

Towards a progressive fiscal policy: work in progress

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My friend and co-author, the economist Howard Reed, [had a powerful article on the Compass blog](#) yesterday in which he trailed work we are proposing to do over the next few months.

Having dealt with Labour's policy on the deficit first of all (with an analysis with which I concur, and which I recommend you read) Howard moved on to the measures that he and I think need to be taken to deliver fundamental change during the course of the next parliament. As he puts it:

Of course, it is very easy to criticise; but what should Labour's policy be instead of the current Tory-lite offering? A full policy analysis and 'alternative manifesto' will have to wait until my forthcoming Compass report with Richard Murphy in early 2015. Here I offer only a few guiding principles.

Firstly, there is a desperate need not only to stop, but to reverse, most of the spending cuts made since the Great Recession of 2008/09. With spending cuts set to account of over 90% of total fiscal consolidation compared with only 10% tax rises, it is clear that many of the poorest and most vulnerable families — particularly low income families in work — are bearing the brunt of austerity. This pattern needs to be reversed and fiscal consolidation should be rethought from scratch, with the aim that poorer families should be spared any pain if at all possible. Labour's proposed 'zero-based spending review' should be recast as a 'spending convention' — analysing each and every spending cut undertaken since 2010. At the central government level, all cuts with a regressive distributional effect should be reversed unless a more progressive alternative policy can be implemented at the same or lower cost instead of a simple reversal. Meanwhile, cuts to local government funding should also be reversed and similar enquiries into the impacts of cuts undertaken in each locality. Participatory budgeting techniques, as seen recently in Paris, could be used at both local and national level to advise on the biggest priorities for additional expenditure.

The 'spending convention' should be accompanied by a tax and social security commission which over a period of (say) 18 months should draw on a wide range of

expertise from academia and the third sector to design a more progressive — and simplified — tax and benefit system. The key features of this new system would be: (1) a basic income payment for all families sufficient to reach an acceptable minimum living standard; (2) merging the national insurance and income tax systems into a comprehensive income tax; and (3) replacing council tax, stamp duty and other taxes on capital and property with an annual wealth tax and a land value tax. All these taxes would be designed to be steeply progressive. The new system could be introduced 2 or 3 years into the next parliament alongside the reversal of many of the spending cuts, and should be designed to raise enough net revenue to ensure a balanced current budget at revised spending levels when the economy is at full employment. At the same time, given that the economy is still very weak at the moment — despite a return to modest growth in 2013 — there is ample opportunity to use Quantitative Easing to provide extra funds for public spending as Britain makes its way through a long and drawn-out recovery. This approach, which combines a refreshed, progressive tax-and-spend fiscal policy with a radical monetary policy — will ensure that the people who got the economy into the mess of 2008/09 should pay for it, and not the impoverished innocent bystanders.

The third plank of policy should be aimed at rebalancing the economy in the medium term to stand the UK in much better stead in the event of further financial turmoil in future. This includes better financial regulation, a green new deal to make the UK economy much more sustainable and resilient, a rebalancing of the the economy away from the City and financial services to reduce the likelihood of another crash, and a decisive shift away from the industrial feudalism of the plc and private equity dominated neoliberal economy towards a social economy which foregrounds worker-managers, cooperatives, social enterprises and crowdfunding. Compass's recent report on the economy, [Building Blocks](#), offers some excellent initiatives in this vein.

It looks like we have some work to do over the next few months.