The cost of wind farms

The Global Warming Foundation put out a piece of work yesterday claiming that 6 offshore wind farms share £1.6bn between them in annual subsidies. It went on to argue that the renewables obligation now costs consumers £6bn a year and the capacity market £1bn a year. They object to income transfers to the wealthy they think own the windfarms from lower income consumers and are worried about grid stabilisation with more intermmittent wind power.

Clearly there is a price for making capacity available whatever the fuel. The costs also depend on which power station and fuel type of allowed to run the most, which affects the unit costs of power delivered. I have not had chance yet to check these figures, but would be interested in reactions to them, as they do show high costs and prices which makes the U.K. less competitive and is hard on family budgets.

Lower rates brings in more revenue

I was pleased to see the Cato Institute yesterday wade into the debate about how to get more tax revenue from business. They have studied the OECD figures for tax raised 1980-2020. These show that in the 1980s the leading 22 countries of the world charged an average Corporation Tax rate of 46.2%, and collected 2.4% of GDP from this. In the last decade they chargeD an average rate of 26.7% which yielded 2.9% of GDP. It’s more evidence of the case I have been making that cutting rates can often produce more revenue. The Treasury accept the principle of the Laffer effect, but think the optimum rate for revenue is far higher than it is in practice.

The contest for influence between the EU and the Eurasian Economic area

The EU and Russia are engaged in a contest to attract the countries clustered on the eastern margins of the European continent into their respective spheres of influence and control. They use some similar techniques to attract countries, though the West would argue that Russia also uses force in some cases and localised areas. They offer a customs union, some discounted or favourable access to things countries need, possible membership of an associated defence grouping, and some mutual support. The west offers EU membership of a customs union and trading system through an Association Agreement, which binds a country into a considerable volume of EU law. Russia offers membership of the Eurasian Economic Union for trade and economic collaboration. For defence the West offers to some membership of NATO, whilst Russia proposes her own Collective Security Organisation.

These competing offers or pressures can prove difficult for the buffer states caught between them. They did so in Ukraine. In 2014 protesters took to the streets in pro Western West Ukraine to topple the elected President who was trying to keep Ukraine neutral between the EU and Russia. The pro EU forces thought him too sympathetic to Russia and disliked his refusal to sign an Association Agreement with the EU. He had also been trying to ensure Russian continued use of warm water ports in Crimea which the Russian navy needs especially in winter. The decision of Ukraine to change Presidents and draw closer to the EU was seen as a reversal by Russia and led to their annexation of Crimea, claimed as part of Russia with a population said to be strongly in favour of joining Russia. Russia assumed and resented EU involvement on the side of the opposition forces to the outgoing President. Russia also then released a transcript of a claimed conversation by Victoria Nuland, the US Assistant secretary of State, to show the USA was also involved in seeking a new anti Russian government in Kiev. The USA never confirmed the tape was accurate but they did not rebut it either. It mentioned Vice President Biden as offering support for the actions, without mentioning President Obama. Clearly the Russians harbour a grudge against Biden and Nuland over Ukraine, and want to give them a tough time by providing a show of strength on the Ukrainian eastern border. Nuland is currently nominated to a very senior role in the State department.

There are similar issues of influence and loyalties in Moldova, Armenia, Kazakhstan and Georgia. President Biden and his EU allies have to work out how to avoid further attempted annexations of territory and how far they can go in allowing or containing the spread of Russian influence by other means. President Trump did let Russia gain influence in Syria as he sought to avoid war in that troubled part of the world.

[The UK’s internal market and the Northern Ireland Protocol.]

