A better Treasury orthodoxy

I have looked at how the Treasury needs to take inflation- and deflation – more seriously by considering changes in money and credit in my Telegraph article today which I will publish later. The Treasury also needs to reconsider how to get deficits down. On the revenue side there needs to be much more understanding of the depressing effects of higher and more taxes on activity, and of the growth boosting effects of lowering or removing taxes. In technical language the Treasury and OBR need to include behavioural effects of lower and higher taxes in their models, as many taxes are easily and legally avoidable. They need to create a dynamic picture of deficits, not a static one based on telling us how much a certain tax rate currently raises.

Whenever the UK has cut the higher rates of Income tax better off people have paid more tax and paid a bigger proportion of the whole, as more rich people come and invest here, do more work and set out more businesses here, and undertake more transactions here. When a country as in Ireland cuts corporation tax to low levels it is inundated with companies wishing to set up their headquarters there and book business there. The way to tax the rich and business more is to set rates of tax they will stay to pay. When the U.K. set an 83% Income tax rate and a 98% rate on dividends we had a brain drain from the UK and the country was a lot poorer. We didn’t even keep our pop groups who grew famous with UK fans.

On the spending side there needs to be reappraisal of what the public sector needs to do and what can be left to private sector activity or private capital to provide. Benefits and pensions to individuals account for a large budget. The incentives and support for more people to be in work at a time of many vacancies offers scope for reduced spending and better lives for those who take these opportunities up.   The pension age should reflect longevity, balancing the number of years you have to contribute with the number of years you are likely to draw down.

Where we want and vote for important public services as with the NHS and education proper financial provision needs to be mirrored by management leadership that puts quality and value for money in central position. The Treasury argues they do that, but the numbers show there has been no overall public sector productivity gains since 1997, despite the application of large amount of investment in areas like digital processing and on line service. I find it bizarre that the DWP with a large workforce to assess and distribute benefits should have lower productivity today than in 1997, when it must have been a big beneficiary of many switching to digital forms and transfers. I have heard many accounts of the NHS buying badly, wasting stocks, and not controlling spending on external contractors.

I raised the issue of why the NHS paid to take over most private sector hospital capacity during covid but failed to send enough patients to use it, adding to waiting lists. There is the refusal to take back reusable equipment, the waste of stocks through ageing or the overpayment for items and service delivered. There is reported failure to charge some foreign users of the service even though it says it is the NHS, not the World Health Service.

The government says it wants a productivity revolution. It needs to start with its own services. Existing management need to negotiate more stretching targets or give way to those who can deliver.