaper supplements with their pages of hideous watches costing hundreds of thousands? No, surely last week's top shocker was watching both Shell and BP CEOs' pay double to about £10m each, profiting from the slaughter in Ukraine.

These budget-week reflections, amid a wave of overdue strikes, echo a recent report by the FT's astute data-cruncher John Burn-Murdoch, that "Britain and the US are poor societies with some very rich people." The tyranny of averages hides the way we live now, though any reader of this paper, or indeed the FT, will have a weary sense of deja vu about our grotesque and economically dysfunctional inequality: earnings for the top 1% have accelerated since the start of the pandemic. UK plutocrats rank proudly fifth in the world for mega-wealth, but our poor have 20% less than the poor of Slovenia.

That's the context to think about when our multimillionaire chancellor and a prime minister richer than the king unveil their budget on Wednesday. Expect a spot of epoxy to fix a few of their most politically damaging social breakages. But don't accept "there's no more money" when rational reforms of our grotesquely unjust tax system could harvest considerable sums to salve the most egregious social crises.

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Britain has got a lot poorer, partly due to **economic own goals** such as Brexit. There is less of everything following “the most dramatic period of spending cuts in modern history”, so taxes must rise unless voters are ready to see public services disintegrate further. That’s the choice - and the sharp message from Paul Johnson, Institute for Fiscal Studies (IFS) director, in his new book, **Follow the Money**. He has killer facts: no politician dare challenge IFS figures. His analysis of our warped tax system, riddled with reliefs for rich people and penalties for the rest, offers irrefutably fairer options. “Government’s dirty secret is that it chooses not to do the right thing,” he writes. That’s through fear of voters (he has the advantage of not needing to woo them or confront the Daily Mail). Vastly more money could be raised by squeezing rich people and ending their tax reliefs - but he warns that truly economy-changing sums to invest in long-term growth and public services mean asking everyone to pay more. However, read this eye-opener to see the cornucopia of low-hanging fruit a chancellor could gather.

How much more should we pay in tax? That’s up to us, because “there is nothing in economics that says we can’t have a bigger state”, Johnson writes. Look how similar countries that **raise far more tax** to buy far better services, while investing in growth, succeed better than us: France, Germany, Sweden and the Netherlands all raise and spend far more, pulling away from us at a faster pace as we sink down the G7 **in growth**. Incomes in France grew in a decade by 34% and in Germany by 27%, while typical UK income **dropped by 2%**, reports the Resolution Foundation.

In no particular order, look at our erratic tax system. Take council tax, now almost as outrageous as the poll tax it replaced: with its cap on top rates it defies every rule of tax justice, so zillionaire mansions pay just three times more than the humblest bedsit - sorry, “studio flat”. Land value tax, backed by the FT’s **Martin Wolf**, would be fair, while capturing developers’ profits to spend on public projects.

It’s lucky few people understand pensions: the state gifts earners in the 40% bracket a much more generous amount for every £1 they save than it does those in the 20% bracket. Why not a 25% flat rate for all, says Ros Altmann, former Tory pensions minister? Expect Hunt on Wednesday to further boost top-rate pension tax relief, to keep high earners from retiring.

Don’t expect him to make pensioners pay national insurance, even though they are less likely to be poor than the rest. Logically, the meaningless NI should merge with income tax, but if the optics of the headline rate look too frightening, at least Hunt could charge NI on all unearned income received by rentiers and shareholders. No harm would be done to the economy, Johnson says, by raising the basic rate income tax to 25%, the higher rate to 45% and the top rate to 50%: that would bring in a useful £50bn.

Proof that the government never meant to level up is in their capital gains tax, levied at a mere 28% for higher earners, and only 10% for others, rather than being equalised with hard-earned PAYE rates: ending this avoidance by private equity chizzlers would bring in billions. Labour is committed to this, and to closing many tax loopholes.

Here’s a counterintuitive idea: VAT exemptions aid rich people more than poor people, as they spend more. Abolishing all zero and reduced-rate VAT, such as on food, energy and children’s clothes, would raise so many tens of billions, says Johnson, that you could greatly raise all benefits levels to cover the cost to poor people and compensate other lower-earners several times over.

Why didn’t Hunt immediately restore the much-needed health and social care levy, **abolished by Liz Truss**? Nor did he bring back the cap on bankers’ bonuses; their **pay will soar** thanks to high interest rates pouring cash into their vaults from mortgage payers. Tax-free Isas benefit well-off people: make sure that the £70bn that could be raised is invested in green government bonds, says tax expert Richard Murphy. Rich people love the largely mythical **Laffer curve**, which pretends that high top-tax ends up yielding less revenue, but Prof Danny Blanchflower skewers it: Donald Trump’s “\$2tn tax cuts for the rich left \$2tn of debt”.

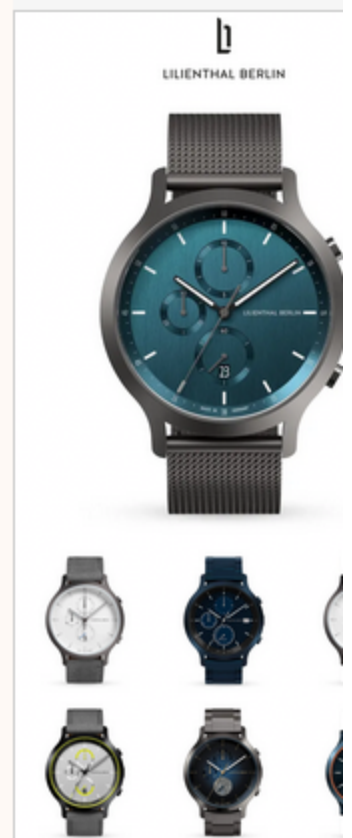


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Tax deters harmful things such as tobacco, but on carbon this government does the reverse: it listens to lobbyists, meaning the decade-long petrol tax freeze will continue, **costing £6bn**. New ultra-low air passenger tax next month cuts the price of domestic flights just when we need people back on trains: flying is taxed **less than driving**.

All of these are random examples, but there are many other ways to ensure taxes fall on the broadest shoulders while generating more to pay public staff decently, rescue public services, ensure livable benefits rates, invest in green growth and more. That's without considering more radical ideas, such as the LSE's **Wealth Tax Commission**, which proposes a one-off tax of 5% on wealth above £2m, yielding £80bn.

Truss may act as a warning against spooking the markets, but these reforms would be no-brainers if only the public knew what could be done. A wise thought from Paul Johnson: "Government needs to be brave and so do we."

- Polly Toynbee is a Guardian columnist

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