The NI Protocol includes clear statements to protect the integrity of the UK internal market, including the principle of the “importance of maintaining the integral place of NI in the UK’s internal market” and “both use best endeavours to facilitate trade between NI and other parts of the UK”. No sensible person can interpret this to mean other clauses can be used to stifle GB/NI trade and place it all under EU rules interpreted with a damaging construction . Nonetheless the EU wishes to enforce clauses relating to the importance of its single market in ways which violate these important safeguards and are against the spirit of the Agreement. The extra powers of the EU over GB/NI trade in the Agreement relate only to goods at risk of moving on to the Republic. These are a small minority of the traded goods, and can be identified and policed by the UK.

The EU may try wrongly to refer any attempt by the UK to control its own internal market between NI and GB to the Joint Committee or the ECJ. The UK asserted its sovereignty by leaving the EU and the EU agreed that our sovereignty would be restored. If they will not agree sensible and proportionate arrangements applying EU rules to just those items which are sent to NI from GB in order to go into the Republic – or over goods sent by NI to the UK for onward despatch to the EU – they are in breach. In that case the UK should assert that we will implement the Agreement by controlling all goods movements that are our internal market items in our way as before, and will do a good job identifying onbound products for the EU where of course we will apply their rules and procedures.

It is completely unacceptable that the EU thinks it can control all trade within a significant portion of the UK, and revert any disagreements with us to its own court for adjudication. That expressly overturns the restoration of sovereignty which both sides saw was the point of Brexit. Some actions of the EU damage legitimate UK internal market trade into Northern Ireland, possibly in the hope that they can substitute EU exports to NI via the land frontier.

The UK should also make clear that there is no such thing as a sea border. The barrier or border they wish to create is on land at Northern Ireland ports and airports so it is a border on the island of Ireland. The UK does not need new physical barriers at the land frontier between the Republic and NI. It has long been a complex border with electronic arrangements to handle excise, VAT and currency differences between the two jurisdictions prior to Brexit. Any post Brexit additional requirements can be handled in a similar way. The UK will of course implement the controls on trade destined for the EU in good faith.

[My contribution to the Finance (No. 2) Bill debate, 13 April 2021]

I strongly support those MPs from Northern Ireland who are urging the Government to move on and make sure that we can restore the important trade between Great Britain and Northern Ireland. It has been damaged. The EU is being too intrusive. The Northern Ireland protocol clearly sets out that the United Kingdom is a whole and has its own internal market.

It states that Northern Ireland should be fully part of that market, and that is not true today, so I urge the Government to take control over all trade that is internal—trade from GB to Northern Ireland and not going on to the Republic of Ireland, therefore not of concern to the European Union—and to ensure that it runs smoothly.

That is just one part of a much bigger picture that we need to fuel a strong recovery.

Of course I agree with the Government that the current level of deficit is unacceptably high and we cannot go on with deficits on that scale indefinitely. I also agree with the Government that it must be a one-off, and the Government did need to be very generous, given all the damage being done to individual livelihoods and businesses by the health measures being taken to combat the pandemic. But all the time that restrictions and adverse measures are in place for health reasons, the Government should continue to be generous. People and business need support.

We want people to be available to go to work and businesses to be available to produce goods and services as soon as they are legally allowed to do so. It is a big cost, but it is manageable. We are seeing around the world that many Governments are having to do the same thing, interest rates have stayed very low and, so far, the debt has remained affordable.

I encourage the Government to understand that the deficit will collapse very rapidly as soon as the controls are off and all those policies in place to promote a fast economic recovery take effect. We are going to have a much faster recovery than normal once the controls are off, because we had a much bigger fall thanks to the controls themselves, which, in an unprecedented way, stopped people working and stopped businesses trading. The Government should take some encouragement from the United States’ example.

The United States’ monetary stimulus and fiscal stimulus are huge. If we adjust for the size of the economies, the stimulus under the Federal Reserve Board’s actions and President Trump and now President Biden is about twice the scale of the UK stimulus in monetary terms and is considerably higher in fiscal terms. Perhaps the US is taking more risks with inflation than we would like. I am not suggesting that we need to match the American numbers, but I am saying to the Government that we are nowhere near the American numbers, so worry not. This is the time for stimulus—this is the time to make sure that the economy is properly supported and people can get back to work.

