

## Real incomes and taxes

There has been a squeeze on real incomes in most of the advanced world this year. Inflation has risen to higher levels in The USA and Spain than in the UK and almost the same as the UK in Germany. The two main causes have been the higher oil price affecting motor fuels and domestic energy, and rises in Chinese export prices as the Chinese reflect higher commodity prices and increasing Chinese wages. Wages in the west have struggled to keep pace with prices, so real incomes have been squeezed. The good news is it looks as if we have seen the worst of the commodity price rises. Many forecasters expect real wages to be rising again in these western economies including the UK next year.

The big collapse in incomes during the credit crash of 2008-9 followed by a slow recovery has left many people feeling squeezed. The government in the UK needs to do more to accelerate real wage and spending power growth. Only the Conservative Manifesto promises to take more people out of Income Tax altogether, by lifting the tax threshold to £12500, benefitting all Income tax payers. It also promises to raise the 40% tax threshold to £50,000 as £40,000 is too low an income to have to face such a high rate. Lower taxes on Income will help boost family spending power. They will also stimulate the economy to generate more jobs and incomes.

The government has also promised to do more to promote apprenticeships, technical training and higher educational standards. The main way to a better paid workforce is to have a more productive better equipped workforce with the skills and training that command higher wages. I want to help build such a world. The alternative government on offer would tax success and hard work, drive people abroad by triggering a brain drain, and put taxes up to try to meet some of the huge public sector bills they wish to incur. They might start by only taxing the rich more, but once they had taxed them into doing less or leaving, they would have to tax everyone else more.

Prosperity, not austerity is what we need. The deficit has been brought to down to sensible levels. Some tax cuts and reasonable spending increases for health and education will help boost the growth rate and bring in more revenue.

Published and promoted by Fraser Mc Farland on behalf of John Redwood, both at 30 Rose Street Wokingham RG 40 1XU

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## Spreading prosperity more widely in

## the UK

One of the central themes of the Conservative Manifesto is to promote growth and prosperity more widely around the UK. This is an aim I strongly support. This week the ONS brought out some figures to remind us just how much needs to be done to generate more income and wealth in large parts of our country. The ONS calculated tax revenue per head by region, and public expenditure per head by region.

The figures revealed that the UK's single currency area is also an important transfer union, switching large sums collected in taxation from the richer areas to the lower income areas through higher levels of spending. London topped the lists for tax revenue per person, contributing £15,756 per head. The South East provided £12,449, and the East of England £10,833. At the other end of the revenue table was Wales at £7,986 per person, the North East at £8,200 and Northern Ireland at £8,581.

On the expenditure side The South East was bottom at £10,582 per head, with the East of England a close second at £10,592. The highest spending per head was in Northern Ireland at £14,018, and second Scotland at £13,054. London at £12,686 was relatively high, but London still contributed the largest amount net to the rest of the country owing to its very high levels of tax contribution. Only three regions put in more revenue than they took out in spending, London, the South East and the East of England.

The Scottish figures in the past when they have been calculated have been the subject of some controversy, as you could either allocate most of the oil revenue to Scotland, or allocate it according to population on the grounds that it is a national resource for the UK. Last year, the year for these figures, it makes no difference how you do it as there was no North Sea revenue.

I draw several conclusions from this. The first is you do need large transfers of money in a currency union to make it work. The absence of these transfers in the Euro area lies behind the rolling Euro crisis we have seen in recent years as the zone struggles to find ways to send the surplus from the rich areas to the rest of the Union.

The second is the gap between London and the rest is high. We need to help bring the others up by adopting policies that promote more enterprise and new business in the lower income areas.

The third is transfers help balance things up, but they do not in themselves correct the longer term imbalances which stem from too little successful private sector business in the lower income areas. It is that issue which education, training, transport, planning and other policies need to address to encourage more businesses to expand their provision in the areas away from London.

Successful modern cities are particularly good at attracting or producing

well educated and highly trained people, and linking them up with entrepreneurs. Cities like Oxford and Cambridge are showing the way outside London. This raises the average income which creates demand and jobs across the spectrum of economic activity.

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## **This election and Brexit**

I have spoken to various Remain voters so far during this election. Many say to me they accept the result of the vote and just want the government to get on and do the best deal they can. Some tell me they voted Remain because they did worry about the possible economic consequences, and they are now relieved to see the bad predictions of recession this winter and collapse of confidence did not come true.

