

My Speech on the Finance Bill

Sir John Redwood (Wokingham) (Con):

I rise to speak in support of tax-cutting proposals. We are not discussing the national insurance reductions in this group of clauses, but both previous speakers have spent some of their time discussing them because they are relevant. They are the other side of the issues related to the correct levels and thresholds for income tax, which are the proper matter of our current debate. I wanted any kind of tax cut in the Budget, because we are over-taxed. I want the right kinds of tax cuts that can speed up growth, which all the major parties in this House want, although there are some disagreements about the exact mix of policies that might create it.

The first thing we need from the Treasury is for its official forecasts and those of the OBR to have greater belief in the fact that if we promote more growth by cutting some tax rates, we may end up with more tax revenue. The best generator of more revenue to pay for our public services is a growing economy. The best generator of more growth is productivity improvements, and there is particular scope for such improvements in the public sector. The public sector was badly damaged by the covid experience. We lost a lot of productivity through the hasty and unnecessary reorganisation of public services during the pandemic, but we are finding it hard work and slow going to get the lost productivity back.

I welcome the fact that, in the latest set of Budget numbers, the Government have put in future productivity recoveries over the next few years, but it is slow progress, even to get back to the levels of productivity in 2019. I put it to the Government that they do not need to spend extra money on new technology, such as artificial intelligence, to get back to the levels of 2019. They may wish to recommend schemes for AI investment to get above 2019 levels but, by definition, we were able to get to 2019 levels of productivity without AI, because it had not been invented at that stage.

There should be more common agreement about the urgency of productivity recovery in public services. We are missing out on at least £20 billion due to the productivity problems that have developed since 2020 and the lockdown experience. However, there is also a source of extra revenue from lower taxes, because if we cut tax rates in the right way, we will generate more cash, rather than less. I think everybody now agrees that cutting certain taxes has that effect, because it is quite obvious that if we impose certain kinds of turnover or activity taxes, they will lower turnover and activity. Indeed, many taxes are imposed with a moral wish to lower activity or usage rates. For example, alcohol and tobacco attract higher taxes because the wish is that people buy them less or, in the case of tobacco, do not buy them at all. We get the same effect with things that we should be promoting.

One of my proposals to the Government is that they should be extremely worried about the large decline in the number of self-employed people since 2019. Some of that is the inevitable consequence of lockdown, which led to

older people who were working for themselves being unable to work and deciding to retire a bit earlier, but quite a lot of it is not. Some of it is due to people of younger ages being deterred by their experiences, and some of it is because young people are not coming forward to replace those who were self-employed. It was not just lockdown or the disruptions around that time that caused this problem; it was also the IR35 tax changes, which went through in two tranches, culminating at about the time we experienced the problems of lockdown.

We have lost more than 800,000 self-employed people, partly through a self-inflicted tax wound. The decision was taken in two stages to introduce the idea that a person acting as the customer of a self-employed contractor has a duty to satisfy themselves about their tax status, and can be liable if they have made a mistake in their tax status. That meant it became extremely difficult for quite a lot of self-employed people to get contracts from both smaller and bigger businesses, because why would the executive take the risk that they could, in the end, be tied up in a dispute with His Majesty's Revenue and Customs that they did not want? It was simpler not to allow a self-employed person to win a contract, because there was tax bureaucracy and an investigation that could put them both on the wrong end of a tax bill and on the wrong end of a moral issue where it looked as if they were helping someone to fiddle their taxes.

HMRC has always had issues with how to define someone as a genuinely self-employed person. There are lots of obvious requirements, because none of us wants to see people who are effectively employed by a single employer taking advantage of tax breaks that were designed to deal with the extra risk of being self-employed, including the lack of benefits that someone gets if they are genuinely self-employed. If they are not getting sick pay and paid holiday, they are in a rather different category from those of us who are employed, who get such benefits from our employer built into the overall package.

