Helen Hu January 9th, 2025

Labour's high tax plan may not mean economic growth

On 30 October 2024, the Chancellor of the Exchequer, Rachel Reeves, presented the 2024 Autumn Budget to Parliament, introducing a series of tax changes projected to generate an additional £36.2 billion.

This may represent the Labour Party adopting a flawed approach to national economic growth that ultimately harms the economy. While an increase in tax revenue can result from raising tax rates, it does not equate to economic growth.

Growing Tax Burden

According to the Institute for Fiscal Studies (IFS), this increase in taxation as a share of Gross Domestic Product (GDP) would represent the second-largest rise of any post-war fiscal event. By 2029/30, the tax burden is forecast to reach a peacetime record high of 38.2% of GDP.

The key tax measures which will take place over the course of this parliament are as follows:

1. **National Insurance Contributions (NICs)** – Employers' NIC rates will increase to 15%, and the threshold at which employers begin paying NICs for each employee will decrease to £5,000.

2. **Capital Gains Tax (CGT)** – the lower CGT rate will increase from 10% to 18%, and the higher rate from 20% to 24%; CGT rates on carried interest will rise from 10% and 28% to 32%, with a later increase to 36%; CGT rates for business asset disposal relief and investors' relief will increase.

3. **Inheritance Tax (IHT)** – The freeze on inheritance tax thresholds will be extended; IHT relief for business and agricultural assets will be capped at £1 million, with a reduced rate of 20% applied to assets above this cap; IHT on most shares listed on the Alternative Investment Market (AIM) will

rise from 0% to 20%.

4. **Stamp Duty** – The additional stamp duty rate on second homes will increase from 3% to 5%.

5. **Non-Domiciled Taxpayers** – The current non-domicile tax regime will be replaced with a new residence-based system.

6. **Value-Added Tax (VAT)** – VAT will apply to private school fees, and business rates charitable relief will be removed for private schools in England.

These changes represent significant reforms aimed at increasing revenue but may have notable implications for businesses, individuals, investors, and the national economy.

Understanding Money vs the Economy

First, there appears to be confusion between money and the economy, and acknowledging the difference between them is crucial for developing effective strategies to grow the economy.

Money is a fiat currency that serves as a medium of exchange for goods and services. It holds value and contributes to economic growth. Value itself has two forms: **use value** (the utility or usefulness of a commodity) and **exchange value** (the relative worth of one commodity compared to another). Simply put, commodities possess both use value and exchange value, which facilitate the exchange of goods in a social context.

If we consider that the value of commodities has a purely social reality—arising only because they embody human labour—it logically follows that value is rooted in social relations. While money functions as a medium of exchange for goods and services, the economy is reflected in the exchanges of those goods and services within social relations. Thus, growing the economy means increasing the exchange of goods and services within these social relations, rather than relying solely on increased taxation.

Promoting the Exchange of Good and Services

For example, increasing corporate taxes assumes that corporate behaviour will remain constant. However, high taxation can lead to higher selling prices, which do not necessarily reflect the intrinsic value of goods and services. As a result, consumption may decrease due to higher prices, reducing the exchange of goods and services within the social relations.

It is important to note that value can only manifest through the social relations between commodities. By analysing exchange value—or the exchange relationship between commodities—

we can uncover the underlying value. Additionally, high taxation may also discourage foreign direct investment (FDI) and the establishment of new start-ups.

Tax revenue, while a form of money collected through higher tax rates, can reduce the exchange of goods and services within social relations. Therefore, taxation should be seen as a mechanism for collecting money, not as a reflection of the economy itself. A more effective approach to fostering economic growth involves expanding the exchange of goods and services across time and space, rather than relying on high taxation.

- *The post represents the views of its author(s), not the position of LSE's Department of Management or the London School of Economics.*

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