# [The case again against higher National Insurance]

I reproduce below my latest article for Conservative Home

Let me have another go at explaining to the Government why they must remove the National Insurance tax rise, and cut VAT, before the full cost of living squeeze hits in April.

I have no wish to see the country damaged yet again by a foolish Treasury orthodoxy, aided by a Central Bank lurching from being too loose and inflationary to being too tough.

It is too late now to head off the round of inflation they have helped create. They both need to recognise that growth will  bring the deficit down and the belated ending of money printing will start to slow inflation after April/May without further action. The hit to real incomes ahead will also slow the economy.

I have seen Treasury theory do so much damage over my lifetime. I urged John Major not to push the UK into the inevitable boom bust that the European Exchange Rate Mechanism was bound to deliver. He went ahead, triggering an inflation followed by a bust which collapsed house prices and took down many small businesses. It  cast the Conservatives out of office for 13 years.

I watched as Gordon Brown helped generate a Treasury orthodoxy that decided to correct a credit bubble they had created by a disastrous aggressive curtailment of cash and credit. This bankrupted large banks and brought on the predictable great recession. On the back of that, Labour have been out of office for 11 years so far.

Today inflation is too high. Tomorrow it will be higher, when the full energy price rises add to bills. Wage growth so far is below inflation. The cost of living squeeze will hit confidence and limit many people's ability to spend on discretionary items, given the big rise  in the cost of the basics of food, energy and the mortgage.

Some say the inflation is the result of supply-side shortages brought on by Covid, international supply chain disruptions, and the general shortage of gas in Europe. Others point to the way the Bank of England continued creating extra money, buying up bonds, and keeping interest rates around zero long after the initial pandemic shutdown.

They were right to produce a strong positive response to offset the economic damage done by the health policies in 2020, but wrong to continue money printing in the later months of last year as recovery was well set.

Whichever explanation you prefer, it all points to a coming sharp decline in the pace of growth, a big reduction in consumer spending outside the basics, and a peak or surge in inflation. It does not look like a wage/price spiral setting in given the deflationary impact of the huge energy price rises and the consequences of the most severe advanced country monetary tightening on offer.

The Bank of England has stopped all money printing, has raised interest rates  and is even thinking of money shrinking whilst the ECB plans a further €40bn a month and the Bank of Japan carries on buying as many bonds as it takes to keep the ten year rate of interest near zero. Even the Fed, with a much bigger inflation problem than the others, is still unwisely printing more money this month. The Bank of England should give its tightening time to work before considering too much action.

The Treasury have one main argument against my proposal that we should cancel the extra National Insurance, end VAT on fuel, and cancel VAT on green products to make it cheaper to save energy at home: they say the deficit is too high so they need to hike taxes to reduce the amount we need to borrow.

I agree with them that the UK has to get the huge deficit down from the necessarily high levels to get us through lockdown. The Treasury said they could live with a deficit of £233.9bn this year. I thought that was too high, but also argued it was a very unlikely outcome in the  budget debate.

Now the Treasury thinks the deficit will come in at £183bn, £50bn lower. It is currently running more than £60bn lower with just three months more to report. In that case the Treasury on its own argument can easily afford to cancel the £12bn of National Insurance increase next year and forgo around £5bn of VAT revenue. It will still be reducing the deficit by a large amount compared with its assessment of what was realistic last March.

I have a strong economic reason why they need to do this. Why has the deficit fallen so much more than they thought this year? It is because the economy has grown more than they thought. It is also because the Treasury/OBR model of the economy underestimates just how much extra tax revenue they will collect if the economy grows faster.

By the same token, if they insist on slowing the economy too much this spring they will collect less tax revenue than they thought. They could end up with a bigger deficit from too tough a squeeze. If people spend less on non essentials because they are squeezed, there will be less VAT. There will also be fewer service sector jobs so less income tax. There will be less profits tax from non energy businesses.

I do not want the Government to fall for Treasury austerity economics again and plunge us into another slowdown – which will lead to more self defeating cries from the Treasury for higher taxes and lower spending. Of course we need to get inflation down. The Bank has now taken some necessary action to start to do that in the second half of this year.

The single biggest problem is the price of energy. The Government needs to get on with licencing and encouraging more domestic production of oil and gas, and more domestic capacity for reliable electricity supply. This is the way to address the chronic domestic shortage and to start to unwind the foolish dependence to sky-high priced imports from a continent even more short of energy than we are.

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# [A UK borders and crime policy]

Vote Leave did not highlight borders and immigration policy during the campaign, aware of how it would be wrongly caricatured by Remain. Nonetheless others did regularly raise the issue, and many Leave voters liked the idea of controlling numbers of migrants welcomed to the Uk once we had left the EU. The general idea of a points based economic migrant policy where the UK decided how many people to invite and which skill sets would be most welcome gained general support amongst the Leave  majority. There was a strong feeling that the EU economic model of allowing many people in to take low paid jobs in the UK keeping downwards pressure on wages was a bad one.

Most of us agreed that  the UK should continue once out to offer refuge to those fleeing danger from evil regimes along with other advanced countries, doing our bit to alleviate these ills. Unfinished business from our time in the EU is the persistence of people trafficking and smuggling across the Channel. The old routes using lorries across the narrow straits are now better controlled, only for the trade to develop more reliance on small boats.

The government is putting in a points based system and is out to limit low skills and no skills migration from the safe countries of the EU, something we were not allowed to do as members pledged to free movement. It is important this policy is not damaged by frequent abuse of the sea route by economic  migrants arriving without permission. Their lives are placed at risk by the business organisers of unsafe boat trips who violate our migration laws but also break EU laws over sea voyage safety and regulation, over  taxation of business profits, and standards of employment.

