

My contribution to the Westminster Hall debate on Growth Strategy, 21 January 2020

John Redwood (Wokingham) (Con): I beg to move,

That this House has considered the growth strategy for the UK.

It is a pleasure to serve under your chairmanship, Mr Hollobone. A most welcome change has occurred in economic policy since the advent of the new Prime Minister. We are now told that the aim of economic policy is to promote the greater prosperity of the many in the United Kingdom by means of promoting faster economic growth. The Prime Minister often adds “opportunity” to his justified enthusiasm for growth and greater prosperity.

I welcome that fundamental change, because that is what I have wanted our policy to achieve in recent years, at a time when my party and the general economic establishment thought that priority had to be given to a single, central aim of economic policy—the reduction of state debt as a percentage of GDP. The change of aim in economic policy to the monitoring of state debt occurred first under the Labour Government in 2009, when state debt got out of control. Before the Labour Government left office, they accepted the need to get state debt down, particularly the running deficit, from very high levels, and made some cuts. The coalition Government changed some of those cuts, but went on with that strategy, because they rightly agreed with the outgoing Labour Government that the deficit was far too high and unsustainable.

I supported that policy in those days, but in 2015-16, when the deficit was under better control, I became more concerned about the tension between the central aim of getting the deficit down and the need to promote growth, which, in the longer term, is the best way of getting the deficit down, because it generates more activity and more tax revenue. Therefore, I started campaigning for an economic policy based on the promotion of prosperity. I am delighted that we now have a Government with that as their central aim.

Our economic policy under the previous guidance, from 2009 to 2015, stabilised our position and reduced the state deficit, necessarily, by a substantial amount, without preventing all growth. However, that policy ushered in a period of lower growth than we had experienced prior to the banking crash, primarily because of the way the deficit was tamed. At the time, it was said that the deficit was tamed by big cuts in public spending, but it was mainly tamed by a massive increase in the amount of tax revenue collected from the domestic economy.

It is true that there were individual cuts and individual departmental budgets took a hit, some of which were very contentious on both sides of the House, particularly among the Opposition. However, public spending went up

overall in cash terms, and arguably went up slightly in real terms over that period. The main challenge of getting the deficit down was achieved through a series of tax-rate rises and collecting extra tax revenue out of the modest growth that the economy achieved, without any relief of that tax burden. Part of the reason that we had slower growth is that we became a relatively higher tax economy than we had been before.

We have seen an experiment conducted on both sides of the Atlantic since 2016, when the Americans opted for eye-catching and dramatic tax cuts, both cutting the rates companies must pay and putting money into the pocket of every person with a working wage, with a particular emphasis on getting people on the lower end of the income spectrum to have more money to spend. That has proved extremely successful: the American economy has been growing at more than 2% for most of the time since the tax cuts kicked in, whereas the European side, sticking with the Maastricht requirements, deficit reduction requirements and relatively high taxes, has been struggling to grow at 1%.

Mr Gregory Campbell (East Londonderry) (DUP): I congratulate the right hon. Gentleman on securing the debate. He is making a powerful argument for growth across the UK. On the issue of differential employment and income rates, does he agree that if this is to be successful, we must see economic growth and higher wage levels spread more evenly across the UK, so that regions with a much lower wage economy start to see more wealth and employment at the higher end?

John Redwood: Indeed, and I welcome the emphasis placed on that by the Prime Minister and Ministers. I hope that we can give them some more ideas on how that can become realistic policy. I am just setting the scene: there has been a big change in the aim of policy, which I warmly welcome. I suggest to the Minister and others that lower taxes might be an important way of trying to develop that aim. The experiment conducted on both sides of the Atlantic seems to suggest that countries with the ambition and desire to cut taxes on working incomes and businesses will experience more growth and success. We have seen a lot of money repatriated to the United States of America by big businesses, which now find the tax rates acceptable and therefore do not require the same legal structures—I am sure they were behaving legally—to keep the money offshore or not to pay taxes for the time being in the United States.

The United Kingdom Government have, even during difficult times, decided on lower corporation tax rates. I think we have a competitive corporation tax structure. Our lack of tax competitiveness rests in the treatment of individuals and income, and employment costs, rather than corporation tax, where we have done a good job relative to continental Europe. We are benefiting from that. It was good to hear it announced this week that the UK is now the third preferred destination for technology investment after only the United States and China—two economies much larger than our own—and that we are attracting more investment than the combined totals of France and Germany, so we must be getting something right in our approach to business investment and the taxation of business profits.

