

Only Labour's tax promise makes sense

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We now have the manifestos for the election. We know what the parties now say about tax, even if we cannot know what they will actually do.

The differences in opinion are stark. Addressing, due to space, those parties standing in most seats, it is clear that none of the parties come close to understanding the true role of tax in the economy as yet. All are fixated on the idea that current spending must be covered by tax and only investment may be financed by borrowing. The household analogy within macroeconomics is alive and well and living in the UK, and it's wrong. The role of tax in delivering social and economic policy in its own right is still being ignored by all the parties, excepting the Greens, with their proposal for a Universal Basic Income, and that will not be happening any time soon. This misunderstanding is a massive contributor to economic mismanagement.

Within that framework there is enormous difference in tax policy on display. In particular, Labour's recognises a threefold need. One is to address poverty. The second is to end austerity. The two are, of course, related. And third, it wants to promote a Green New Deal. And it will spend to achieve all three.

The IFS have said this plan from Labour is not credible. I disagree. The plan for investment is largely in small projects that can be ratcheted up quickly as skills become available. And the social plans will achieve their goal, including of increasing incomes. This is a plan for the moment.

The tax dimension of it (and it's always an aspect) also makes sense. To the extent that tax is needed the aim is threefold. Wealth is taxed more, as it is dramatically undertaxed now. Labour is right to tax it more. The same is true of corporation tax, where Labour's proposed unitary tax base for international taxation will lead the world, whilst the increase in rates will simply bring the UK back into line with the world. No one is actually going to change their behaviour as a result of either reform. And nor, when it comes down to it, will almost any one those who are well off enough to earn more than £80,000 a year flee the country, or even work less, as a result. First, most of those people are on contracts that do not vary pay with tax rates. Second, most people have

no clue how much tax they pay. And third, most people work harder when they earn less if (as is true of many of those on high pay) they have fixed and very expensive commitments. The plan does, then, make sense. Inelastic behaviour will result in the higher taxes being settled with little issue arising.

The Tories on the other hand are locked into the belief that tax sells election victory, and so are committed to maintaining the status quo. But in so doing, a very small change to national insurance apart, they also lock in the existing social infrastructure and with it the income and wealth inequality that even organisations like the OECD and IMF say is harmful. Not only are the Tories not using spending to break austerity and defeat inequality, they're refusing to do anything at the top end either, meaning that all the divisions in society that have been so destructive of our well-being will be maintained. In this sense the Tories are really being true to form conservatives.

And in the meantime the LibDems are so far out in the tax cold that they think hypothecated taxes for the NHS might work with the electorate and in practice. But that is not how tax works, and even given the terribly low level of understanding of tax that pervades the UK I suspect enough of the electorate realise that is the case to be indifferent to the promise. The LibDems do really need to try harder.

As for the Greens, carbon tax dominates their agenda. It worries me. They are almost always regressive. The Greens proposal would be, I fear. And I am not wholly convinced a universal basic income makes up for that. The Green manifesto is only of tax interest on tax because it is a place where ideas can be explored. I suggest that this one still needs a lot more exploration.

Overall? Labour has a good offering that makes economic and social sense. It has, thankfully, abandoned its fiscal rule. But like the other parties it still shackles itself unnecessarily on tax by adopting an inappropriate and discredited macroeconomic view of tax. The Tories do the same to reinforce division in society that will cost millions a great deal financially and even more in their wellbeing. And the rest took part, but without serious intent.

All of which leaves only one rational choice when it comes to tax, and that is Labour.