End the tax and subsidy machine

One of the joys of tax cutting which even gloomy Treasury advisers should like is the way cutting taxes can allow you to end or cut subsidies. The present government has been dragged into an expensive and poor model of taxing too much then offering subsidies as offsets, or vice versa. We read how they offered subsidies to Astra Zeneca to put their investment into the UK only to find Astra preferred a lower tax rate and rightly so.

We are currently offering substantial subsidies to users of domestic gas fuel, whilst charging VAT on the fuel as well. Why? If the government suspended the VAT whilst fuel prices are high there would be two big benefits. Inflation would come down a bit quicker, cutting other public sector costs. Energy subsidies could be reduced saving more public spending. Cut out the middleman and woman employed to get the tax right and get the subsidy payment right, and save on admin.

We currently impose the highest carbon taxes on our high energy using industries like steel and ceramics. They then are not competitive, and end up needing large subsidies from taxpayers if they are to have any chance of limping on in a very competitive world. Why do the round trip and end up with a bad answer? Suspend the taxes whilst times are tough.

The government has got to get away from the idea that it is wise enough to fix prices, settle subsidies, offer tax incentives and dictate a new pattern of economic output unrelated to people's wishes and preferences. There is too much nudging and not enough allowing. If government sets out too may rules and interventions big business and rich people decide to go elsewhere. The interventionist model ends up with too heavy a reliance of imports. Too much borrowing and money printing ends in poor outcomes. That is why we need to cut tax rates to raise investment and tax revenues. That is why it is foolish to tax to raise money to subsidise the activities you are overtaxing.

Cutting tax rates can lead to more revenue

The decision by Astra Zeneca to put a major new investment into Ireland where they charge 15% business tax compared to our new rate of 25% shows just how stupid our high tax policy is. Instead of getting 15% of a good stream of profits over many years alongside income tax and VAT on all the well paid ,jobs they bring, the UK has settled not to have any of it. 25% of nothing is nothing.

The same folly is evident in the North Sea. In a rush to get a bit more revenue this year with high and erratic windfall taxes, the government has delayed or lost important investments in new gas and oil fields. Instead of generating more well paid jobs and plenty of tax revenue on the output over the next decade or two, we opt to import and to pay huge taxes away to foreign governments on all the imports. Just one of the fields not currently going ahead would generate a gross £25bn over its life, with a lot of that passing directly to the Treasury in taxes.

Ireland makes my case perfectly. With a much lower rate of business tax than us Ireland enjoys a much higher proportion of its revenues from business tax because so many businesses go there to set up an HQ and to invest in plants and offices. Ireland has a much higher per capita national income than us thanks to all the foreign investors congregating there to create jobs and spend money. The UK should copy them with a 15% tax rate as Jeremy Hunt himself proposed last summer. We too would get more revenue and have higher per capita average incomes. Enthusiasts for the EU are always urging us to align more with our Irish neighbours. This would be a great way of doing just that.

When Margaret Thatcher and her Chancellors cut higher rate income tax from 83% to 60% and then to 40% the amount of income tax paid by the better off rose in cash terms, rose in real terms, and rose as a proportion of total income tax. What's not to like for all involved? When George Osborne drove UK corporation tax down gradually to 19%, the take from company tax went up, not down. So why do OBR and Treasury models tell Ministers any cut in tax rates will lead to a reduction in tax revenue we cannot afford? History and modern experience suggests otherwise.

Gloomy official forecasts and bad numbers try to bind the Chancellor

The Chancellor is an intelligent man who recommended a 15% business tax rate when running for leader and who set up and ran a successful business before being a Minister. He says he wants more UK growth, and now serves a PM who has made growth one of his central aims. So why do we read every day there is no scope for tax cuts? Why are we told the numbers do not allow better incentives for those who work hard, who bring new jobs, and for companies that might come here or stay here and make more investments here if tax rates were lower?