The Government have already set out a new fiscal framework, which I welcome, because they understand that it is not sufficient just to set a new aim for policy—they need a fiscal framework to deliver it. They have directly addressed the issue of state debt, saying that they will not spend money on revenue matters that is not covered by taxation—a prudent control on the situation—but they have also said that there is nothing wrong with the budget deficit expanding from just over 1% to 3%, if the purpose is for good investment, especially given the very low rates that the Government now have to pay to borrow money.

I think that is a sensible compromise that gives us a bit of scope in the public sector. I trust it will also leave us scope to lower tax rates, which is important for getting extra growth from the private sector, where much of the growth will come from. Today, the Government's 10-year borrowing rate—if they needed to borrow more money from the market—is 0.63%. One would assume that the public sector can find investment projects and get a return considerably above 0.63%, so I fully endorse what they are trying to do.

I hope we can accept the new policy aims and the new fiscal framework, which give us flexibility, and think about what additional policies the Government might need to adopt to boost that growth rate. I have been predicting for some time that we would have a marked slowdown in the United Kingdom, as a result of the fiscal tightening that we have experienced until now and the monetary tightening that the Bank of England has implemented. It has been very curious that the Bank of England has detached itself from the world's central banks over this recent very marked slowdown in world activity. The slowdown was led by an actual recession in manufacturing in most parts of the world; the centre of the storm has been in the motor industry, but it has also extended more widely into the consumer and service areas.

The rest of the world's central banks are busily fighting that, and so we have seen a succession of interest rate cuts in countries with interest rates that could still be cut. We have also seen a resumption of quantitative easing programmes in the European Union, after it perhaps rather foolishly abandoned them at the end of the previous year; we have seen continuous large quantitative easing programmes in Japan; and in China, we have seen a big reduction in the required capital of banks, so that those banks can lend more to the private sector and expand China's economy, which has also slowed quite markedly.

I suggest to the Treasury Front-Bench team that they look very carefully at the centre of the downturn that we have seen worldwide and mirrored here in the United Kingdom, and in particular at the motor industry. The motor industry was hit by higher taxes on consumers in China; it was hit by changed emission regulations on the continent of Europe; it was hit in the United Kingdom by increases in vehicle excise duty in the 2017 Budget; and it was also held back by Bank of England guidance warning banks against lending too much money for car purchases, in a market where practically everybody buys a car on credit, rather than their having the cash to pay the considerable sums that cars cost these days. So there was a very predictable slowing of the UK car market, in parallel with the slowing going on elsewhere.

That was compounded by the fact that the UK had been incredibly successful at building a very large diesel car industry, and in particular a diesel car engine-making industry in the United Kingdom, just in time for the EU and the UK to become very hostile to diesels and send out the message that people really should not buy diesels, and that in future diesels may even be taxed or regulated off the road. There could also be new controls on diesels, with the Government, in common with the EU and other Governments, wanting people to buy electric cars before they felt confident enough in electric cars, or before the prices of electric cars come down to a more realistic level for them to be a feasible opportunity for people. So we have seen in the UK, as in China and in Europe, a big decline in the sale of traditional diesels, and there has not been an off-set in sufficient numbers by the new vehicles that are being introduced.

So the Government need to look at the car industry and recognise that the issues affecting it are a combination of taxation, availability of credit, and messages about what kind of car people are allowed to buy and drive. The industry needs to be given some time to complete the transition that Governments want, and it is not yet in a state where it can sell enough electric cars to immediately replace the lost capacity that it is experiencing on diesels.

Kevin Hollinrake (Thirsk and Malton) (Con): I thank my right hon. Friend for securing this very important and wide-ranging debate. He mentioned the car industry, which is largely based in the north-east of England, but it based itself there because clear incentives for it to do so were provided by the Government at the time. Does he agree that if we are going to rebalance this economy and level it up, we will need some incentives for businesses to start up in or relocate to some of these areas?

John Redwood: Yes, I am happy for there to be attractive reasons why people should go to the parts of the economy that have been less heavily invested in and that are less pressurised. However, with cars the issue is demand; there is not enough demand for the very good cars that the industry currently makes. The Government want to change the kind of cars that people buy, but it will take time for Britain, or anywhere else for that matter, to be able to produce the millions of electric cars that the Government want us to buy, at a price and to a specification that people like.

