

## Progressive taxation works

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[Ed Balls will argue this morning](#) that the Conservatives would, if re-elected, cut the top rate of income tax to 40% whilst increasing taxes on the rest of the population of the UK. This, he will say, is part of their continuing faith in trickle down economics.

I think Ed Balls is on safe ground arguing this. The Conservatives remain wedded to the belief that the richest need tax cuts to encourage them to work whilst the poorest need economic sanctions to achieve the same goal. The evidence is already clear from their actions in the parliament. They have cut the top rate of income tax. They have cut the rate of corporation tax, which benefits those with wealth most. They have increased VAT significantly, which impacts those on lowest earnings most. And they have introduced penal changes to many aspects of the social security system.

This is, of course, economically illiterate. The marginal analysis on which so much conventional economic thinking relies says that the more a person has of something the less they respond to more of it. So, quite logically, the more income someone has the less each additional pound of income is worth to them. Conversely, when someone has very little any change in their income is very significant.

What that, inevitably and actually means is that tax cuts for the rich are expensive with little impact on their well being and little consequent impact on the economy, precisely because they do not know what to do with the extra money and so quite often do little that adds value to the economy as a whole. Mostly such gains will be used to fuel asset price inflation such as stock market booms and housing bubbles.

On the other hand penalties on the lowest paid have a significant impact on well being and on the economy because pound for pound such penalties withdraw spending from the economy as well as causing individual harm.

Ed Balls suggestion as to the Tory plan is evidence based. So is the reasoning as to why it is wholly inappropriate for the UK. Increasing inequality at this time can only cause economic harm to the UK and most people oppose it. That's why the message has to be repeated time and again.

Introducing the equivalent of an NIC charge on investment income, [as I suggested via Polly Toynbee's column in the Guardian yesterday](#), would be an appropriate counter measure to increase economic justice and reduce inequality in the UK. It would be good to hear such ideas from Labour.