

# From Temporary Measure to Permanent Burden: How Income Tax and the Size of the UK State Have Grown Over Time

5 July 2025

Rob Moore (@robprogressive) recently highlighted a widely overlooked historical fact: the UK once had no income tax at all. What began as a temporary wartime measure has grown into a permanent and substantial burden on modern taxpayers. This article explores how the size of the UK state has changed since the 19th century, how taxation—especially income tax—has evolved, and what this means for the future.

---

## 1. A Smaller State: Britain Before the Wars

In the early 19th century, the British government was lean by modern standards. Spending was focused mainly on defence, law and order, and maintaining the empire. The size of the state—measured as government spending as a percentage of GDP—was typically under 10%.

### Revenue Sources Before Income Tax:

- Tariffs on imports
- Excise duties on goods like alcohol and tobacco
- Stamp duties and land taxes

There was no welfare state, no NHS, no large-scale education system, and no state pensions.

---

## 2. Income Tax: A Wartime Innovation That Stuck

- **1799:** Introduced by William Pitt the Younger at 0.8% to fund the Napoleonic Wars.
- **1802:** Repealed.
- **1842:** Reintroduced by Sir Robert Peel at 3% on incomes over £150.
- **1914:** Top rate was still just 6%, and income tax only applied to higher earners.

## The Turning Point: The World Wars

- **WWI:** Income tax rose steeply. By 1918, the top rate was 30%.
- **WWII:** Rates climbed again, reaching over 90% for top earners.

These wars required massive state mobilisation and long-term borrowing, both of which transformed the relationship between citizen and state.

---

## 3. Building the Welfare State: A Permanent Expansion

After WWII, the UK built a comprehensive welfare state. Key components included:

- The NHS (1948)
- State pensions and National Insurance
- Universal healthcare and education

This led to a permanent rise in public spending. By the 1950s, the size of the state had grown to around 35–40% of GDP.

**Today:** Public spending is typically around 44–46% of GDP, driven by:

- Health and social care
  - Pensions
  - Welfare benefits
  - Education
  - Debt interest
- 

## 4. Modern Tax Burden: More Than Just Income Tax

Today’s high earners pay:

- 45% income tax (above £125,140)
- 2% National Insurance
- Plus: 20% VAT, fuel duty, alcohol duty, and other indirect taxes

**Real effective marginal rates** can exceed 50%—a far cry from the 3% income tax of Peel’s era.

## 5. Other Comparators: How the State Has Grown

| Metric                      | 19th Century     | Today                  |
|-----------------------------|------------------|------------------------|
| Government spending (% GDP) | <10%             | ~44-46%                |
| Public sector workers       | ~5% of workforce | ~17% of workforce      |
| Welfare spending            | Minimal          | £250+ billion per year |
| Public debt (% GDP)         | ~30% pre-WWI     | ~97%                   |

## 6. What Does This Mean?

Rob's point is not just a nostalgic look at the past—it's a serious reflection on sustainability. As the state continues to expand to meet social needs, healthcare demand, and debt repayments, the tax burden must either rise or public services must be cut.

We are approaching a fork in the road:

- Do we keep expanding the state and raise taxes further?
  - Or do we rein in spending and return to a leaner model of government?
- 

## Conclusion

The idea that income tax was once a “temporary” measure should make us pause. It reveals how quickly exceptional measures can become entrenched norms. Understanding this history is vital if we're to have an honest national debate about the size of the state, taxation, and our future economic direction.

---

*Sources: HM Treasury Historical Data, IFS, ONS, UK Public Spending Statistics.*