

Britain Budgets for National Decline

Editoriale

Britain's Labour Party has discovered its policies aren't helping the economy, and it refuses to cut welfare spending to balance the government budget. That leaves big tax increases, which Chancellor of the Exchequer Rachel Reeves unveiled Wednesday in a new budget plan. It's a Laffer Curve tale for the ages.

Ms. Reeves and colleagues had signaled for months that tax hikes were coming, and some of the worst potential ideas that leaked haven't made their way into the final budget. But note at the outset that even this "not-as-bad-as-it-could-have-been budget" plans to raise tax revenue to a record 38% of GDP by 2030, from about 33% before the pandemic.

The single biggest revenue-raiser is her decision to freeze personal-income-tax brackets for another three years beyond the previous budget, until 2031. The brackets haven't increased since 2022, and her goal is to let inflation lift households' nominal pay into higher marginal tax rates even if their standard of living in inflation-adjusted terms stagnates. The top rate of 45% kicks in at annual income of £125,140—and the 40% rate applies at only £50,271.

Some of the new taxes at least are comprehensible: Ms. Reeves will roll out a per-mile road tax on electric vehicles, which goes part of the way toward equalizing the tax burden between EV drivers and motorists who pay fuel taxes on gasoline or diesel.

But most are perverse. Ms. Reeves is leaning hard on investors and businesses to generate more revenue. This includes increasing the tax rates on dividends and interest income, to as high as 47% on interest for taxpayers in the top bracket. Expensing for some business investment will become less generous, and there's a new capital-gains tax grab targeted at small business owners who cash out by selling their firms to their employees.

Two other howlers: Ms. Reeves cuts to £2,000 a previously unlimited tax exemption for a popular form of individual pension savings akin to making excess contributions to a 401(k) in the U.S. Contributions above that level now will be subject to the payroll tax of 15% split between employer and employee.

There's also a new property tax on homes worth more than £2 million. It's supposed to sound like a mansion tax on "the rich," but it will hit middle-class households in and around London whose property values have shot up faster than incomes.

As for spending restraint, fuhgeddaboutit. Labour backbenchers rebelled over the summer against a modest reform to pare eligibility for disability-linked welfare. Ms. Reeves isn't even trying this time. Instead the budget expands welfare benefits for families with children, maintains household fuel subsidies for the elderly, and throws a few billion pounds a year at utilities to subsidize them for the payments they make to renewable power generators.

What a mess. Ignore the forecasts about the budget deficit five years hence, since the British government tends to be wrong most of the time. The real problem is that it's hard to imagine who would want to work or invest more under this tax regime.

That's why the British press is full of stories about entrepreneurs and other high earners exploring options to emigrate. Dubai and Australia are popular destinations. Last year's payroll-tax raid on employers led to a softening job market while new taxes on wealthy foreigners encouraged more to leave. It's a crash course in the ways increasing taxes can diminish revenue by thwarting economic growth.

The Reeves budget is a signal of British decline, and as Britain goes so will other Western countries with uncontrollable welfare bills. You've been warned: The tax-policy beatings will continue until morale improves—or there aren't any taxpayers left.