With that in mind, I urge the Government to look again at the idea that we need tax rises in the years ahead. If we threaten too many tax rises, it will damage confidence. We will put people off investing here and make people nervous about spending and make them want to save more. This is the time when we need people to spend, to recreate those jobs and get businesses going again. This is the time when we really need businesses to want to come to the United Kingdom or to stay and grow in the United Kingdom, because we need that massive investment. We are short of capacity in all sorts of areas. We have had too much deindustrialisation over the last few decades, and now is a great opportunity to promote it. The Government recognise that with their short-term measures to boost investment, but they may need to show that we are going to have a very benign climate on business tax after the initial impetus and stimulus is offered. If people think that we are going to gravitate to the average or to a higher tax regime, it will put them off.

I pray in aid our neighbour the Republic of Ireland, which has been extraordinarily successful by having an extremely low corporation tax rate. It is 12.5%—a knockout low rate—and what has happened? First, the Republic of Ireland collects far more as a proportion of its total tax revenues from business than us or other European Union countries, because so many great companies have gone there and book a lot of profit there, since the rate is obviously agreeable and favourable.

The Republic of Ireland also has a much higher GDP per head. It is more than twice the EU average, and it is considerably higher than the United Kingdom’s. That is entirely because the Republic of Ireland has this extremely attractive tax policy, which has been so successful in attracting a lot of inward investment, a lot of jobs based on that, and a lot of turnover and profit booking, particularly from great American corporations.

I do not know how that will work out now that President Biden is encouraging a minimum rate, which would mean almost doubling the Irish rate; we will have to see. However, in the meantime, if anyone doubts the power of lower rates to generate prosperity, greater GDP per head and, above all, greater tax revenue, they should look at the Irish example, which is very vivid.

I would like to see the Government speed up with their freeports and be very generous with both the number of freeports and the areas they cover. I also urge the Government to be as friendly as possible to business on taxation and on permits over what to do with the land and how to create all those extra jobs we wish to see. It is an interesting initiative, and the sooner it is rolled out the better. Surely, this is the time we need it—when we need to promote recovery.

I also say to the Government that we need our small business community to get back on its feet and to be able to trade again successfully. Small businesses have had a lot hurled at them, and some of them did not manage to benefit from all the schemes that the Government put forward, so they have been particularly hard hit by up to a year of lockdown or impediments to their trading and their normal work.

I do not think this is the time to be looking at new taxes on small businesses and the self-employed. I do not think the IR35 idea is a particularly good one. It would be good if there were more forthcoming to promote small businesses, which we are going to need. They will have flexibility and the ability to respond. If every self-employed person were able to take on an extra employee, it would transform the employment position, but that requires patient work on ensuring that it is affordable and that the administrative burden is not too great, obviously without undermining important protections for individuals as employees, which we rightly value.

We need flexibility and support from the Treasury and the rest of the

Government to understand how important small businesses and the self-employed will be to trigger this revival and to build back in a different way—to build back better, as they are saying on both sides of the Atlantic and as this Government are saying. That implies doing different things, and it requires the innovation and the productivity-driving measures that can come from small companies and the self-employed, who need to be flexible.

There is a huge amount to be done, but the Government should be of good cheer. There can be a very rapid recovery. They have not done too much on the deficit or the monetary stimulus and have fallen quite a long way behind America in the size of the stimulus.

They should be ready to do more, be generous if the controls have to go on longer than we would like, and work with the small business community and the big business community on what is a sensible tax regime. There are issues still to be solved on business rates and VAT. The whole purpose of the reviews should be to promote a strong recovery—better jobs, more better-paid jobs, more small business—and then the revenue will flow. Think of the jobs, the incomes and the prosperity, and the revenue follows. Thinking too much about the revenue first, in the mood of putting everybody’s taxes up, will be a great dampener on the recovery we need.