

My Speech on Spring Budget debate – National Insurance

John Redwood (Wokingham) (Con):

I have declared my business interests in the Register of Members' Financial Interests.

I welcome the reduction in the tax on jobs. The level of overall taxation in our country is too high. The reason it is so high is primarily the huge expenditure the country, by general agreement, incurred to tackle the covid lockdown. This is why I find the Opposition's criticism of this Government's tax record so difficult to grasp. After all, they wanted us to lock down tougher and they wanted us to lock down for longer. While a lot of money was rightly offered by this Government to individuals and companies to replace their lost incomes –colossal expenditure on a scale we have never seen before–Labour wanted to spend more on those causes, as well as wanting the lockdown to go on for so much longer.

What we demonstrated was that if we lock down a country for a year or more, stop a very large number of people earning their livings or livelihoods at all, and close down a large number of companies for the duration and maybe for longer, it is an extremely costly process. Of course, we needed to offset that to prevent a complete collapse in the economy and to sustain some lifestyles for those who otherwise would have no income. So we as a nation have this burden of extra expenditure, which we are now having to tackle by tax levels that are higher than we like.

We are at this very important point where the higher taxes are all in place–some of them are doing their job, and some of them will disappoint because higher tax rates do not always deliver the extra revenue that Treasury and OBR planners seem to think they will–and the Government are rightly saying, from the autumn statement through this Budget and on to future fiscal events, as they are now called, that we want to get back to getting the level of taxation and the burden of the rates down. It does not mean that we want to reduce the amount of taxation–indeed, the Government, understandably, want to collect a lot more taxation, as do the Opposition–but the fundamental policy debate is about how best to do that, and it is surely right that we are going to have a more prosperous economy and more public expenditure can be afforded if we have tax levels that promote growth, particularly if we reduce the taxation that is otherwise a big burden on work, on enterprise and innovation, and on small companies and the self-employed.

I am delighted that the self-employed have been included in the national insurance cuts in both the autumn statement and this Budget, but I still think the Government need to reform or push back the changes they made to IR35. We have lost 800,000 self-employed over the covid period. Some of that is because of the damage the covid lockdown has done, but some of it is deliberate tax policy in telling people that they cannot be self-employed, or

so undermining the credibility of their status as self-employed in the eyes of others that they do not get the contracts they used to get from businesses that are nervous about the tax issue.

I urge my hon. Friends on the Front Bench to find time to look again at the second part of the self-employment package. I welcome the national insurance part, but I think we need to look at IR35, because we need that extra capacity. It would be good to get back some or all of those 800,000, and to add many new ones—younger ones—to that crucial army, because I am sure all Members in the House, being honest, would agree that the self-employed make such a valuable contribution in our constituencies.

Does my right hon. Friend share my view that over the decades we have seen such a fall or drop-off in individuals starting their own business, younger people in particular, because of these concerns about the tax burden, how regulated it is and how difficult it is? By dealing with the whole long-standing issue of IR35, we could open up a new marketplace and encourage a new generation of entrepreneurs and small business leaders to come in and really help to grow the economy.

I largely agree with my right hon. Friend, but if we look at the numbers, I think the fall-off was from 2020 to 2024. Prior to that, with good Conservative policies and lower taxes, we were growing the self-employed army very noticeably, and it was

making a very important contribution to general growth and the way all our local communities are serviced. It is so often self-employed people who allow us to make personal contact in a way that large companies do not seem to want any more. They are the people who turn up in the evening or at the weekend, if necessary, to get work done, and they are the people who wrestle with the increasingly impossible streets created by Labour and Liberal Democrat councils, which make it more difficult for them to get their vans around.

Does the right hon. Member not understand that perhaps the other reason for the decline in the self-employed and small and medium-sized enterprises is the growth of large businesses or large corporations that push them out of the marketplace and that monopolise and dominate? That is a big part of it, and it is a massive part of how our economy has developed over the last 30 or 40 years.

No, I do not think that is the main point. I think the two main points are the ones I have made—the covid lockdown and the tax regime affecting the ability to set oneself up. I will meet the hon. Member a little of the way, because I do think that the 2021 reforms in particular put companies off dealing with the self-employed, and the self-employed often need business from other companies, as well as directly from the public, and that has been a problem. If he and his party are seriously interested, they should look at the 2017 and 2021 reforms, which I think they supported, to understand how they have backfired. That is a good example of the OBR and the Treasury

thinking that they can get more money out of the self-employed by forcing more of them to be employed but ending up with a far less successful economy with far fewer people working.

