A tax rise is a very bad idea

The Chancellor behaves as if he believes the Office of Budget Responsibility forecasts. That way disaster lies. In November they forecast a£394bn deficit for the year to March 2021. By March this year they had found an extra £40 bn and said the deficit would be £354bn. The outturn for that year announced shortly after the last forecast was £304 bn. So all their advice to put in tax rises to raise say £10 bn was swamped by a £90 bn improvement thanks to growth and their poor model

This year they forecast £234bn. In the year so far the deficit is £26 bn less than their forecast, again a multiple of the amount in extra tax revenue they tell the Chancellor to raise.

On this bogus pessimistic prospectus it would be most unwise to put up tax rates . The way to speed a welcome reduction in the deficit is to speed growth by lower tax rates.That is the best way to more revenue and more jobs. A tax on jobs when you want to promote more and better paid employment is particularly stupid.

Shortages

The world trading system is not functioning as well as it used to. What began as a result of shut downs of factories and shops from anti covid policies pursued in many countries has morphed into a more complex set of problems getting in the way of smooth continuous supply.

There are too many container ships sitting off California. China from time to time shuts down significant capacity at one or more of its major container ports to tackle another covid outbreak. There is a shortage of empty containers returning to the big exporting countries like China and Germany in time to be filled promptly with new orders.

There is a surprising shortage of people willing to take jobs in many places, despite the shock to employment brought on by covid lockdowns. We have discussed recently the shortage of truck drivers in many countries, where pay and conditions of employment have not proved attractive enough to recruit a new generation of enough people to do the job.

Individual materials and components have been forced into shortages by large expansions of demand. Microprocessors are the most obvious.The surge in demand for all things digital combined with the wish of the motor industry to turn a car into a kind of smartphone on wheels to induce a big shortage of chips . Timber was suddenly very scarce as housebuilding took off in several places. Oil went dearer as OPEC restrained the supply whilst demand picked up.

Central Banks assure us this will all be temporary and inflation will soon subside. The danger is if Banks keep on printing too many yen dollars and euros they will keep price pressures on. There is also some signs that lockdowns have lost us some capacity amongst the self employed and small businesses that serve us so well. Governments need to be more attentive to the ease of setting up or re opening small businesses so we tackle more of the shortages.

Should travel by electric cars be taxed?

Let me begin by stating clearly I am not advocating any new taxes and certainly not lobbying for any. There are, however, many worried that if electric cars take off and significant numbers of petrol and diesel cars are pensioned off there will be a collapse in fuel duty and Vehicle Excise Duty revenues that will need replacing. They think it is a good idea to ask how this hole in public revenues might be filled. Before buying an electric car some people want to know what the future tax regime might be for them.

Some think the electric car user should have to pay a tax just as the diesel and petrol car owners do today to keep the revenues up. Electricity for charging car batteries could be taxed at a higher rate than domestic electricity, with the charger point incorporating suitable smart meter identification of use. After all electric cars use the roads as much as the ICE cars they replace, will add to the wear and tear and will need road maintenance and improvement programmes.

It is true that the tax raised on the motorist greatly exceeds the costs of providing and servicing the roads. There has been cross party agreement to a permanent transfer of income from car users to public services and benefit programmes. There is no reason some argue why this choice should change, or why electric vehicles should be exempt if that transfer remains multi party government policy.

Others think the advent of more electric vehicles should be used for a more comprehensive change in travel and vehicle taxation. Why not , they say, introduce road pricing? The state could sweep away fuel duty and VED and replace it by a comprehensive system of charging cars who use roads. Some would want to charge electric vehicles less per mile than petrol or diesel as a further incentive to adoption. Some want to just charge for congested roads, flexing the charge by time and traffic conditions. Some think just charge for the trunk roads and motorways which account for so much of the miles travelled and which tend to be more used by business and people on better incomes. That way people using cars to get children to school or themselves to nearby work would not be taxed.