A few have told me they still cannot accept the decision and still fear there will be bad economic results in due course. They seem to think when we leave there will be all sorts of new barriers and restrictions imposed which will get in the way of normal travel, trade and collaboration across the Channel. They have perhaps been Lib Dem voters in the past and are often particularly concerned about academic and student links, research and cultural exchanges.

Let me try to reassure. The UK government has made very clear it wants a UK open to talent and university collaboration. The UK is not planning closed borders, making it more difficult for people to come here to courses in UK universities. We will still welcome tourists, visitor performers, people with good qualifications, entrepreneurs wanting to invest. The government will be generous with visas for talented and qualified people wanting to come to the UK to be faculty members, just as we are today with academics coming from the USA and other non EU countries. It will also want to see a continuation of the many musical, artistic and cultural links and exchanges that take place with EU and non EU countries today.

Nor do I expect the rest of the EU to want to stop EU citizens travelling to the UK or undertaking university work here. Under international law the EU would not be able to block people and ideas to and from the UK, nor can I imagine they would want to. There are no restrictions the EU could place just on the UK – they would have to be common restrictions against the rest of the world. I do not think the EU wants to cut itself off.

The UK has several world class leading universities and many other good ones. Their interests will be upheld by the government. More importantly, as the UK and the EU both pride themselves on a belief in freedom and on a pluralistic society, universities, individual students and academics will remain free to travel, study, work and collaborate in each other's countries as they see fit. I want to live in a free society. Such a society does not stop free

institutions doing as they wish, and allows them under the law to pursue their aims and development. Some people think government is more important and more powerful than it is, and have a very dim view of how the EU will seek to behave.

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## Forecasting the future

Today I am publishing another piece with no reference to the UK or the election. I will resume normal posts tomorrow when national campaigning starts again.

Events, dear boy, events. Policy makers, governments and companies need to forecast the future as they shape their policies and decide what to do to serve their citizens or customers better. In recent years the main international forecasters like the IMF and World Bank, the ECB and the US authorities, have struggled to anticipate the banking crash of 2008-9 or the Euro crisis that followed. Many companies have expressed surprise at the turn of events from Tokyo to New York, and were not anticipating the election of Mr Trump.

As someone who tries to set out a view of what might happen next by way of important background to policy debate, it is important to think through how you can improve your chances of understanding the trends and the risks. You begin as most do by forecasting the "knowns". You can people your forecast with factual dates for future elections, Central bank rate setting meetings, publication of important results, dates of Budgets and the like.

You can then move from this easy bit, to trying to forecast the unknown element within these events. I know the Fed will consider interest rates at its June meeting. I do not know what it will decide to do, though with many others I expect it to raise rates by another 0.25% based on what I have read from the various statements and analyses put out by the Fed and its members. Sometimes your chances of success are high because the organisation has given a steer or clear briefings in advance. Sometimes the data they will consider is available and again it may be obvious what they have to decide. I did not know Mr Trump's budget, but a lot of what he is proposing was in his programme for government put out by candidate Trump, so it was not that difficult to guess. I did not know Mrs Merkel would decide to cancel all her nuclear power, but could see that might happen by watching the pressure she was under from the anti nuclear lobby.

There are then the unknown unknowns, as Mr Rumsfeld once famously said. No one could know that a Japanese nuclear power station would be badly damaged by a tidal wave, leading to a major change of energy policy. All you can do

is adjust your view promptly if such a thing happens.

The reason some of the world institutions are so bad at forecasting economies is they have a vested interest in stability and come to believe their own reassurances. They missed the build up of excessive credit because they persuaded themselves that the world could suddenly handle levels of debt and gearing through derivatives that would have been dangerous before. Worse still, they then brought the whole structure down by lurching to too tough a stance, presumably because they did really believe all these positions were risk reducing! An outsider could see more clearly. Many of us saw the build of debt and gearing in the EU and US was excessive and said so. A few of us saw the change of stance by the authorities was disastrous. If there is too much debt around the last thing you want to do is so tighten money that people cant afford to service their loans.

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## [Wokingham election meeting with all candidates](#)

This meeting scheduled for this evening at the Forest School has been cancelled by the organisers following the tragic events in Manchester and the decision of the main parties to suspend election activity.

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