

# Tax rises would slow the recovery and increase the deficit

The Treasury should be told that tax rises now would be bad economics and worse politics.

The deficit has soared because government anti virus policies created a huge and fast downturn. In a recession public spending soars and tax revenues fall. Cutting the deficit needs a fast and strong recovery, so Public spending falls and tax revenues rise. In this downturn public spending was massively boosted by taking 9 million people onto the state's wage bill whilst their jobs were prevented by lock down. We need to get them back into private sector jobs to remove the cost to the government and to get more tax revenue in from their better pay and overtime.

Far from needing tax rises we need rate cuts and tax holidays to promote more activity and jobs. The temporary cut in Stamp Duty is leading to many more housing transactions which will protect or create more jobs and increase tax revenues on the Activity in the housing market.

The Treasury has always been reluctant to accept that often the way to get more tax revenue is to cut rates to stimulate activity. That is what is needed now.

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## Sterling rises again

All those who think sterling will fall every time there is no progress on a Brexit deal need to think again.

Over the last month of reports of no progress in talks sterling has risen by 3% against the dollar and 2% against the Euro. Over the last year of talks going nowhere sterling is now 10% higher against the dollar and 2% higher against the Euro.

So why no rush by the pro Remain forces to express pleasure, when they are so ready to rush out misleading releases wrongly blaming Brexit every time sterling dips?

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## “A Union dividend”

The UK government has started talking in terms of a Union dividend for Scotland. They tell us there is a “Union dividend of £1941 per person” in Scotland “demonstrating the strength of all parts of the UK working together”.

The “dividend” has two parts. Scottish taxpayers pay on average £308 a year less tax than the UK average. Scotland receives £1633 more public spending per person a year. The dividend of £1941 is up 7.5% on last year.

It is interesting that this increase has happened at a time when polls suggest support for independence is rising. This implies voters in Scotland either do not know this fact, or think there are more important things than taxes and spending levels.

The government is making an economic case for the Union. It points out Scotland would be massively in deficit if it were not part of the UK. The devolved Scottish government which has been given £6.5bn more to spend during the CV 19 crisis would be struggling on its own, with a £15bn or 8.4% budget deficit before the pandemic recession. This means an even bigger running deficit now.

The Union itself should not be in doubt as it was settled for a generation by a referendum a few years ago. I have always only wanted volunteers in our Union and pledged to respect whatever decision the Scottish people took in their big vote. Now is not the time to have another. Wanting to belong to a country is more about feeling and loyalties than about money for the believers on both sides of the argument.

For those with less passion about the issue it is important to remember the inability of the independent Scotland side to settle on what currency an independent Scotland would have or how it would handle a collapse in oil prices which duly happened. What do you think about the current level of the Scottish “dividend”? Why is there no English dividend?

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## Returning to work?

To many people working long hours at home to do what they used to do from an office it is strange to be told now is the time for them to go back to work. It is even odder to be urged back by the Head of the CBI who then concedes that she has not herself been working from the expensive HQ of the CBI in central London in recent weeks. She may decide to work just two days a week from the London office from next month to show willing or to get through the obvious interview questions about her advice to others.

Something has changed in the mood of both employers and employees as a result of the CV 19 crisis. Yes, the immediate reason for the mass exodus from city centre offices was a combination of government instruction and fear of the virus. As the virus has receded and as companies and transport systems have tried to reassure about safety other issues have come to the fore that were there long before the pandemic hit.

More people were seeking and gaining flexible contracts which allowed them to work just part of the week in the office and have more time off work for family and domestic reasons, or to work some of the time from home. There was a growing expectation that employers would allow parents to take time out of a working day to attend school events or care for their children. Employers became more flexible about everything from dentist appointments to weddings and funerals, and from sports sessions to shopping. They allowed some of this to fit into the working day. Office computers were used by staff to plan holidays or buy items on line, so staff were not always working for the employer when at the employer's premises.

The lock down crystalised a couple of things for employees. They found in many cases they could do all their work from home given on line technology and an office in the cloud. It was a huge bonus to save the large amounts of time and money taken up by the daily commute. They could punctuate the working day at home with the drinks, meals and domestic chores of their choice. They could extend their working time into the travel and home time of their old lives to compensate if they took some of the day time for a personal need.

