

End the tax and subsidy machine

One of the joys of tax cutting which even gloomy Treasury advisers should like is the way cutting taxes can allow you to end or cut subsidies. The present government has been dragged into an expensive and poor model of taxing too much then offering subsidies as offsets, or vice versa. We read how they offered subsidies to Astra Zeneca to put their investment into the UK only to find Astra preferred a lower tax rate and rightly so.

We are currently offering substantial subsidies to users of domestic gas fuel, whilst charging VAT on the fuel as well. Why? If the government suspended the VAT whilst fuel prices are high there would be two big benefits. Inflation would come down a bit quicker, cutting other public sector costs. Energy subsidies could be reduced saving more public spending. Cut out the middleman and woman employed to get the tax right and get the subsidy payment right, and save on admin.

We currently impose the highest carbon taxes on our high energy using industries like steel and ceramics. They then are not competitive, and end up needing large subsidies from taxpayers if they are to have any chance of limping on in a very competitive world. Why do the round trip and end up with a bad answer? Suspend the taxes whilst times are tough.

The government has got to get away from the idea that it is wise enough to fix prices, settle subsidies, offer tax incentives and dictate a new pattern of economic output unrelated to people's wishes and preferences. There is too much nudging and not enough allowing. If government sets out too many rules and interventions big business and rich people decide to go elsewhere. The interventionist model ends up with too heavy a reliance of imports. Too much borrowing and money printing ends in poor outcomes. That is why we need to cut tax rates to raise investment and tax revenues. That is why it is foolish to tax to raise money to subsidise the activities you are overtaxing.