

Real incomes and taxes

There has been a squeeze on real incomes in most of the advanced world this year. Inflation has risen to higher levels in The USA and Spain than in the UK and almost the same as the UK in Germany. The two main causes have been the higher oil price affecting motor fuels and domestic energy, and rises in Chinese export prices as the Chinese reflect higher commodity prices and increasing Chinese wages. Wages in the west have struggled to keep pace with prices, so real incomes have been squeezed. The good news is it looks as if we have seen the worst of the commodity price rises. Many forecasters expect real wages to be rising again in these western economies including the UK next year.

The big collapse in incomes during the credit crash of 2008-9 followed by a slow recovery has left many people feeling squeezed. The government in the UK needs to do more to accelerate real wage and spending power growth. Only the Conservative Manifesto promises to take more people out of Income Tax altogether, by lifting the tax threshold to £12500, benefitting all Income tax payers. It also promises to raise the 40% tax threshold to £50,000 as £40,000 is too low an income to have to face such a high rate. Lower taxes on Income will help boost family spending power. They will also stimulate the economy to generate more jobs and incomes.

The government has also promised to do more to promote apprenticeships, technical training and higher educational standards. The main way to a better paid workforce is to have a more productive better equipped workforce with the skills and training that command higher wages. I want to help build such a world. The alternative government on offer would tax success and hard work, drive people abroad by triggering a brain drain, and put taxes up to try to meet some of the huge public sector bills they wish to incur. They might start by only taxing the rich more, but once they had taxed them into doing less or leaving, they would have to tax everyone else more.

Prosperity, not austerity is what we need. The deficit has been brought to down to sensible levels. Some tax cuts and reasonable spending increases for health and education will help boost the growth rate and bring in more revenue.

Published and promoted by Fraser Mc Farland on behalf of John Redwood, both at 30 Rose Street Wokingham RG 40 1XU