The normal sorts of tests include whether someone is working for more than one employer. Do they have a contract for services or an employment contract? Do they have sick pay? Do they have holiday entitlement? Do they have other benefits? These are the tests that we would normally apply to decide whether someone is genuinely self-employed. We have got too tough from the revenue side, and we have lost a lot of self-employed people. We are not recruiting the extra self-employed people we want, who are vital to the growth and vitality of an economy. If we had a few hundred thousand more self-employed people, they would be the innovators, the price cutters and the people who go the extra distance to provide an additional service. They would find customers and be useful challengers to the big businesses. They would not destroy the big businesses but would keep them on their mettle and make them understand that they, too, have to listen more to what customers want, because customer service improvement is often generated first by the self-employed or a small business.

I turn now to small businesses themselves. If a self-employed person takes the giant bureaucratic step of taking on an employee or two, they will have all the bureaucracy and the extra tax that goes with that. We need to make it

as easy as possible for them to grow their small business, and I am very pleased that the Government have now said that they can raise the VAT threshold, because registering for VAT is a colossal additional commitment that a small business has to make. It means diverting a lot of energy into tax compliance, rather than finding more customers and serving them better, so we should seek to delay that until the business is rather bigger than the level that is currently recommended. I urge the Government, who I know are interested in a growth strategy, to allow people to put off the day when they have to register for VAT, so that they can concentrate rather more on that period of growth.

Turning to the issue of national insurance versus income tax, which we are about to vote on, I began my remarks by saying that I was happy to support the national insurance reduction. It will help those in employment and promote higher real incomes and more spending, which is what we need for a growth strategy and to cheer the country up a bit. However, we need to hear a bit more of the Government's thinking before we turn the wider proposal—it is not yet proper policy, because it has not been given a budget or a timetable—into a firm manifesto pledge on our main priority for future tax changes. For example, we need a statement from the Government on how people will earn their entitlement to the state retirement pension if there are no longer any employee contributions, because our current entitlement to the state retirement pension is based on the number of years of contributions we have made through NI. We can change that; this Parliament can do anything it likes on those sorts of issues, but it has not changed it yet.

I think this needs some kind of Green Paper or White Paper—some kind of thought-through model of what the state retirement pension scheme will look like if we want to end up with no employee national insurance contributions at all. It might require the abolition of the national insurance fund and having just a payroll tax on employers in the future, because the fund would not look quite the same without the employee contributions. At the moment, broadly speaking, the fund pays for the state retirement pension, with a little balance on top. Long gone are the days when it paid for the health service and many of the other benefits. If we read the details, we can see that there are just a few rather modest residual contributory benefits left. We need some kind of new presentation or analysis of what might happen to the fund.

It is also important to ensure balance and fairness in the distribution of tax reductions, so I think there have to be some tax reductions for those who have completed their working lives and are no longer in receipt of employment income. It would be wrong for the Conservative party to rule out tax reductions that help those who have retired—those who now have investment income because they saved hard and worked hard during their working lives. There needs to be some balance in how we allocate those reductions.

I would also say to the Government that, as they think forward to their next fiscal event, as I think we now have to call them—an autumn statement, a mini-Budget or whatever the latest terminology is—there is more scope in the numbers to have a better return of money to taxpayers than this quite cautious Budget we are voting on tonight gives us the opportunity to do. I do

not think we can afford the incredibly expensive habits of the loss-making Bank of England. I fully understand that the Bank of England is completely independent in setting the base rate, setting out its inflation forecasts and conducting its monetary policy through the Monetary Policy Committee, and nothing I am suggesting would in any way interfere with that.

However, we have a parallel policy, which began under Chancellor Darling and the Labour Government and continued under successive Conservative Chancellors. It was always a joint policy of the Treasury and the Bank to create money to buy bonds and to create a jointly held portfolio. Successive Chancellors of the Exchequer needed not only to give their authority to do that—proving that it was not an independent Bank policy—but to give an indemnity to the Bank against all losses. I say to those on the Treasury Bench that we, as a country, have now paid the Bank of England, I believe, £49 billion for losses over the last year and a half or so, and if we believe the OBR numbers, there are many tens of billions in losses to come over the next five years. Those losses come from three different sources, and some, although not all, are avoidable.

