[Gloomy official forecasts and bad numbers try to bind the Chancellor]

The Chancellor is an intelligent man who recommended a 15% business tax rate when running for leader and who set up and ran a successful business before being a Minister. He says he wants more UK growth, and now serves a PM who has made growth one of his central aims. So why do we read every day there is no scope for tax cuts? Why are we told the numbers do not allow better incentives for those who work hard, who bring new jobs, and for companies that might come here or stay here and make more investments here if tax rates were lower?

We are told the issue is public borrowing. The government remains wedded to a version of the EU Maastricht rules over debts and deficits which gave us austerity economics throughout the previous decade. Treasury advisers tell the government they can have any rules they like to run the economy as long as they come down to the two EU rules that deficits must be below 3% of GDP, and debt must be falling. They use this to recommend damaging austerity policies which may raise not lower the deficit. What is even more puzzling is how these same advisers are apparently working on measures like bigger subsidies for childcare which could be affordable whilst ruling out tax cuts, and why with the Truss package they were only annoyed by the tax cuts, not by the huge increase in public spending for energy subsidies which cost twice as much as the tax measures on their costings.

In order to constrain the Chancellor the Bank of England , the Treasury and the OBR have decided to present the UK figures in the bleakest possible way. Only in the UK does the taxpayer have to pay up for the losses the Central Bank insists on taking on all the bonds they bought so badly. That’s over £100 bn of losses over 5 years according to the OBR. The European Central Bank will not sell bonds into the market to take such huge losses, whilst the US Fed does sell bonds at big losses but does not charge the losses to the taxpayer and Treasury.

Then there is the bizarre UK accounting treatment on debt interest. The Treasury rightly publishes the costs of paying the regular interest on all the state has borrowed, which comes out less than £45bn this year. Then it adds to that this year another £70bn to allow for the impact of rapid inflation on the future repayment cost of the bonds they have sold that are linked to the inflation rate. This is not something taxpayers have to pay when they pay the debt interest. What happens is the eventual capital repayment of the bond is increased by the amount of inflation, when the government will simply re borrow the repayment amount.

All this should be seen by the Chancellor as perverse good news for next year. There will be a big windfall decline in the costs of debt interest as stated, giving him more than £25 bn of lower “spending” to offset any tax cuts he might want to make. He could also slash the costs of selling bonds which this year will cost taxpayers £11bn by telling the Bank not to sell them into the market at big losses. The Bank of England makes it quite clear on their website the bonds belong to taxpayers and they act as Agents of the Treasury in this matter. That will free more scope for tax cuts .

So cheer up Chancellor. Tell the advisers that in their own terms there is flex for tax cuts in their numbers. Tomorrow I will talk about how cutting taxes can raise more revenue, not lower it.

Public sector output

The disappointing GDP figure for December was dragged down by a fall in output at Health and Education. There were fewer GP appointments, less test and trace and vaccination work. Fewer pupils went to school. It is worrying that after such a large extra recruitment of NHS managers and non medical staff in the last three years output should be falling. More support staff alongside the extra doctors and nurses need organising and motivating by the managers so more is achieved.

Hospitality and leisure was also weaker than the Christmas season deserved. It is true Premier League games were lost to international competition, but also the case that business suffered from train strikes which prevented or deterred many people going to city centres where much of the leisure and hospitality is located.

I have pointed out before that public sector productivity has now failed to grow for 25 years. The covid years have been especially bad. We do need to find managers that can improve all that, and can tailor jobs for talented staff that are worthwhile and well remunerated within the large budgets available.

Senior health managers need to recruit, retain and motivate enough staff

The Department of Health and Social Care has provided the following answer to your written parliamentary question (117395):

Question:
To ask the Secretary of State for Health and Social Care, how many senior managers in the NHS, including NHS Trusts and administrative bodies, earn

over £100,000 a year. (117395)

Tabled on: 06 January 2023

Answer:
Will Quince:

At NHS Trusts and other core organisations, between October 2021 and September 2022, 3,010 staff earnt over £100,000. Furthermore, in the same time period, at NHS Support Organisations and Central Bodies, 500 staff earnt over that amount. All remuneration, including non-basic pay elements such as band supplements, medical awards, geographic allowances, local payments, on call payments, overtime, recommended retail prices, shift work payments and other payments, are included in this total.