It is an absolute pleasure to listen to my right hon. Friend. I want to reinforce his point about IR35 so that our colleagues on the Government Front Bench are clear about how important this is. He talked about how Labour in the past supported those measures, but does he share my concern that perhaps Labour has now recognised that those changes to IR35 have backfired and that it would be disastrous for the Conservative party to go into the next election not having made those changes while the Labour party is offering to do so?

I will not join my hon. Friend in suggesting that it could be disastrous to go into the election—I hope that, when we get to the election, it will be looking rather better. But I do agree that it would be great to have sorted out the IR35 taxation mess before we get to the election—after all, there could still be many months of happy Conservative Government ahead if that is the Government's wish—as that would be a much better outcome. Failing that, it would be good to put it in the manifesto, but the self-employed would be quite right to say to the Conservatives, “If you have now got to the point of putting it in the manifesto because you think it needs changing, why didn't you just fix it?”

My right hon. Friend is making a brilliant speech. He is talking about the self-employed, and in Southend and Leigh-on-Sea more than 98% of my businesses are small or medium-sized—in fact, the vast majority are micro. Does he, like me, welcome the raising of the VAT threshold in the Budget? Does he think that over time it would be welcome to continue moving that threshold, which is such a brake on the growth of small businesses? It is a brilliant thing that we have done, but could we take that further?

My first request of Chancellors in recent Budgets has been that there should be a sizeable increase in the VAT threshold. I opened the bidding at taking it up to £250,000, because I think we should want get on with these things, and we should want to allow the self-employed to take on their first one or two employees and get their business to a certain scale before this colossal bureaucratic burden comes down upon them. I have not yet persuaded my hon. Friends in the Treasury. I am pleased that Chancellors have moved from saying, “No, we don't want to do that at all,” to saying, “It can now be done.” But if the Government are to do it, they should get on with it, mean it, and look as if it is going to make a real impact.

Five thousand pounds is not much. Lots of people get their business to around £75,000 to £80,000—I have met them in my constituency, as I am sure have most Members in theirs—and then they say, “I'll have a month off,” or, “I'll close the B&B for more of the off-season period,” or, “I won't take on any more contracts, because I really don't want all that hassle.” They will say, “I'm

just a self-employed plumber"—or caterer or whatever—"and I'm good at what I do. I don't want to become a VAT expert and I don't want to have to spend a fortune on consultants to take me through this rigmarole of trying to keep the books straight on VAT." I think we would benefit greatly from allowing that flexibility. The Bill helps, because it does reduce self-employed national insurance costs, but, as my hon. Friend the Member for Southend West (Anna Firth) said, it would be much greater if we dealt with the VAT threshold at the same time.

I would like to extend the conversation, which the Opposition clearly want to have and the Government need to respond to, about affordable and unaffordable tax cuts. First, I note that the Opposition dub all tax cuts—apart from the odd one they vote for—as unaffordable, whereas any amount of public spending is affordable. That is a strange asymmetry. The truth is that the Budget deficit is a combination of increased spending and reduced taxation, and one needs to look at both sides, which should be treated similarly.

The other thing that the Opposition must understand, from listening carefully to Ministers, is that getting rid of all national insurance employee contributions is just an idea; it is not a pledge and it is not a policy. It is clearly not baked into the next five years of figures. We have the Government's five-year financial plan in the Budget, which sets out in general terms what the levels of tax revenue and overall spending will be—we await more detail for future years on spending from the public spending review in due course—and we know what the current feeling is on taxation, because we are just voting that through at the moment, based on the Budget. We know that future Budgets will make changes to taxes.

I am sure that Conservative Budgets will make reductions in taxes—assuming continuity of Conservative Government—but the Government are not promising to take off all this national insurance in one go, or

indeed to make any particular change to national insurance next year or the year after. That is the right position to be in. However, given that there is plenty of time to think this through—it is not urgent policy—I urge my hon. Friends in the Treasury to set out more of the consideration than the arguments before coming up with a firm pledge or a timetable for implementing a tax cut that they want.

We do need to begin with the contributory principle, which is still the main feature of the national insurance fund as we have it today, relating almost entirely to the state retirement pension. The old contributory benefits for unemployment and sickness have been largely removed from the national insurance fund—there are only residual, small amounts left—and now come out of general taxation and are voted on in the normal way. The contributory fund is primarily for the pension, which is reflected in the fact that everyone in receipt of a state retirement pension—or in expectation of one when they get to the relevant age—will have their pension based on their contribution record.