So, this is a top-down revolution and the public are not yet fully engaged in it in the way that the Government would like them to be. When polled, the public say that electric cars are a very good idea. However, when they are then asked, "Well, when are you buying your electric car?", the answer is, "Well, not yet. Not me. I want a better subsidy on the car, I want a lower price, I want a higher range"—whatever it is.

There are still issues about engaging the public, which is why we are getting this industrial dislocation. China has experienced exactly the same thing and one would have thought that China would have continuous growth in cars, because it is coming from a much lower level of car ownership and individual income. However, even in China car volume is down, because of the regulatory changes and the dislocation involved in going from traditional product to

electric product.

In addition, the Minister and his colleagues should look at the issue of property. Property is a very important part of the UK economy. It is often an asset base for people to borrow against in order to develop their business, and it is often the main way in which individuals hold their personal wealth. By buying a house on a mortgage and gradually paying the mortgage off, property often becomes people's principal asset, which gives them some wealth and financial stability.

However, we have a property market in the UK that has been damaged by the very high stamp duties that were introduced under the previous Government, and the Government should look at that issue very carefully. I do not think that the Government are even maximising the revenues from stamp duties, and it might not be a bad idea for them to ask, "What are the rates that would maximise the revenues?" At the higher price levels in property, transactions have been very badly affected; indeed, they have been massively reduced by the very high rates at the top end of the market. So, the Treasury constantly has to revise down its forecasts of how much revenue it collects from stamp duty.

A more free-flowing property market would be a very good thing, because it would create all sorts of other work for people who are in the refurbishment and removals business, and above all it would allow people to fit their property needs more closely to the property that they have. A lot of potential switching in the market is being frustrated: some people have houses too big for them but they do not fancy paying the stamp duty on the trade-down property, and other people would like a bigger property, but the stamp duty would be just such a big addition to the higher price that they would have to pay for that property.

Peter Grant (Glenrothes) (SNP): I congratulate the right hon. Gentleman on securing the first Westminster Hall debate of the new Session. Does he agree that there has been a major problem in the United Kingdom for many decades, which is that people—for one reason or another—have been encouraged to treat the house that they live in not as a place to live but as a speculative investment, on which they expect to make money? Also, does he accept that many people have been severely stung, because they thought that they would be able to stretch for a mortgage that they could not afford, in order to sell the house for more money in 10 years' time? If the value of the house does not increase in 10 years' time, they have a problem. That situation caused the crash in 2007-08 and it has caused a number of minor crashes since then. Does he also agree that more needs to be done to make sure that people who only have the money that they are investing in their house are protected against the possibility of losing their house and everything else when the market crashes?

John Redwood: Most people buy a house because they want somewhere to live that is theirs, and that they can then do up and change in the way they see fit, subject to planning. But yes, of course, it is also a way of holding wealth, and I repeat what I said: for many people it becomes their largest single asset. I do not think that is a bad thing. I do not think that people

are treating their main property as a trading counter; it is where they wish to live, and they will only move when they want a different house, mainly for living purposes. People would only be able to buy property speculatively if the property was their second or third house, and not many people are in the fortunate position of having such wealth.□

There is no absolute protection against house prices going down; they do from time to time, as the hon. Member for Glenrothes (Peter Grant) pointed out. However, if someone's aim is to live in a house long term, and if they have taken out an affordable mortgage, temporary fluctuations in house prices are not life-threatening or wealth-threatening to any worrying extent, and they will just live through the period when house prices dip because there has been a recession, or whatever.

Fortunately, we do not seem to be looking at such a situation in the immediate future, and it is very important that we have a growth strategy, so that the slowdown in the economy that we have experienced in recent months is turned around quickly and does not become something worse, which could have negative consequences in the way that the hon. Gentleman talked about.

So my No.1 message to the Government is not to underestimate the damage that clumsy taxes can do, and they may even end up costing the Treasury, as stamp duty has done, because it is not collecting as much as it should. That is probably the case with vehicle excise duty as well, because of the volume impact on new cars, which relates to a whole series of factors; it does not just relate to the vehicle excise duty, but that was another complication in the situation.

As the Minister has this particular responsibility, I urge him to look again at IR35. We want a very flexible economy in which people can choose flexible employment, rather than have it forced on them. We have had a relatively flexible small business sector, but it is being damaged by the top-down imposition of the IR35 rules. I hear all sorts of stories from across the country of people having to stop their contracting business or losing contracts because the big companies that might employ them are worried they might get dragged into a retrospective tax increase in employer and employee national insurance. That is damaging the small contracting sector, and I urge the Government not to carry on doing that when we want to encourage more self-employment and allow self-employed people to go on to build bigger businesses.