The answer was submitted on 07 Feb 2023 at 14:30.

Comment

It is interesting that central bodies for the NHS employ 500 managers earning over £100,000. It makes the absence of a full manpower plan for so many months that much more difficult to understand, given the central importance of sufficient well motivated and rewarded personnel to run a good service. One of the prime tasks of well paid senior managers must be to recruit, retain, and motivate staff to deliver a good service. I continue to seek replies to questions on what use NHS managers are making of promotions, increments, pay gradings and the other flexibilities they have to reward and encourage good staff on their books and to switch away from the short term contract model which so often forms part of their service response.

Better guidelines for growth

(written for the Telegraph)
I thought Liz Truss was right to want to break out of low growth and looming recession . I sent her some less expensive proposals for tax cuts and an energy package than she adopted along with some spending reductions and measures to boost our energy, food, transport and basic industrial capacities. I watched in horror as events unfolded as she tried to change economic policy in the face of a hostile establishment.
Monday 18th September saw the start of a fateful week for the government in the run up to the mini budget. UK ten year government borrowing rates usually of interest only to market specialists stood unremarked at 3.3%. US ten year rates were a bit higher at 3.5%. On the Wednesday the Bank of England hiked bank rate by 0.5% and the US Fed by 0.75% and sent bonds down. Just to make sure UK bonds tumbled the Bank of England announced a big reduction in its holdings by £80 bn including proposed sales of bonds at falling prices into an unhappy market. The ten year rate rose to 3.8% by the Friday in the UK and to nearly 4% in the USA.

Both the Bank of England and the Fed had made big errors in their money policy in 2021, keeping rates too low and pushing bonds to unsustainable prices by buying too many of them. This helped bring on a big inflation which started well before Putin's invasion of Ukraine. They were now fighting to control it by belated and fierce interest rate rises, triggering falls in the prices of the bonds they had previously paid too much for. Their language was tough because they wanted bond prices down.

So when the Chancellor stood up to announce tax cuts and a much larger energy package of support to business and households the bond market was already falling from Bank actions. It went down a bit more on his announcement with adverse comment on the extra borrowing needed to pay the energy subsidies and to cover any net tax revenue loss.

Things got out of hand in the UK government bond market on the following Monday and Tuesday, thanks to many large pension funds owning government bonds they had not paid for through funds that bought lots of claims on bonds. This was a problem specific to the UK They wanted to own several times the amount of bonds they could afford by just paying a margin and owning contracts to buy the rest. They now had to pay cash for more of the costs of these bonds as prices fell, forcing them to sell bonds in a market where no one wanted to buy. As they raised the money to pay for the calls for extra cash under the contracts the market dried up and fell sharply.

Belatedly on the following Wednesday the Bank of England announced it wanted bond prices higher and was even prepared to reverse its sales and drive them up with purchases if necessary. The market flipped upwards with the ten year rate falling from 4.6% to 4.1% and the thirty year from 5% to 4%. The Bank showed it did control the market and could stop the higher rates it had wanted a week earlier when that threatened to get out of hand. The Bank's own pension fund was a big holder of the levered funds and must have been sitting on big losses.

It suits many to spin all this as proof that some tax cuts to promote growth destabilised markets and were ill judged. This is a very partial and inaccurate account of the problems. To the extent that extra borrowing worried the markets that was far more down to a generous energy subsidy policy than to tax cuts which would have produced more extra revenue from extra activity than official economic models allow for. It ignores the fact that the big falls on the Monday and Tuesday were dominated by worries about the pension funds in LDI geared bond funds, as the subsequent Bank actions and statements on the Wednesday made clear. It also ignores the way the Bank and the Fed deliberately drove bonds down prior to the Statement as they grappled with out of control inflation they had helped create.

