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.