One of the Office for National Statistics figures I saw recently, which I found fascinating, was that in London there are more than 1,500 businesses per 10,000 people, whereas in the lower income parts of the country there are half that number. There is a huge gap between the volume of enterprise in London, which is the richest part of the country in terms of average incomes, and much of the rest of the country, where incomes could be higher. It is not easy to break into why there are so many more businesses in London. In part, it is because people are better off and have more spending money—demand is important in setting up a business—but it is also to do with the general business environment and the concentration of people, talent, enterprise and spending power that we see in the capital. We need to do something similar in

other parts of the country. Building more businesses is crucial, and IR35 is getting in the way of doing that.

Some 4.5 million people in the country who work for themselves do not have any employees, and they are afraid of taking on an extra employee because of the implications, whether for regulation, tax or otherwise, or because they think it will be too difficult to manage. We need to look at that step up in building a business, when someone goes from just working for themselves to having an employee or two. It is important that we make that step as easy as possible, because if another million self-employed people decided that they wanted a single employee, that would be transformational. That would obviously create a lot of extra demand in the labour market.

We need to look at taxes on employment and the complications of employment. Anything that the Government can do to reduce the tax on employment is a very good idea. We cannot collect tax revenue just by taxing things we do not like, but where we have a choice, it is better to tax things we do not like rather than things we do like. All parties in the House like the ideas of well-paid jobs and of more work, so we need to work away in Government to see how we can reduce the burden of taxes on work such as the apprentice levy, the national insurance levy on both the employee and the employer and other concealed taxes on work.

We also need to look at taxes on entrepreneurship. A larger population of people who have great ideas, who can change markets and who can persuade others that they have something people might want to buy is vital to the process of creating a more prosperous United Kingdom. We need to ensure that the offer on capital gains tax in particular is a fair one. People who have built a business over the years should not feel that they will be taxed again on it all, because they have been taxed on the activity in the business. Capital gains has to be a fair regime, and I urge the Government to keep the enterprise allowance arrangements so that entrepreneurs can keep a lot of the benefits from building their business.

It is said that our productivity performance in recent years has been disappointing and that that is a puzzle. I do not quite understand why it is a puzzle; it is exactly what we would expect. We have had a major reduction in North sea oil output. The way the figures are calculated means that it is one of the most productive sectors, because labour productivity is based on the amount of revenue or value-added generated by an individual, and an individual in the oil industry produces a huge amount of revenue due to the windfall element in the oil price. We had a very big squeeze on many of the activities in the City that were apparently profitable before 2008. Those activities flattered the productivity figures, but some of the profits turned out not to be genuine, and a lot of them have been squeezed out. Again, a high-earning, apparently highly productive part of the economy has gone through a big change, and we have lost that.

We have been a successful economy—this is a strength—in creating lots of new jobs, but a lot of them are relatively low paid so they do not score very well under productivity scoring. If we compare our productivity with that for continental countries with unemployment rates two or three times as high as

ours, their productivity is higher, because people we are employing on low pay here would be unemployed there, and the unemployed do not count in the productivity figures—they are just ignored as if they do not exist.

Kevin Hollinrake: My right hon. Friend is making some very good points, but is productivity not principally a regional problem? The gross value added per capita in London is about £50,000 a year. In the north-east, the north-west and Yorkshire, it is about £20,000 a year. Is that not where we have to level up, because that would drive productivity right across the UK?

John Redwood: I agree, and one of the things I hope will happen as we pursue policies that spread prosperity more widely is that some of the higher value-added activities that people come to London for will be carried out in other cities around the country. If somebody established a manufacturing business in a great northern city, it would be good if they had their media advice, public relations, legal advice, accountancy advice, consultancy advice and all the rest of it from firms in northern cities that specialised in those things, rather than the current model, where many of them come to London to take advantage of the excellent business and professional services available there.

In attracting more industry to the northern and western cities and towns, we need also to be conscious of encouraging the cluster of service businesses around them that can add value in other ways. In modern manufacturing, a lot of the traditional work is now done by machines and robots, so the individual plant does not attract a large number of jobs; the jobs are in all the other things—marketing, PR, services, legal, accountancy, invoicing and so forth—and we want to make sure that enough of those jobs come with the factory to the local area. That is where we have to see what other policies we need to put in place to spread such jobs more widely around the country.

