[We need tax cuts for growth and enterprise]

Margaret Thatcher and her Chancellors cut Income tax from 33% to 25%.

She cut Top rate Income tax from 83% to 40%

She cut the tax on savings Income from 98% to 40 %

She cut Corporation Tax from 52% to 34%

Rishi Sunak increased the Corporation tax rate by 31% to 25%

He raised the NI rate by 10%

He imposed a new Digital services Tax

He imposed a windfall tax

He invented a Social Care Tax

And then he wants us to believe he can be the new Margaret Thatcher!

[The leadership candidates set out their stalls]

On Sunday I received a number of phone calls from leadership hopefuls. With other colleagues yesterday and on Monday we had meetings with each of the candidates in turn. We asked them for their views on the main topics including the economy, public services, foreign and defence policy, Brexit, and identity politics. They are all now developing a Manifesto covering the main topics, though most were having to rush to put it together as the timetable is very rapid.

Only Rishi Sunak wanted to delay tax cuts and was keen to persevere with the company and windfall tax rises he was planning as Chancellor. The others made a variety of proposals to cut VAT, remove the increase in company tax rates, cut National Insurance or Income Tax. Some wished to pay for this out of fiscal headroom in the current budgets, some from faster growth and some from reductions in public spending. All thought defence spending needed to rise over the rest of this decade. Some had proposals for slimming the civil service and overheads of large services like the NHS, some to reduce welfare spending through more improvements to foster more ,jobs and better paid jobs for those on benefits. A couple queried the pace and cost of UK adaptation to net zero given the growing reliance of China on coal, using that to send us manufactures we import.

All promised to see through the Northern Ireland Protocol bill and if necessary use the Parliament Act to get it through the Lords. All said they would bring it into force if the EU does not offer a solution to the issues we have raised. All said they accepted the result of the referendum and wished to work to use the freedoms Brexit brings to expand the UK' global reach and influence, develop more trade deals and improve the regulatory position to foster more UK investment and business led growth.

Today there will be votes on the 8 candidates how have made it this far. When we know the results we will at last have some hard polling data to think about which two might emerge victorious form the MP competition phase.

ELecting a leader

There are many considerations in choosing a candidate to vote for. I see some on this site have already written off the full slate of 12 possible candidates. You need to live in the real world. The new PM will be an existing Conservative MP. The 12 include people with a wide range of talents and past successes and each would bring something different to the role. Choice involves compromise. No one gets everything they want in an ideal leader, or everything they support in the leader's programme. We are choosing someone who needs to be right for the nation, not just for us.

The assessment is a mixture of issues. Does the person broadly support the values you like? Do they have an outline programme of action to carry through those values? Does their past demonstrate an ability to overcome obstacles to seeing through important changes? Would they be able to earn the loyalty of enough support, and would they be confident enough to recruit a talented team of Ministers? Will enough of the public like or respect them?

The ability to communicate and carry people with them is important. It is no good having a good programme or great ideas if you cannot get elected to the leadership role or if you lack public support to retain office. Reading the public mood and making the right advances at the right time is a crucial leader's skill.

It will be a demonstration of leadership skill to emerge victorious from this crowded field. It is important the MPs present two candidates to the membership and that both agree to fight a good campaign to give members a clear choice. It will be a test of character and political skill as well as a judgement on two competing programmes.

The truth is a lot is potentially up for change and that could be a good thing. The other truth is the unelected governing establishment will be looking to circumscribe or control an incoming Prime Minister. Some of them see it as an opportunity to bin work on The Northern Ireland Protocol, human rights law reform, controlling our own borders, setting our own VAT and using the freedoms of Brexit.

[The creation of £450bn of magic money and inflation]

Mr Sunak asks us "Do we confront this moment with honesty ,seriousness and determination, or do we tell ourselves comforting fairy tales that might make us feel better in the moment but leave our children worse off tomorrow?".

The briefing which accompanies his leadership offer tells us this is the man who will control public spending, reduce the deficit with tax rises and then get the economy growing again. He is the man who will not offer early tax cuts as these could fuel inflation.

So let us examine his presentation of his past and future economic management plans.

