

The Treasury has found lots more tax revenue so it need not raise taxes

This is a copy of my article in the House Magazine.

The Treasury employs plenty of intelligent people, but their collective views and decisions are often wrong. None more so than the idea that the UK economy needs a further tax on jobs just as it is recovering from the pandemic collapse. It will make work less worthwhile and damage businesses struggling to rebuild their cashflows. Leisure, hospitality and travel will be the sectors hit worst by the squeeze on take home pay, the very sectors the health measures hit hardest.

The Treasury says they need to impose a tax rise because they need an extra £12bn. They have no idea how much extra revenue they might need, as they have no idea how much revenue the current wide range of relatively high taxes is going to collect. They had to admit their absurdly pessimistic forecast for the budget deficit this year was £50bn overstated by the half year point, mainly because they had grossly underestimated the revenue. In the latest figures they have found another £12.9bn, exactly the sum they said they would need from the tax raise!

In my speech on the last Budget I drew attention to some of the errors of the 20-21 forecast and predicted that this year "the deficit will fall very rapidly" as it has. In Finance Bill Committee I stressed how wrong past forecasts had been and how wrong this year's estimate was likely to be.

The Treasury and their Office of Budget responsibility helpers got their budget deficit forecast wrong by £91 bn last year. I can forgive them some of that, as the pandemic year was extraordinary. The policies followed meant a collapse in revenues and a surge in one off spending that was bound to create a big hole in the accounts. Even so I did warn last year that the forecasts were continuing a long tradition of undue pessimism. This year by general agreement was going to be a year of recovery. History tells us our tax revenues are very sensitive to rates of change in growth. Very strong growth such as we experienced was bound to lead to a surge in revenues. Why couldn't the Treasury see that? Why did they do their best to sandbag recovery by threatening a whole range of tax rises for next year to dampen confidence and put businesses and companies off spending?

The Treasury double up their gloom with their way of presenting the costs of the debt. They want people be terrified of the rising costs of meeting the debt burden. The large increase in debt interest costs they have put in the accounts confuse actual interest payments to bond or debt holders, and the extra cost of eventual capital repayment on the index linked bonds they have issued. Tucked away in the technical explanation they do confess that the state does not have to find the cash to service the index linking in the way it has to find the money to pay interest on conventional bonds. What will happen with the indexed debt is when it comes due for repayment it will

effectively be rolled over, the government reborrowing the enhanced value . This is of course only the same debt in real terms as the initial bond issue amount. There is no need to panic about debt interest the government does not have to pay.

The government also fails to account sensibly for all the debt the Bank of England owns. They want to alarm us about the interest that the Treasury has to pay on that debt. This is a needless worry as the Treasury pays the interest to the Bank which it owns, so the interest is still to its credit and can be paid back as a dividend to the Treasury.

There is no case for a National Insurance hike. People need to keep more of their pay to meet their bills, especially given the tripartisan policy of more import dependence in energy to expose us to ever dearer and scarcer energy from the continent. The Treasury has found far more money down the sofa than they think the NI raise would yield.

[Will the National Security Council wake up to the gas threat?](#)

NATO wishes to deter Russia from invasion of Ukraine. It also wishes to avoid a major war between NATO and Russia, as President Biden has stated clearly. The response is to tell Russia that there would be a massive retaliation through a new level of tough sanctions damaging Russia's trade and economy were Russia to break her word and invade.

The West will arm and advise the military in Ukraine to resist any Russian incursion. The USA and UK have visibly sent arms to help Ukraine defend against the mobile armour , rockets and batteries of the Russian forces marshalled near Ukraine's borders.

The EU has not been present at the main talks and has been strangely silent on this big issue close to its borders. The German led grouping is very dependent on Russian gas to fuel its factories and homes as Russia is well aware. Russia, Germany and the EU are locked in debates about the Nord Stream 2 pipeline but they are close partners in gas supply already via Nord Stream 1 and various land pipes.

This compromises their ability to resist Russian aggression. The U.K. needs to understand that gas and energy generally is a crucial part of the power balance in Europe. The U.K. needs to pursue a path of energy independence to keep its strength , just as the USA has done. The USA produces more than enough gas for her own needs and has a gas price much lower than the European one as a result. Russia cannot bargain her gas for other advantages with the USA.