The productivity puzzle is also caused by the public sector not innovating enough and not raising its productivity. It has been noticeable under Labour and Conservative Governments and the coalition that public sector productivity has stalled. That is disappointing, and we have a large public sector, so we need to get the Government to direct their attention to that, because the one bit of the productivity puzzle they can actually manage is the public sector, and Ministers have various powers to encourage and promote innovation.

I was interested to hear the Secretary of State for Health and Social Care talking last night about the role of innovation, new ideas and smaller businesses in the health service. There is huge scope for better partnership between innovative smaller and medium-sized companies and the public sector. The current contracting rules do not work well for many small businesses. It is difficult, because often the public sector wants a large solution for an awful lot of locations, and the small business can only handle so much and cannot scale up quickly enough. I hope that the Government will have another look at how the best of the private sector can be harnessed for the productivity increase we need from better innovation and better technology in big areas of the public services.

We must make sure that we see the technological revolution as a potential friend and not a potential threat. I was quite surprised this morning when reading the background papers for Davos—a meeting that I was not invited to and did not want to go to—to see how negative they were about technology. It was seen as a threat to be tamed and slowed down; as something that was going to destroy jobs and be very disruptive. It talked about the endless dislocations, whereas the public see much of technology as their friend. Why does America have huge success with trillion-dollar companies? Some of them are, and some of them seem to be trillion-dollar companies. Where have Facebook, Apple, Amazon and Netflix got their strength from? They have got it because they have public support. It is all very well for a politician to say, “They are wrong about this and wrong about that, and we need to regulate them and stop them doing this”, but it is a bottom-up revolution that we should not ignore. Those are things that people want. They have completely changed how people lead their lives.

People now go out to restaurants together and sit there with their iPods or smartphones not talking to each other. I am not sure that that is a great development for human relationships, but it shows that the technology has been transformative for people’s lives. They have much more instant information and much more ability to communicate to set out their views. It is not just what the BBC tells us; it is what we push back through social media these days, which some of us welcome. So we have a new model, and there is a danger that the Davos elite see it as a threat to their control over everybody. They are getting out of touch with what the public want. We should broadly welcome the technological revolution. I understand that a lot of our constituents like its services and products. We need to learn to live with it and co-operate with it in a sensible way.

As we come out of the EU, there are huge opportunities for us. Contrary to the misleading comments that some people have made, I have always taken the view that we can be better off as we leave the EU, not worse off. I have never understood why people are so negative about it all. I will simply end with a few obvious points about how we can be better off in certain areas. We can have a much bigger fishing industry. I hope it will be a prime task this year to create the conditions for that. We certainly do not want to keep on sacrificing our fish to over-exploitation by continental trawlers. We want to land more of our own fish while having a good conservation policy for stocks as a total, and that should then lead to onshore activities for fish processing and food manufacturers based on the excellent fish stock that we have available.

There are huge opportunities in farming. A lot of people would like to buy more local produce for all sorts of reasons. We like to support local farms. We are conscious of wanting to cut down food miles. We often like the flavours and benefits of locally produced food. We can do more of that, and there are ways in which, as we come out of the common agricultural policy, we could aim to get back to the levels of self-sufficiency in food that we enjoyed before our period in the common agricultural policy lowered it quite considerably.

We should also concentrate on our defence industries. We are making a

commitment to spend more each year on defence so that we are more secure, but we are not truly secure unless we can make all the weapons and defence goods that we need in time of war. We must not be dependent on other people's technology that we cannot access independently, or on imports over perilous sea lanes in times of conflict. We need to be able to scale up, and I urge all those involved in defence to see a big opportunity for us to make more of our own defence equipment. We should certainly make sure that we have control so that if the need ever arose, which I hope it does not, we would be able to scale up quickly without major issues.□

I have gone on for rather a long time and I know that colleagues wish to debate these matters, so I will leave my other ideas for another time, but my conclusions are that we should not underestimate the damage that high tax rates do; that we should not underestimate the ability to generate more revenue, if we are brave on tax rates, by getting them down; and that we should pay particular attention to the big ticket items—homes and cars—that have been damaged by a variety of negative forces in recent years. I say a big thank you for the change in fiscal strategy. I hope that the Bank of England will join the party in wanting to promote growth as well, because that would make a considerable difference. It has been going in the wrong direction for some time, unfortunately. Let us make sure that all the obvious opportunities from Brexit, particularly in sectors that have been under strong EU control, are grasped warmly because they would give us some early wins.