

Funding the Future

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Whichever way Rachel Reeves turns she is heading for checkmate. As someone who likes to claim that she was a former junior chess champion, that must make her feel just a little uncomfortable.

Look at the domicile rule. If she goes ahead, as she plans, and abolishes it, including with regard to inheritance tax, then she keeps Labour supporters happy, but it is claimed that she will deliver no net gain for the UK and she will, supposedly, have alienated the ultra-wealthy population of London on whom she and Keir Starmer seem particularly dependent.

On the other hand, if she keeps the rule to protect the £1.5 billion of tax revenue that it is now said by some that she might lose by abolishing it, she will then alienate approximately 10 million pensioners who know that they will have lost out as a consequence of her choice to abolish the winter fuel allowance for them whilst letting 70,000 ultra-wealthy people off tax liabilities of equivalent amount. In electoral terms, that would be an absolute disaster.

There is, of course, another dimension to her choice. The domicile rule is obviously unfair. It is, in my opinion, racist by discriminating on the basis of a person's ethnic origin but, worse than that, it creates a deliberate unlevel playing field that means that people in otherwise almost identical circumstances might pay significantly different amounts of tax, and that will be noticed and resented by the people of this country. The consequence will be that what I describe as tax morale, which is a measure of the willingness of people to pay the taxes asked of them, will fall and as a result, overall net tax yield will decline because of an increase in tax avoidance and tax evasion. What else can she expect when she creates an unlevel playing field with a bias towards the wealthy?

The situation will not improve for her if, as the Financial Times is now suggesting, she restricts pension tax relief on those on higher rates of income tax so that she can maintain the domicile rule for the ultra-wealthy people with a place of origin outside the UK. Most of those higher-rate taxpayers will probably make pension payments. Three million or so of them will, as a consequence, lose out so that 70,000 people might gain. Admittedly, some of those 3 million would never have voted for her,

but some undoubtedly did. They, too, are going to be deeply unenamoured by whatever decision she makes.

At the same time, she's created another problem for herself. By wholly unnecessarily committing herself to Jeremy Hunt's ridiculous fiscal rule, which she never needed to do, she has now created an almost impossible dilemma for herself in trying to get out of its consequences. If she does, she will undoubtedly alienate some in the City of London, although whether that really matters or not is open to question. If she does not, then she cannot deliver the change that this country expects, which was the single promise that Labour made before the general election. Yet again, entirely through her own fault and lack of understanding, she has created a political crisis for herself.

This situation is, however, deeper than this examination of the headline issues suggests. There are much more profound political points to make here. The first of these concerns fairness. When government is already unpopular with people in this country, with some willing to vent their anger as a consequence, to create deliberate and very obvious injustices that bias society towards the rich and against everyone else has to be the most stupid political move that anyone could make. Anyone doing so might, quite reasonably, be accused of fanning the flames of far-right populism. The belief that politics, as it is, might not be serving the interests of the people of this country is growing, and that can only be reinforced by the actions that Reeves might take to relax her proposed reform of the domicile rule.

Much the same is true with regard to her position on the so-called national debt. Most people have no clue what this is and have absolutely no understanding of what difference £20 billion either way makes because the sum in question is totally beyond their comprehension, and quite reasonably so. They do, however, know that their local hospital or school is falling down, that the roads need repair, and that there are real problems with delays in the delivery of most public services, including health and social care. In that case, what they realise is that if Reeves caves in, there will be no change. There will, instead, be austerity 2.0. They will not forgive her for that. Moreover, if that is her choice, the case for their rejection of government will grow, and the appeal of fascist alternatives will increase.

Reeves has created a total political nightmare for herself. She is clearly utterly politically incompetent to have done so, but the consequences for the rest of us are deeply significant, and the signs are that she is very unlikely to work out a solution to these problems herself. There may be trouble ahead.