We are told the issue is public borrowing. The government remains wedded to a version of the EU Maastricht rules over debts and deficits which gave us austerity economics throughout the previous decade. Treasury advisers tell the government they can have any rules they like to run the economy as long as they come down to the two EU rules that deficits must be below 3% of GDP, and debt must be falling. They use this to recommend damaging austerity policies which may raise not lower the deficit. What is even more puzzling is how these same advisers are apparently working on measures like bigger subsidies for childcare which could be affordable whilst ruling out tax cuts, and why with the Truss package they were only annoyed by the tax cuts, not by the huge increase in public spending for energy subsidies which cost twice as much as the tax measures on their costings.

In order to constrain the Chancellor the Bank of England , the Treasury and the OBR have decided to present the UK figures in the bleakest possible way. Only in the UK does the taxpayer have to pay up for the losses the Central Bank insists on taking on all the bonds they bought so badly. That's over £100 bn of losses over 5 years according to the OBR. The European Central Bank will not sell bonds into the market to take such huge losses, whilst the US Fed does sell bonds at big losses but does not charge the losses to the taxpayer and Treasury.

Then there is the bizarre UK accounting treatment on debt interest. The Treasury rightly publishes the costs of paying the regular interest on all the state has borrowed, which comes out less than £45bn this year. Then it adds to that this year another £70bn to allow for the impact of rapid inflation on the future repayment cost of the bonds they have sold that are linked to the inflation rate. This is not something taxpayers have to pay when they pay the debt interest. What happens is the eventual capital repayment of the bond is increased by the amount of inflation, when the government will simply re borrow the repayment amount.

All this should be seen by the Chancellor as perverse good news for next year. There will be a big windfall decline in the costs of debt interest as stated, giving him more than £25 bn of lower "spending" to offset any tax cuts he might want to make. He could also slash the costs of selling bonds which this year will cost taxpayers £11bn by telling the Bank not to sell them into the market at big losses. The Bank of England makes it quite clear on their website the bonds belong to taxpayers and they act as Agents of the Treasury in this matter. That will free more scope for tax cuts .

So cheer up Chancellor. Tell the advisers that in their own terms there is flex for tax cuts in their numbers. Tomorrow I will talk about how cutting taxes can raise more revenue, not lower it.

Public sector output

The disappointing GDP figure for December was dragged down by a fall in output at Health and Education. There were fewer GP appointments, less test and trace and vaccination work. Fewer pupils went to school. It is worrying that after such a large extra recruitment of NHS managers and non medical staff in the last three years output should be falling. More support staff alongside the extra doctors and nurses need organising and motivating by the managers so more is achieved.

Hospitality and leisure was also weaker than the Christmas season deserved. It is true Premier League games were lost to international competition, but also the case that business suffered from train strikes which prevented or deterred many people going to city centres where much of the leisure and hospitality is located.

I have pointed out before that public sector productivity has now failed to grow for 25 years. The covid years have been especially bad. We do need to find managers that can improve all that, and can tailor jobs for talented staff that are worthwhile and well remunerated within the large budgets available.

Senior health managers need to recruit, retain and motivate enough staff

The Department of Health and Social Care has provided the following answer to your written parliamentary question (117395):

Question:
To ask the Secretary of State for Health and Social Care, how many senior managers in the NHS, including NHS Trusts and administrative bodies, earn over £100,000 a year. (117395)

Tabled on: 06 January 2023

Answer:
Will Quince:

At NHS Trusts and other core organisations, between October 2021 and September 2022, 3,010 staff earnt over £100,000. Furthermore, in the same time period, at NHS Support Organisations and Central Bodies, 500 staff earnt over that amount. All remuneration, including non-basic pay elements such as band supplements, medical awards, geographic allowances, local payments, on call payments, overtime, recommended retail prices, shift work payments and other payments, are included in this total.

The answer was submitted on 07 Feb 2023 at 14:30.

Comment

It is interesting that central bodies for the NHS employ 500 managers earning over £100,000. It makes the absence of a full manpower plan for so many months that much more difficult to understand, given the central importance of sufficient well motivated and rewarded personnel to run a good service. One of the prime tasks of well paid senior managers must be to recruit, retain, and motivate staff to deliver a good service. I continue to seek replies to questions on what use NHS managers are making of promotions, increments, pay gradings and the other flexibilities they have to reward and encourage good staff on their books and to switch away from the short term contract model which so often forms part of their service response.