

What taxing powers should be devolved?

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This [comes from the FT this morning](#) and given the importance of the issue I offer no apology for the length of the quote:

There remains fierce debate about how far devolution [to English cities] should go and which cities should be eligible.

The Core Cities grouping – representing England's eight largest city economies outside London as well as Glasgow and Cardiff – on Thursday launch a "devolution declaration" for further and faster reform.

The Key Cities body, comprising 26 smaller cities, is arguing that they should have local control over taxes ranging from VAT to stamp duty and council tax.

There is no doubt that George Osborne is keen on devolving powers. I am not surprised: it provides him with an opportunity to blame cuts on others. The political gain to him is enormous. But what worries me is that I have not seen a coherent justification for devolving tax powers to regional governments, let alone to English cities.

Do not get me wrong in saying that: I am not saying that taxing powers should not be devolved, but a theoretical justification for which power should be devolved, and within what framework has not, as far as I know, been developed. The Calman Commission on devolving powers to Scotland did not do this, in my opinion: it was a pragmatic review reflecting its composition. The result was pragmatic devolution of small taxes (the aggregates levy), straightforward taxes (mainly relating to tax) and minor tinkering to mainstream rates (which powers have not been used). A recent [House of Commons library note](#) tends to confirm this.

This pragmatic approach may well have been appropriate: at the macroeconomic level tax is a fundamental instrument that a national government responsible for the level of overall economic activity in the state as a whole must use. The moment that key taxes, such as income tax or VAT, are devolved, and especially if they are devolved without being pitched to a nationwide standard rate, central government loses most of its ability to use fiscal policy to control the economy. It is then largely dependent on

monetary policy, which has for the last few years been almost totally ineffective because central bank interest rates have, for practical purposes, been close to zero.

To put it another way, devolving tax powers can mean giving up the entire right of central government to manage the economy while substituting in its place a game of local tax competition in which individual cities will compete to reduce tax rates to attract business and wealthy individuals to locate within their geographic domains without any consideration to the overall economic consequence of their behaviour.

I stress, it may be possible to overcome some of these difficulties with a limited number of devolved authorities (let's call them Scotland, Wales and Northern Ireland for convenience) but once cities get this power the probability of control begins to break down whilst the opportunities for chaos multiply. And, I stress, order is only possible if the devolved taxes are very carefully considered.

Land taxes can, of course, be devolved. So too, I think, might employer's National Insurance be capable of being devolved (one that I've never seen discussed). Some minor taxes might also be devolved, as has already been the case in Scotland. But to suggest VAT could be devolved moves us into the realms of economic chaos.

I stress that as yet I do not have complete answers to this question. But it looks to be a major issue that now requires careful thinking, and there is no sign that the government is giving it that attention. That worries me, a lot.