It is good news that late in the day the Bank did what it took to sure up the very vulnerable LDI fund bond markets. They did not need to buy many bonds and were able to resell them at a profit a bit later . Just talking the market up would also have worked if they had done that earlier. Since then both the Fed and Bank have scrambled bank rates higher as they needed to do whilst allowing the longer rates to drift down again, with UK 10 year rates back to 3% and US to 3.5%. It looks as if they have now done enough to bring inflation down, which is reassuring markets.

It would be wrong looking at the state and forecasts for the UK economy to conclude from all this we need higher taxes. The growth rate is too low and the economy is very short of many types of capacity from energy to food production, from roadspace to water, from steel to chemicals. Expansion of capacity is needed to ease longer term inflationary pressures and to improve national security of supply. This needs more competitive business taxes and individual tax regimes on investment and income that encourage entrepreneurs and savers.

We cannot afford tax rises. They lower growth, stifle investment and in some cases even reduce tax revenues. We cannot afford to deter inward investment and home grown investment with higher business tax rates. We need to relax taxation on the self employed and small businesses, the potential source of much contemporary innovation, drive and good service. I hope the Chancellor learns the right lessons from last September and delivers a unifying growth budget for enterprise and success.

Ownership for all?

Ownership for everyone

In the 1980s I took to Margaret Thatcher the idea of ownership for everyone. She was already a keen exponent of Council house sales, the sale at a discount of a rented state owned home to the tenant. It was a win win for everyone involved. The Council or government got its money back on the home to be able to build a new one or to clear its debts. The tenant changed rent for mortgage so as they approached retirement the mortgage would be paid off and they had no more rent to pay. Surely old age is more secure if you are rent free? They could also extend, improve, decorate their homes as they saw fit, free of tenancy restrictions. We worked on beefed up home sales. The Opposition parties opposed but some of their Councillors and members loved the idea enough to buy their own.

Margaret agreed we could work up a series of measures to give more people more opportunity to own. We extended and improved employee share schemes, so those working for a larger company could be a shareholder. We launched a big privatisation programme with special deals to encourage employee shareholdings, including some free shares. We advertised the share offers direct to the public, and many bought their share in a great national company like British Telecom or British Gas. We fostered more employee and management buyouts of the businesses they worked for and led by example with the very successful sale of National Freight to the lorry drivers and managers of the company. This was followed by Tower Colliery where the miners who bought it proved the nationalised industry had been too pessimistic about its prospects when they wanted to close it.

We let people save for their pension in personal pension plan portfolios instead of having to do it through collective company wide schemes. This meant people could see what shares and bonds they owned and could influence how the money was invested directly. For those staying with the larger schemes we worked on improving the information so savers could see

they indirectly owned shares in many of the great companies of the UK.

You cannot have capitalism without many people owning capital, If capital is too concentrated it will be resented. It becomes easier for those who dislike free enterprise to gain majorities in democratic Parliaments and seek to tax and legislate it into difficulties. Conservatives believe in levelling up, not levelling down. It does not give capital to the poor by taking away more of the capital and income of the rich. It will drive the rich to other countries or will get them to hire smarter lawyers and tax advisers. Conservatives believe in policies that promote wider ownership and allow markets to set prices that expand supply and tackle shortages.

We do believe in collective insurance against unemployment and disability. A successful free enterprise society can afford to help the vulnerable with the costs of a decent life. We also believe in individual and family effort and insurance wherever possible. That is why it must always be worthwhile to work rather than to be on benefit. That is why from self employed to billionaire large company it must always be worthwhile to venture, to expand, to serve customers better. Socialism is the politics of envy, where people would rather everyone was worse off if less unequal. Conservatism is the politics of aspiration, where we want the many to be better off by their own efforts and the vulnerable minority to be well looked after through state action. We welcome ownership for the many. We promote better paid jobs with smarter working and higher levels of training.

We want a can do society, a society where the strivers are the heroes and where free enterprise can show it serves you better.