Ministers have made clear their wish to stop this evil trade in people. Border Force say they will not turn back the small boats to France to show this is a futile trade in  the way Australia stopped it for safety reasons. In which case it is surely a fair challenge to Border Force to ask them how they do intend to stop it if they do not like the Minister’s instruction. It is their job to close down these illegal acts, to protect the lives of the trafficked and to enforce the law on both sides of the Channel against unsafe and illegal travel.

A big Brexit win can be higher wages for low skilled jobs with fewer economic migrants and more investment to help workers recruited locally.

## [Oxford lecture "The long road to net zero". Reminder to register.]

On Friday 25th February at 11.30 Rt Hon Sir John Redwood D.Phil FCSI will give a lecture in the Old Library, All Souls College Oxford on the topic of the long road to net zero.

The lecture will chart the continued dependence of the world on fossil fuels this decade. It will assess the growing divide in approach between the UK and EU on the one hand and China, Russia and India on the other. It will ask how green are various technologies recommended for the transition and warn against compliant countries importing products with a high carbon content to lower their own CO2 scores. It will argue that the green revolution needs to be a popular revolution, driven by the wishes and needs of billions of consumers, just as the digital revolution has been. It will examine the way in which China and Russia might exploit their positions in industrial manufacture and oil and gas to shift the balance of world power.

To register your attendance, please visit the following weblink:
**https://www.asc.ox.ac.uk/event/long-road-net-zero**

For those attending virtually, Microsoft Teams meeting links will be sent out 1 hour beforehand.

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## [Brexit wins – a more independent energy policy]

During our final years in the EU the Commission was driving hard for a common EU energy policy. The continent is chronically short of energy, with little oil or gas of its own, with an ageing French nuclear fleet of power stations, with Germany pulling out of nuclear power this year, and with a policy of running down coal mining and coal power generation as quickly as possible. The EU has to import 60% of its total energy needs. Renewables now account for just 15% of total energy required, though this sector is growing fast.

The aim of the EU policy is to foster maximum interdependence to justify EU control. They argue that putting in more gas pipelines and electricity interconnectors increases the flexibility of any given EU country as they may be able to import from others when they are short. It also greatly increases the dependence of all the states on imports and forces them to accept EU involvement or leadership in energy policy.

When the UK first joined the EEC they insisted on our substantial fishing grounds being a common resource, opened up for exploitation by many vessels from elsewhere in the Union. This did huge damage to our stocks and our domestic industry. They wanted to make our oil and gas a common resource as well, but the UK did resist that. Instead the UK allowed a range of EEC companies to have access to licences alongside UK and US oil companies, whilst landing most of the oil and gas in the UK and taxing it here.

Today officials and regulators in the UK Energy division of the Business Department seem wedded to the idea of our being linked ever more closely to the continental system by putting in many more interconnectors and pipes to allow more imports. They try to argue that the intention is to have a market to export excess wind power when we have it, but the movement is nearly always the other way with endless imports. Allied to the policy of closing down all but one of our current nuclear stations this decade as they age, and closing down the remaining stand by coal power stations, it seems clear the aim is to increase our import dependence this decade whilst trying to get renewable and new nuclear to catch up with needs sometime in the next decade.

Ministers have recently accepted that we need more gas this decade whilst we await the coming of nuclear and more wind storage systems, and accept that the greener and cheaper option for the UK is to produce more of our own. We should use the opportunity of Brexit to break free from dependence on an energy short EU and should make ourselves self sufficient, with enough reliable energy to keep our lights on at all times. Leaving the common energy policy will be a big win. The EU has to contort its foreign policy to keep the Russian gas flowing. The UK could enjoy a lot more tax revenue if it produced more of its own oil and gas instead of relying on dearer imports where foreign countries got the tax revenue on production.

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# Brexit wins – change at the Treasury?

We were always told during our time in the EU by its UK advocates that Tax was a reserved matter which stayed under UK control. This was one of many untruths as proponents of the EU sought to play down the extent of the power transferred instead of arguing for a vision of a united Europe where enough power did rest with the centre to allow EU government. The EU required us to legislate for VAT, and set requirements on which items must be taxed and on minimum rates. It started to impose a number of new environmental taxes . It controlled customs duties. It used court decisions to circumscribe company taxation.

The first task must be to re-establish full control over our tax policy, and to make some tax changes that are desirable in themselves and important to show that we have regained control. This government that wishes to be green should take VAT off insulation materials, draught excluder, boiler controls, solar panels and other green goods. Stopped from doing so by the EU, what is now stopping them?  It would be good to remove VAT from domestic fuel all the time the price is so high, to assist with the cost of living crisis.

The government should review rules relating to Corporation tax that have been changed by European Court judgements, and reinstate the tax base Parliament thought it had legislated.

The new Freeports should be given a better offer over Business rates. A Freeport should be created for Northern Ireland. There the Corporation Tax rate should be aligned with the Republic of Ireland at 15% to attract more investment  to the Province.

The Chancellor should review again the economic policy framework. The modifications to the Maastricht debt and deficit controls still leave in place versions of the old debt and deficit rules. These are leading to bad policy to hike the tax rates of NI and Corporation Tax. Instead we need to build the inflation target given to the Bank into the policy requirement of the Treasury, to engage them when the Bank creates too much money and credit as it did again in the later months of 2021.  It should  supplement it with a Growth Target. This would help avoid policy error going for too much austerity. As the last nine months have shown the way to get the deficit down more quickly is to grow faster, not to put up tax rates.We need to cancel the NI rise which is driven by the Maastricht debt criteria.