How do we raise more tax revenue?

Some of you will be pleased and others unhappy to learn that today's question is one of the most common in the modern media and even amongst some MPs.

There are two easy answers. The best way to get more tax revenue is to grow the economy.
The best way to get more money from companies and the rich is to lower the rates of tax they pay.

As I have often argued, cutting the Corporation Tax rate from 28% in 2010 to 19% today has taken place against a background of a substantial increase in company tax revenue. We collected 55% more last year at 19% than they did at 28% in 2009-10. Some say this is the Laffer effect – lower rates lead to more tax. Some say it is a coincidence. No-one can say cutting the rates has led to a decline in tax revenue in the way Treasury models and others suggest.

Cutting the top rate of Income tax from 50% to 45% has also led to an increase in revenue from the higher paid. In the early 2010s we collected £2bn less in self assessed income tax with a top rate of 50% than the government collected at 40% before. Revenue rose by 15% with a cut in the rate to 45%. When in the 1980s the then Conservative government cut the rate from 83% to 40% in two steps, there was a surge in extra money from the better off. They paid more in cash terms, they paid more in real terms, and they paid a bigger proportion of the Income Tax total.

The reason all this works? Entrepreneurs, rich savers and companies are footloose. They only need come, or only need stay, if tax rates are competitive. They need only invest and spend in places where the rates make sense to them. When the UK had 83% tax there was a Brain drain. Many talented people from pop stars to businessmen went abroad to avoid the tax rates.

Capital Gains tax collected 23% less than forecast when the rate was hiked to 28% from 18%. There was a loss of revenue in 2012-13 and 2013-14 with the higher rate, contrary to Treasury model predictions.

So to raise more revenue we need to change the Treasury model to make it more accurate, by accepting that some taxes are at rates above their revenue maximising levels.

The Treasury have a very poor forecasting record on revenues. Remember they had to hike their forecast for 2016-17 tax receipts by £10.5bn between the November forecast and the March forecast in the year in question!

South West trains

Network Rail wrote to me with some good news this week. They reminded me that by 2018 they will increase peak capacity into Waterloo by 30%, meaning more seats for rail travellers.

The letter however, was more about the bad news of getting this expansion in place. This August they will close platforms 1-10 at Waterloo to extend and straighten platforms to accommodate longer trains and more passengers.

Commuters and other passengers are warned that this August will see reduced services. The network will be more prone to delays and difficulties if things go wrong. They tell us "there is never an ideal time to undertake such significant work.We have chosen this period to do the work as August is much quitter for the rail network…"

Nurses pay, and pay for those on the Minimum Wage.

There has been discussion of how much nurses get paid and whether they can get more than a 1% increase during the pay cap. I thought it would be a good idea to report the scales published on the web and invite comment on what would be the right answer on their future pay.

According to the official sites a nurse currently starts on £22,128 a year. This rises to £28,746 a year over a seven year period, with increments of 4% in all but the first year when it is a 2.5% increase. In inner London the sums are £26,553 rising to £34,495. In outer London the nurse receives 15% more than the national scale. The nurse would also receive whatever general pay award there was on top of the annual increment. The site says " Staff will normally progress to the next paypoint annually until they reach the top of the pay band."

If a nurse becomes a senior nurse or a specialist nurse the pay scale then rises further, up to £35,577, or £42,692 in London.

The 1% overall cap does not mean that a public sector employee only gets 1%. These annual increments are available in some jobs other than nursing as well. An individual may well get promoted and receive better pay for more responsibility, or undertake further training and get higher pay for more skills.

There are two issues to discuss. Are the starting levels too low, and are the annual increments correct?

The government has sought to tackle low pay at the bottom end of the payscale by increasing the Minimum/Living wage for those in the unskilled jobs. The pay for someone on the minimum in 2010 has risen by £3200 a year (full time on the minimum) , taking the hourly rate from £5.93 to £7.50, an increase of 26% over that period. Further increases are planned as it is still low. These increases were of course exempt from the pay cap.

Mr Redwood's intervention during the Adjournment debate on School Funding Formula (London), 28 June 2017

John Redwood (Wokingham) (Con): The right hon. Gentleman is making a very good point. Certainly in Wokingham, which has very low per-pupil amounts and good-performing schools, we feel there is a problem. Was not the idea of the reform to have a higher absolute amount for every pupil in the country, because there is a basic cost wherever you are being educated?

Sir Vince Cable (Twickenham) (Lib Dem): Yes, indeed. The right hon. Gentleman makes the important point that it is not a question of just having a basic amount of funding, but we need an evidence base for what the cost of running a school actually is. I worry that as the formula is currently devised, there is no evidence base. Wild guesses have been made about the differential costs of secondary and primary schooling, and we need objective studies of what it costs to run a school, so that the formula can work well.

Public sector pay – lets have pay rises with productivity rises

Some people in the public sector deserve a pay rise. Some parts of the public sector need more money to pay for the services they provide. They will receive more, though as always there be arguments about how much more. Tax revenue will go on rising without increasing tax rates, all the time the economy grows.

Some parts of the public sector have done particularly badly at improving quality and efficiency. There is considerable scope for people to work smarter, and to benefit from the wider application of digital technology.

The way to square the circle of wanting people to be better paid,but wanting to keep the overall costs down, is to boost quality and output without having to add to staff numbers, or without in some areas having to replace all those who retire or leave.

I will be looking at how public sector management can be improved, with higher quality services at an affordable price, in blogs this summer. A crucial part of getting progress is a better motivated and better paid workforce that benefits from improvements they help implement in service quality and cost of delivery.

In the current national debate we are offered a silly choice. Do we with Labour want to raise the cap and pay people more with no regard to the consequences for taxes and borrowing, or do we with Treasury orthodoxy want to keep the pay cap in place to control public spending and keep the pressure to cut borrowing?

I recommend following neither of these choices. Let’s have some pay rises. By all means await the Independent Pay Reviews who will assess pay against the background of supply and demand for labour, living standards and past price increases. Let’s at the same time prepare plans for how to raise quality and productivity in each service, and engage staff in ways that lead to their promotion or higher remuneration.

In the private sector a “something for something” deal is usual over pay. I want better paid staff and affordable services and think we should be able to deliver both. It is most worrying that public sector productivity has been stagnant this century, despite the huge breakthroughs with digital technology.