

Higher taxes do not bring down deficits or boost investment

The Chancellor should abandon Labour's idea of various windfall taxes. In the end consumers have to pay higher taxes levied on business. These extra taxes put inflation up, not down. The Chancellor should also abandon his proposal to hike corporation tax next year. All these extra taxes on business may poll well, but the slow growth or no growth, cancelled investment and lost jobs they will likely bring will not look so good to voters in the next election if he insists on damaging the economy Labour's way.

I read that he is pressing on with trying to construct a windfall levy on electricity companies. The ones that are closest to the consumer have already had their finances demolished by badly chosen price controls, with one of the biggest now a problem for the Treasury as it demands subsidies and sits there nationalised. He is finding that if we want to tax windfall profits by the power generators the ones that make the most are the renewable owners when the wind does blow and the sun does shine. Their generating costs have not shot up but their power prices have. The ones we rely on much of the time using gas to keep the lights on are not making much windfall profit as the cost of their gas is one of the main inflationary problems.

The Chancellor thinks if he offers businesses tax breaks when they make a new investment they will carry on happily under his high and unpredictable business tax regime. Why? An investor looks at the lifetime cashflows and tax burden, not just at the first couple of years when you are putting in the buildings and equipment. They all look a lot worse with the higher taxes the Chancellor has in mind.