I am glad he now takes inflation seriously and is now determined to get it down. He is of course the man who approved and signed off the creation of £450 billion of new money during his brief period in office whilst claiming the Bank of England was independent. Indeed, so independent was the Bank that he was also required to sign off a complete indemnity on all the bonds the Bank bought with the new money, as they were bound to fall in value as soon as interest rates went up. The truth is the main policies of printing money and keeping rates down for too long was the policy Mr Sunak endorsed and made possible, putting the full weight of the Treasury behind it. When I and others suggested the last £150bn of the printed money was too far and would be inflationary he disagreed with us. Most did agree with the early offsets to the big damage the covid lockdown did but he continued them long past the recovery which added to price rises.

I am glad he takes controlling public spending seriously. During lockdown he was the biggest spender as Chancellor we have ever had. Most of us agreed there did need to be substantial packages of support to families and businesses whose budgets were wrecked by enforced idleness to meet the health policy priorities. We did not agree with the lax approach to fraud and error in the disbursements. Nor did we see a lot of value for money in the very expensive test and trace schemes he supported and financed. His campaign has not yet identified how he would now find ways of curtailing spending which he did not find as Chief Secretary or Chancellor.

He used to tell us he was a low tax enthusiast but he now tells us tax cuts are unrealistic. He put in place a 31% hike in the business tax rate. He put through an increase in employer and employee’s national insurance, breaking a Manifesto pledge and imposing a new tax on jobs. He put in a new social care tax and an on line shopping levy. He froze thresholds of Income tax driving many more people into higher tax bands. He left office as the Chancellor in a Conservative government who had imposed the highest ever tax burden on the UK. New promises of tax cuts delayed are difficult to believe.

He says he was a pro growth Chancellor, but after a good first year of recovery from covid the economy is now badly slowed by his tax rises on top of the inflation damaging real incomes. It is difficult to see how his policies would suddenly rekindle UK growth when they are all based on Treasury austerity.

An economic background to the Leadership election

1. **Controlling inflation**

We have a fast inflation now thanks to a reckless monetary policy 2020-21. The Chancellor was wrong to authorise the last £150bn of money printing in 2021 on top of the £300 bn he had authorised during the covid lockdowns. The Bank used this extra money to keep interest rates down, and some of the money found its way through the banking system into driving up general prices as well as the obvious inflation in the price of bonds and other financial assets which they were directly buying. The Chancellor was wrong to sign a complete indemnity for the Bank against all their likely losses on the bonds they bought, which are now falling in value as rates rise.

The good news is the Chancellor did end his money printing at the end of 2021. Inflation will fall away rapidly next year as the impact of the higher interest rates and the slower rate of money growth now filter through. Running a bit larger deficit will not boost inflation as long as it is financed by longer term borrowing at market rates without artificial creations of new money. What the state spends will then be saved by the private sector lending the money to the government.

2.Getting the deficit down

Last year the deficit, the gap between tax revenue and state spending, came in £90 lower than the stupid Treasury/OBR forecasts. They completely misjudged again the impact of faster growth on borrowing, As the economy grew faster so much more revenue came in from all the extra transactions and incomes earned by growth, whilst state spending on unemployment related costs fell. Stamp duties surged on more transactions spurred by the rate

reductions. This year there is the reverse danger that they will end up borrowing more as they are slowing the economy too much. If they bring on a recession then revenues will fall short and the costs of unemployment will go up. It is best to get the deficit down by going for growth. Getting value for money from spending also matters and cutting back the excessive public sector overhead would help.

3. Taxing to death

The biggest Treasury mistake of the last two years has been the decision to go for a high tax economy. There is the social care tax, the National Insurance hike, the on line tax, the excess profits levy, the failure to increase income tax thresholds in line with inflation, the drift of many more people into higher tax bands, the extra VAT on sky high fuel bills and the threatened 31% increase in Corporation tax bills.

The economy is being slowed quite enough to flush out inflation by the big tightening of money policy and mortgage rate rises and by the big hit to people’s real incomes from the surge in energy and food prices. It does not need a third hit from taxes which no other advanced country is trying. The problem will soon be a shortage of demand and a dip to recession, not a continuing fast inflation. It is a pity our peak inflation is delayed by the energy price controls meaning it will likely come in October with the next big hike in bills.

4.Going for growth

The government needs a growth strategy. That requires a bit more demand and lower taxes. Take the VAT off domestic fuel all the time gas prices remain high. Halve the rate of VAT on petrol and diesel. Remove the extra national Insurance. Back investment in UK energy and food capacity at a time of shortages. More oil and gas from the UK will replace expensive and high CO_2 imports and will generate a lot of extra tax revenue