

# You were right first time PM

The Prime Minister was right to want to keep the UK corporation tax rate at the lower end of the advanced countries tax table. We need to carry on attracting large investment flows into our country and leaving domestic businesses with more of their profits to put into new investment.

It appears the PM has been persuaded to row back on this promise of her election campaign to "ensure economic stability". I do not think this measure does that. After the 2.30 announcement yesterday there was a sharp sell off in long bonds. Interest rates on the 50 year paper rose by more than 0.4% or 40 basis points. As the PM's critics wrongly think the UK bond markets currently move on changes of government policy they need to explain why when the PM did the main thing they wanted the bonds sold off sharply. Maybe long bond movements in recent days have more to do with Bank of England management of the market.

Sterling was unchanged after the announcement instead of rising as her critics implied.

Instead of changing individual items in the tax proposals the new Treasury team needs to bring forward the spending proposals and show us forecasts of the deficit. We need a menu of tax and spend options with prices to influence and judge the full budget and fleshed out growth plan. The PM promised MPs a series of meetings and consultations over the next week preparatory to the full budget. These talks need the government to keep open tax cuts as well as increased spending on priorities and cuts elsewhere. If they have already taken the key decisions the talks are pointless.

I am all in favour of actions to get the deficit down. I have been forecasting a higher deficit this year than the £99 bn OBR budget estimate. To control it I would look first as the biggest change by far that the new PM has announced, the energy package. It should remain very supportive for people on low incomes, but there could be more burden sharing for higher earners who burn a lot more fuel.

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## Taxing times

Bizarre to hear the media and Opposition mobs out to pull down the PM by forcing her to tear up her pledge to keep the UK competitive on business tax rates.

As always the Opposition wants to do the EU's dirty work to make us less competitive and get in the way of us attracting more business investment and more jobs.

The think tanks and forecasters who want taxes up tell us the deficit will otherwise be too big. If they have their way they will put us into a longer and deeper downturn which will mean a higher deficit, not a lower.

Over the last 2 years the OBR has massively over forecast the budget deficit and used these wrong forecasts to push a Chancellor into higher taxes. More accurate forecasting would conclude now that a lower business tax rate would be better for growth and for total tax revenue.

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## Onshore gas

The government has said it is considering allowing extraction of onshore gas in the UK subject to community consent and full safety and planning controls. Critics of this approach call it fracking, which is a description of some reservoir management techniques that have been commonly used in oil and gas wells for many years and have been accepted as safe. In order to sustain or increase pressure in some oil and gas deposits so the gas and oil flow to the surface it is necessary to inject agents, most often water, to increase pressure in the strata to move the gas on. There could be low level seismic shocks from this process which produce little or no disturbance at the surface above the reservoir. These shocks are monitored and controlled, and are usually below the level of shock created by a bus going by on a nearby road, or felt near to a building site.

Producing more of our own gas would be good for the environment and good for our economy. It would more than halve the CO2 output compared to relying as we do today on too much imported LNG gas. These imports need energy to compress, liquefy, transport and convert back to gas which we do not need for home produced gas. Imported gas attracts large tax revenues which are paid away to a foreign country, whereas home produced gas would be taxed to help pay for local services. Home production brings well paid jobs. Home produced gas would likely to be sold as contract gas, avoiding the price spikes of buying gas on a volatile world market. It would ease our indirect dependence on Russian gas into Europe.

I also think it fundamental that work on such a gas well should only go ahead where the local community affected by it has given consent and participates in the revenue or uses some of the gas produced. I would not want a gas well close to a town or village in my constituency where the public did not wish one. The idea behind requiring community consent would be to encourage wells and drilling well away from homes. People should have the choice, and some may well wish to allow drilling a mile or two away from their home in return for payments from the producers. This policy is currently being consulted on and is not firm, so your ideas would be especially welcome.

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## My visit to the Alzheimer's Society's stand at Conservative Party Conference

At Conservative Party Conference, I visited the Alzheimer Society's stand.



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## My Contribution during the Committee Stage for the Health and Social Care Levy (Repeal) Bill

**Rt Hon Sir John Redwood MP (Wokingham) (Con):** I disagree with new clause 2 and new clause 1. I welcome very much the legislation. One of the objectionable features of the original proposal was hypothecation, because I

do not think it is possible to identify a single tax that just happens to meet the costs of a particular service, let alone a tax that would then have revenue growth at the right pace to take care of the needs of that service. This one was particularly misleading. There was no way that the amount of tax to be levied got anywhere near paying the full costs of social care. It was misleading to make people feel that social care might be as cheap as this particular tax, although the tax itself was burdensome on all those who go to work.

There are still strong elements of hypothecation in new clause 2, which I would equally object to. Again, we should not mislead people into believing there is a simple, relatively low tax that takes care of a huge problem—social care. Indeed, when the Government compounded the difficulty by saying that in the first instance the tax would be mainly used for the health service, and by some magic that would drop away and it would go to social care, it all became incredible to me. That is why I did not like the idea in the first place. It is very good news that we are sorting it out.

The challenge of new clauses 1 and 2 is a perfectly fair one, and I think the answer is straightforward. Social care does need more money to go into it, and it will need progressively more. If we fund our social care better and expand it, it will release some of the pressures on the NHS. There are some people who could vacate a bed quite safely and get better social care if that were available, so this is worthwhile expenditure from that point of view as well. Above all, it is worthwhile expenditure because people deserve better care and better treatment and that should be funded out of general taxation.

The Government are right now to abolish the hypothecated specialist tax, to give up the idea that there is a single, relatively low tax that solves all the problems, and to accept that social care and NHS provision together is a major claim on the general taxation of the country. If the general taxation of the country does not reach total spending—it does not seem to at the moment—it is also a claim on borrowing.

On that last point, we should remember that for the previous two years the Office for Budget Responsibility grossly underestimated the revenues that came into our economy, and we borrowed considerably less than it was forecasting. It may not be so wildly wrong this year, when it looks perhaps as if its borrowing forecast is a bit on the low side, but we must remember that the way to pay for these services is to grow the revenue. That was what we were doing last year and the year before, and that is what we must do next year, to take care of the need to spend more on the NHS and social care.