The Treasury and the Bank need to discuss those colossal losses and to understand that the United Kingdom and the Bank of England are now very much out of line with the practice of, say, the European Central Bank, which followed a similar policy of creating money and buying bonds in the bad days, but which is not trying to get rid of them all as quickly as the Bank of England. The ECB is not selling them in the market at colossal losses, particularly the long bonds that are sitting on very large losses, because there is no need to sell them. Also, the ECB is not paying its full overnight rate on bank reserves, which would create a bigger running loss. The Bank of England never used to pay any money on reserves prior to 2006. The ECB has reinstated zero interest on minimum reserves and has a lower deposit rate than the base rate. So I think there are things to learn from the European Central Bank so that the Bank of England could come back without such huge losses that substantially distort our fiscal policy.

The principle of independent monetary policy setting the base rate and forecasting inflation is important, but so too was the independence of fiscal policy from Bank and other outside interference. Now, however, the Bank of England is a dominant influence on our fiscal policy because its losses are so enormous, and that obviously affects what is available to spend or to offer by way of tax reductions. I hope that those on the Treasury Bench are in listening mode on these matters, because if sensible changes were agreed, we could look forward to a little bit more tax reduction and flexibility, and maybe a little more spending where we are hurting—on some features of the health service, perhaps—so that we could reinforce our growth policy with appropriate policies that were eminently affordable.

Members of the House who are interested will know that I am critical of the current control mechanism. I do not think it is very good. It would be much better to have something more like the American system, which has both an inflation and a growth control over the economy. I am suspicious of an economy that is effectively guided by a single five-year forecast by the OBR. I do not believe that the OBR or anybody else has much idea of what the

budget deficit is going to be in five years' time, because there are so many different things that can come along to change it. So, far from that being an iron rule, it is an arbitrary rule. Almost the only thing we know about that number is that it is likely to be wrong.

We need rather more concern about how much we are borrowing in-year and in the next year, because those two things are much more forecastable. I am not in favour of any expansion in the amount of borrowing planned for this year or next year. We have quite a lot of debt, which is why I have tried to identify ways in which the budget arithmetic and the fiscal arithmetic could look rather better if we cut the taxes that can generate more revenue and those that have a cost, but balance that with reductions in expenditure. I have looked at two big pots: Bank of England losses and productivity shortfall.

There is a third area to look for savings, which I know the Government are actively pursuing: getting people back into work and helping, supporting and encouraging those who feel that they cannot return to the workforce to be able to do so. I trust that this is generally supported around the Committee. It could enrich those people's lives and raise their standard of living, but it could also add to our tax revenues and therefore make lower taxes or better public services that much more affordable. My only criticism of the Government's efforts on this is that I would just like them to speed up. This needs doing more quickly and on a bigger scale.

The ideas that we have heard and the work that has been put in are, on the whole, very sensible, but we need better results, because a large number of people do not feel that they can be part of the workforce at the moment, and I am sure that some of them could be better off if they felt they were getting the right support. Working has to be worth while, and that also requires the policy changes that are now going through to say that we are not always going to invite people in legally from abroad to do low-paid jobs when what we want is better-paid jobs in Britain and more jobs that engage the potential British workforce who are definitely out there.

I do not think we need the two new clauses kindly proposed by Labour, which probably already has quite a lot of the knowledge that the new clauses seek, as the hon. Member for Ealing North (James Murray) implied. If we do not increase the thresholds, of course more people will end up paying tax. I do not want too many more people paying the higher rate of tax, but to get an upward shift in the thresholds in due course, we will need to go over the issues to see where we could free up some cash. The Government should look at the losses, the employment situation and productivity to find their crock of gold, and then we can all be happier.