Road pricing has been looked at before and so far always rejected. Many motorists/taxpayers fear it would become an extra tax. They fear the government would extort too much out of their monopoly control of the roads. Many MPs think of it as a poll tax on wheels and would not wish to support it. So I ask you all in a genuine spirit of enquiry how should the government handle revenue loss from electric cars? I do not have a good answer to offer.

Mrs Merkel’s party turn their fire on the European Central Bank

There is no such thing as an independent Central Bank, owned as they are by governments on behalf of states or the EU. It is possible for Central Banks to call the shots on interest rates, credit, banking and money supply for periods without government interference, but in the end these are all issues that may come to matter to politicians and the public. When they do governments replace Governors, change the remits, change the legislation or the rules which control them. Under Mr Brown as Chancellor then PM the Bank of England accepted a change of inflation target, and during the banking crash was effectively rightly overriden by the government to cut interest rates at the height of the troubles. Substantial changes were made after the 2008 banking crash by the incoming Coalition government . Even during periods of apparent independence there is usually behind the scenes agreement. Chancellor Mr Osborne in the UK chose a new Governor of the Bank of England who shared many of his views. The Bank obligingly saw independently the Remain campaign in the EU referendum that followed as the right answer and produced inaccurate pessimistic forecasts of what would happen if Leave won. The current Fed Chairman is at one with Treasury Secretary Yellen over running the US economy hot. The Fed has a dual mandate on employment as well as inflation and is always expected to work with the Administration of the day.

The doctrine of independence is most advanced in the case of the European Central Bank. It should be much easier there, as no single state or national government can bend it to its will or appoint a new Governor. In practice the ECB works closely with the EU Commission and is understandably an advocate and enforcer of more EU integration. They came to see they needed to take extraordinary action that German opinion would not like to head off Euro crises and allow the continued financing of the deficit countries.

Nonetheless most establishment figures and mainstream political parties claim Central Banks are independent. This means the politicians in office or seeking government positions have to refuse to comment on a wide range of economic instruments from interest rates through cash and liquidity levels to credit policies and bank regulations, leaving these to a so called independent Bank. It is a shock to the system if a senior government figure does venture any public criticism of a Central Bank. Their efforts at behind the scenes influence have to be done invisibly.

That is what makes the decision of Germany's CDU party, the party of Mrs Merkel that claims to welcome EU integration, all the more remarkable. Mr Merz, runner up candidate to lead the CDU and the new Leader's chosen expert on economic matters has been critical of ECB policy. He thinks the ECB is allowing too much inflation. He shares the Bundesbank Chairman's fears that German inflation is heading for 5%, an unacceptably high figure to them. He thinks the ECB should stop buying so many bonds, facilitating yet more borrowing by the deficit states of the Union at low rates of interest. Like it or not ECB policy has become an important tension in the German election.

Burning crops – where should ethanol come from?

The government is keen to introduce plant based material into petrol for our vans and cars. They see this as a green option, and claim that moving to a ten per cent content in petrol is the equivalent of taking 300,000 cars off the road.

Given their strong wish to limit the number of cars this is another good argument to limit the number of additional people we invite into our country each year to live here, as many of them will naturally want a car.

I have other important questions for the government about its belief in the power of ethanol. Which crops does it recommend for the production of this material? Is the aim to grow more corn or wheat, or to take it from willow and other trees, or some other plants? Is the intention to grow our needs in the UK or does the government wish to add to our import bill? If the aim is to grow more at home, what crops will it displace or can it be an extension to the useful growing areas?

I would want the government to facilitate home production of the ethanol feedstock and the home processing of the crops. I would wish to see these fuel crops as an addition to what we are already growing for food. My concern rests with the current policy from the agriculture section of the Environment Department, which seems keener on wilding, taking land out of useful production.

We cannot afford to simply add ethanol to a long list of things we import, transferring the jobs and incomes out of the UK and reducing the taxable capacity of our economy as a result. We do not want another Drax on our hands, where we import timber across the Atlantic to burn in the power station, with considerable environmental costs for long distance transport, and a net loss to the UK economy of the work and incomes timber growing and logging produces.