It also surprised employers. They found that many employees worked just as hard or even harder when trusted to work from home. Many of the employers themselves came to value the freedom it gave them in their own personal lives, no longer under observation from employees of how much time they spent in the office. It could lead on to economies for the company, though most so far are paying the rents on the largely empty offices and delaying big strategic decisions about how much space and what type of space they will in due course need.

Of course there are issues that need managing with a workforce more at home than in the office. Those who gamed the system in the office can game the system more easily when at home. Good managers stay in regular touch with homeworkers and assess their contributions and send sufficient work to them. Meetings and informal discussions can be an important part of resolving problems, innovating and improving service. People have to be encouraged to pick up the phone or the on line link as regularly as they had informal talks in the office. In practice in offices colleagues increasingly talked to each other by email anyway. Teams need to get together in person as well as on video link , which managers can decide and supervise.

Homeworking and the virus should not become an excuse for reducing service levels or building inconvenience and delay in for the customer. Some of the most competitive businesses, like the on line retailers, have shown you can raise service standards and take on more work even against the background of the virus and enforced social distancing.

It is difficult to forecast what might now happen. Some think there will be a gradual return to five day office working and we will restore the rush hour, the five day commute and the busy city centre in due course. Some think employers and employees will over the next few months evolve new ways of getting the work done and dividing up their time, with on line emails, conference calls and video meetings playing a permanently larger role in our lives. If sufficient businesses decide to allow substantially more homeworking in the mix then we will see lost jobs and lost businesses in city centres, along with lower office rents and some office conversions to other uses. There will also need to be big changes to trains, buses and tubes as they adjust to the two or three day week season ticket and the staggering of hours.

Meanwhile the parlous situation in city centres for small businesses is also the result of continuing social distancing rules, the absence of tourists and the cancellation of many events and entertainments.

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## Who is trying to divide the UK?

One of the worst features of the hopeless 2017 Parliament was the way the government with no majority seemed to think it needed to reach out for the Union to the SNP in Scotland and to the Republic of Ireland. In both the Brexit talks and on wider issues the government revealed a fear that the Union was in some way in danger, and then thought it could strike a deal with political forces pledged to break up the Union or following a policy of trying to split it for their own advantage.

It was first strange to think the Union was in danger. After all, as good democrats the Union Parliament had recently provided a once in a generation referendum on Scottish independence to the forces in Scotland that did want to break up the Union. After a long and lively debate the Scottish people decided by a healthy majority to stay in the UK. The SNP themselves confirmed this was something you only did once in 20 or 30 years.

The UK always made clear to the Republic of Ireland that they could keep the Common travel area with us when we left the EU, so they would have a special relationship with the UK. The UK always offered tariff free trade to the whole EU, so Ireland could work with her partners to secure that prize she wanted. All the time the government kept the goodwill of most Northern Ireland MPs – and its own backbenchers – it had a majority. Many of us wanted a more robust approach to the EU's attempt to force us to a bad settlement by unsettling the Union.

The more the Prime Minister genuflected to the Republic of Ireland and to the SNP the more the EU reckoned the UK was nervous and weak, so the more they held out for unreasonable terms in the withdrawal talks. The EU saw Scotland and Ireland as ways to keep the UK under EU laws., making concessions on

fish, budgets and much else. They worked well with those who wanted to break up the UK.

The more the agenda was settled by the EU and the anti Brexit forces, the more the government's natural unionist allies in all parts of the UK felt sidelined.

The EU of course had much form in trying to damage the Union. It always wanted to play up differences between Scotland and the UK. It promoted lop sided devolved government. It tried to deny the existence of England, seeking to split our country into regions and even experimenting with a region which put Kent and parts of Northern France together.

One of the EU's biggest mistakes which led to the historic vote to leave was its refusal to recognise England in the way it promoted Scotland. One of the previous governments biggest mistakes was to panic in public about the Union and then deny England a proper place at the table over the EU. As I regularly asked when the UK government rushed to consult Scotland about the negotiations, who spoke for England? A successful union depends on the goodwill of all parts of the Union including England. The more that is devolved, the more England needs her own voice in government to keep the balance.