UK energy policy seems based on making us more and more import dependent for

electricity , gas and coal on Europe. This is a grave weakening of our position which the National security Council should correct immediately. Becoming import dependent on a Western Europe short of gas and all basic energy , with Germany closing her nuclear power stations and France struggling to keep her old stations in production is a very bad idea.

Policy should be redirected to allow production of more oil, gas and specialist coal in the UK. It is crucial strategically and it is also the greener option than importing the fossil fuel.

[My Article for Conservative Home: What the Prime Minister can learn from Margaret Thatcher about running Downing Street](#)

Please see below my recent article for Conservative Home:

In the early days of this government, I was asked by the Prime Minister how I ran the Policy Unit for Margaret Thatcher. I sent him a presentation on options for establishing a strategic policy vision and direction, and briefly described the way Number 10 worked when I was a young senior adviser there.

I urged him to keep the crucial manifesto headline promises of levelling up, getting Brexit done and not raising the main taxes as central drivers of policy. The overall aim must be the greater prosperity of the many by expanding the economy, making and growing more things at home and showing how Brexit freedoms could lead to more and better paid jobs and more businesses.

These aims could then fuel matters for Prime Ministerial leadership and decision, and delegated matters for the different departments of state. Each Cabinet Minister should be told what is expected of them and how their department fits in with the general strategy. That needs to be agreed on appointment.

Thatcher had a much smaller staff at Downing Street than more recent Prime Ministers. There were three of us, senior civil servants, who talked to her a lot, knew her mind and helped her fashion government speeches, decisions and interventions and chair committees to resolve disagreements. The Principal Private Secretary ran her diary, ensured two way communication with all government departments and Ministers, organised meetings, sent out letters of confirmation and instruction following individual or collective decision and filled her daily boxes with work.

As Head of the Policy Unit, I provided briefs on all the main meetings she

attended or initiated, ensuring her views and the strategic vision of priorities and aims could be reflected in what she and the government did. I sent her proposals to start work streams in government to fulfil manifesto and other promises, and to remove or amend departmental proposals that did not fit with the strategy.

I ensured she had bilaterals with leading Cabinet members to avoid misunderstandings and to enable them to voice their worries or request more support when carrying through agreed major policies. The Head of the Press and media department was her voice to the third estate, reflecting her views and answering criticisms as need arose. She had a Political Secretary for Conservative events and party correspondence.

She was pleased with the results of this structure and said she thought it helped her achieve more. For example I helped her drive through the whole wider ownership policy of everyone an owner. The work embraced home purchase, more self employment, personal pension savings, employee share schemes and the privatisation programme.

The Social Security Secretary led a wide welfare review with emphasis on personal pensions and other savings, the Treasury led the share ownership and privatisation policy, the Employment Department worked on qualifications, training and simplifying self employment, and the local government and Environment department pursued the housing initiatives led by Right to buy.

The system worked for a variety of reasons. The most important was we three knew her mind or made sure we found out her view on a topic before telling the rest of Whitehall or the press. They knew when we spoke we spoke for the PM. It was relatively easy for other departments to work out the view in many cases, as there were some clear precepts and priorities that would always influence decisions.

The occasional much-debated big speech charted the future in important areas and led to work across relevant departments to see it through to implementation. The speech was always thoroughly prepared and shared in draft with those Ministers likely to be affected. We tried to ensure there was always consistency, clear direction and language that made it relevant to people's lives. I tried to keep our work strategic, as the PM should not try to do the jobs of Whitehall departments for them. Number 10 is a leader and change maker, not a means of implementing policy.

The work of the PM and Ministers was not done once the policy was announced. Indeed that to me was the formal commencement of the actions, not the end result after a sometimes long and argumentative process to arrive at an answer.

It was important to supervise implementation and check that all was working as intended. It would be no good for the PM to set out what she wanted, for there to be no follow up work to make sure it happened. This might well be the job of named Ministers, but for the big items there also needed to be reports back to the centre. The twice weekly briefing sessions for PM Questions ensured departments had to keep the PM up to date with topical or

fast changing items.

The task of writing the big speeches gave me plenty of time with the PM on a regular basis for what was in effect a series of long seminars and reviews of government policy and actions. We checked the speech drafts for accuracy and for relevance to the state of play the government needed to manage or alter.

Policy Unit members had access to the PM on their specialist topics as well as through me. They did not have any licence to instruct Ministers elsewhere in government, and were urged to be careful if Ministers asked for a steer. There was no Policy Unit view for outside consumption, only the Prime Minister's view. The Policy Unit view was worked through and argued out in private and put to the PM who could run with it if she wished.