It is also true that Parliament over the years has amended how one qualifies for those contribution records—in some circumstances one can be at home and

qualify for deemed contribution, which is all good and fair—but it is still very much a contribution-based system. If we suddenly went away from such a system, we would need to answer the question: how do we settle eligibility for state pension? Many of my constituents would not think it a good idea if we invited in migrant workers in their 60s to do two or three years' work here, having settled here quite legally, and then said, "You can have a full state pension." They would feel that was not quite what people had in mind, because all previous generations have had to be here and work for many years to gain that entitlement. So there would be issues of fairness.

If the Government's proposition is only that they would quite like to get rid of all employee contributions, I suppose we could keep the contributory principle by proxy, because people would have an employer contribution record, which I guess modern computers could divulge in a form that made a proxy for the eligibility of that person for a pension. However, it would still leave a hole in the national insurance accounts, because with just employer revenue we would have less national insurance revenue coming in than pension going out, so there would need to be technical adjustments or the abolition of the fund and some other reassurance mechanism that people would get their entitlements for the state pension, however those new entitlements were calculated.

This is a complicated area. I have been around this policy area on several occasions in the past for various leaders, Chancellors and shadow Chancellors, and I have always concluded that it would not be a good idea to try to merge the whole of the national insurance taxation system with the whole of the income tax system. I still think there is some merit in keeping the contributory principle. It now mainly relates to the pension, which is probably what one settles for, given how much other benefits have gone up and how one could not put all that extra burden on additional national insurance contributions.

I therefore urge the Government to ask themselves questions about the timetable, affordability, wisdom and, above all, what they wish to do with the national

insurance system as a whole, the contributory principle—which still means a lot, particularly to older users of the system—and what a more modern system might look like. That is Green Paper and policy discussion territory, and it is invited as part of this debate because the Opposition have tabled amendments to try to tease some of these matters out. We cannot settle this today, however; we need a lot of documentation and research to update some of the numbers and complexities, which I remember poring over in the past, so we can see how this might work.

So, it is good news that we are getting a tax cut, and good news that we can have some more tax cuts to come, but I ask the Government please not only to think about cutting national insurance, on which they have done a big and a good job, but to think about some of the other taxes, such as the VAT threshold and IR35, and such as taxes on energy where we are still completely uncompetitive in this country because energy taxation is so high, relative to China and the United States of America, let alone relative to our European

competitors—they tend to have higher energy prices but we are still uncompetitive against them.

So we need to look at all of that, and when we are looking at future Budgets we need to work away at finding more headroom. I am very pleased that this national insurance cut is effectively allowed under Office for Budget Responsibility rules because the Government have seized the initiative on the productivity decline, which has been very sizeable over the covid period in the public services, and the Government are putting back around £20 billion of lost productivity in future years. That is a modest target given the scale of the decline, and it is another reason why the public finances have been thrown into disarray by covid: we did not merely have all the extra costs during the covid period, but we now have ongoing considerable extra cost to run our public services because we cannot even get them back up to the levels of productivity they had hit in 2019 before the covid crisis. We need to look at other ways of finding headroom. Productivity is a good mine for finding headroom so we can improve the quality and cut the cost of what we deliver in the public sector.

I still think the Bank of England should be stopped from selling its colossal bond portfolio at huge losses and sending the bill to the taxpayer. That is unsupportable and the fact that taxpayers and the Treasury have had to find £34 billion year to date to cover the whole range of Bank of England losses, which include capital losses on the bonds, is a sign of how out of control this is. We need to stop that kind of thing. It would also be very helpful in getting us out of this technical recession, because the monetary policy has shifted from being massively too expansionary and inflationary, as it was during the covid period, when some of us warned about the way the Bank carried on for too long with printing money and buying bonds. I was very happy with the first tranches because it was essential to offset, but the last tranche was over the top. The Bank has now lurched to being too tough and has therefore created a technical recession that we need not have had, and if it stopped quantitative tightening bond sales, that would start to ease the markets up a bit more and allow us to grow a bit more rapidly and therefore generate more tax revenue.

So I hope there is some food for thought here for the Government when they look at their progress so far. The national insurance cuts are good, but they should study the overall reform rather more carefully and think it through and not make it the only kind of tax cuts in the future. There are other tax cuts now that are more urgent and that would grow the economy more quickly, and they would be targeted rather more on enabling more people to work for themselves and more small businesses to grow, and on us having more capacity, particularly in high energy using areas.