

Tax rises are the last thing the UK needs this year

Government actions designed to limit the spread of the virus and reduce the burden on the NHS have done great damage to jobs, business and output. Knowing they would the government rightly made generous provision to subsidise employment, offer grants and loans to businesses, and increased benefits to people to sustain demand. This naturally led to colossal borrowing by the state and to the effective nationalisation of large parts of the economy from private hospitals to the railways.

The Treasury now rightly says we cannot go on with the excessive borrowing and very high levels of state spending needed during lock down. They should add that state borrowing will fall rapidly as soon as lock down is removed and a decent economic recovery is allowed and encouraged. A large number of people who have kept their better paid jobs and been on full pay throughout the last year have money to spend as soon as they are allowed to buy services that entail face to face encounters. Many businesses will soon be back with revenue in the tills and staff on overtime again. As this happens so the amount the state spends on benefits, grants, loans and cushioning of the lockdown diminishes. So also tax revenue soars as people pay VAT on services again, income tax on earnings and transaction taxes.

The last thing we need is new taxes or rises in tax rates. In order to promote recovery the Treasury should be thinking about lower rates and fewer taxes. We need a big expansion of business capacity. The danger is we lose a generation of entrepreneurs, of people working for themselves or running small businesses, as a result of the lockdowns. The most energetic will of course flourish again, but we need to create conditions where the average, the not so highly motivated, those worried about risk taking are persuaded enterprise is for them and the odds are favourable to setting up and running a successful business.

The only way to get the deficit down to sensible levels and to slash additional borrowing is to promote a strong and rapid recovery. We need to be doing that from early in the new financial year, so that we just put behind us one year of huge state borrowings. Tax rises will delay and impede recovery, and will put off that new generation of businesses and self employed we will badly need to lead us out of additional debt.