We adjusted the view in the light of her responses. I met the Special Advisers in other departments from time to time but did not regard it as any part of my job to guide or employ them. Our relations with Whitehall usually took place via a formal Private Secretary letter from Downing Street reflecting the PM's view or informal guidance and arguments in official meetings preparatory to briefing Ministers or in our case the PM. I ensured the Policy Unit was at all times a working part of the civil service with career civil servants as well as directly recruited experts.

There is a modern relevance to all this. A Prime Minister needs a few advisers that he trusts who have sufficient delegated authority to get things done across Whitehall. It needs to be done in a constitutional way, respecting the fact that Cabinet members should be the main source of advice and information on their remits.

Where a senior adviser thinks a department and its Cabinet member are taking a wrong direction which can damage the overall government strategy and outturn that has to be put privately to the PM and the two of them have then to agree how change will be achieved with minimum damage and preferably with no press knowledge. There can only be one government policy at any time, so where there is disagreement advisers need to help the senior politicians arrive at a suitable collective decision.

This should not always be a compromise as sometimes one course is right and the other full of danger, so a clear choice needs to be made. Any good Cabinet Committee required careful preparation to ensure Cabinet members could freely express reservations amid criticisms whilst keeping the integrity and coherence of the overall aims and vision. Where the dispute was the usual Treasury versus spending department one the PM was usually the decisive voice. Number 10 needed a strong negative capability to stop needless change or complexity, as well as a strong positive view of what government could and should do to improve the lives of the nation.

The magic money tree died

Inflation usually kills magic money trees. Responsible advanced countries normally tell us there is no magic money tree, knowing as they do that their growth is soon killed off by inflation.

The magic money tree has been renamed Modern Monetary Theory. The idea is the Central Bank creates money in its accounts as only it can do, and buys up government debt with the money. The government can then issue more debt as there is a willing buyer at a low rate of interest. The government can afford more debt because the rate is so low, and because it owns the Central Bank who buys up lots of their debts anyway. The state ends up owing lots of money to itself.

Using the Central Bank and government debt is just a complex way of disguising it. They could as well simply instruct the Central Bank to print the extra money and give it to them to pay the government bills. Indeed both the Fed and the Bank of England had powers to do this during the pandemic.

If you carry on doing this when the economy is near full capacity it is very inflationary. Government gives itself money to buy goods that others are trying to buy and to hire Labour working for others. Only by bidding up prices and wages does the state grab these resources. Others who still want them either go without or bid higher again. An inflationary spiral sets in.

Now the U.K. economy is back to pre pandemic levels with low unemployment there is no scope for magic money trees and considerable inflation risk. Inflation is too much money chasing too few goods. Government has to incentivise more production to help bring the price rises down. It needs to change its pro imports policies for energy, high energy using industrial products and food.

The Bank of England plunges us into inflation

The Establishment tells us the Bank of England is independent. They remind us that the Bank is charged by law to control the creation of money and the rate of interest in order to keep inflation at around 2%. Inflation is currently at 5.4% and is widely forecast to rise above 6% by April, more than 3 times the target. Inflation as measured by the old RPI index is already at 7.5%.

It is curious that the defenders of the idea of an independent Bank do not criticise it for such a failure, nor offer explanations of why this has

happened. Most are happy for the government to take the blame , forgetting they could not tell the Bank to print less money or to raise the interest rate.

I supported the massive creation of cash in 2020 and the ultra low rates. The anti covid measures were a huge hit to output and incomes so there did need to be a large offset. When the recovery gathered pace in 2021 I advised the ending of money printing or QE by the Bank. It was obvious inflation would take off if the Bank kept boosting the amount of money.

The government got away with the massive money printing when the economy was in covid measures depression. They could allow the Bank to print and they could spend it routed to them as near zero interest loans which the state then bought up. These are not state debts we now have to pay off as the state owns the debt as well as owes it. Once the economy showed strong recovery then printing, borrowing and spending returned to being inflationary as Latin America and Zimbabwe can tell you.

The Bank was right at the end of last year to at last end QE or money printing. The Fed has carried on printing and has presided over a worse inflation than we have. It should stop immediately. The Bank of England should now be careful not to overdo further tightening as they and the Treasury are now slowing the economy too much. It would be quite wrong for the Bank to tighten when the Treasury is about to increase taxes far too much.