

Taxcutters versus stabilisers?

By Stephen Hammond MP and Charlie Elphicke

Once again the Conservative Party faces the great choice – promise tax cuts or promise stability and spending. Strong views are expressed on either side. The tax cutters say the voters are finally fed up with being overtaxed and will respond. The stabilisers says that if we dash for tax cuts, we will throw away the hard won lead the Conservative Party has achieved in which party is most trusted to handle the economy.

But is there really a disagreement when we stand back from the rhetoric and look at what is really being said?

Labour's record

Labour's record on tax is dismal. Never has a Government taxed so much and wasted public money with such a vengeance:

- By the time of the next election, the tax burden will have gone up 4.2% of GDP compared with 1996/97;
- Since 1996/97, the tax burden has increased by the equivalent of £6,182 a year in real terms for every household in the UK (or by £9,098 in cash terms);
- Between 1996/97 and 2009/10 (the time of the next general election), the tax burden is forecast to rise by £8,153 a year in real terms for every household in the UK (or by £12,881 in cash terms);
- The poorest in our society face the highest marginal tax rates
- Taxes still year are £492 Billion.

So not great. And since much of the tax rises have been by stealth, the poorest are picking up a lot of the tab. So much so that all Labour's redistribution appears to be cancelled out by higher taxes. The result is that the poorest have not done better overall than the rest of the population under Labour.

Worse still, all those extra taxes are holding us back. All Labour's extra taxes are cutting Britain's growth by up to 0.5% a year – over ten years that would amount to our economy being 6% smaller than it should be. It may not sound like a lot, but that 6% will amount to £3,143 less cash per household each year. So with Labour's high tax policies, we are losing today and we will be losing even more tomorrow.

Most people want to improve their lot, would want their neighbour to do well (ideally marginally less than themselves) and their country to be a great economic powerhouse, the envy of the World. The great Cecil Rhodes said you'd won the lottery of life by being born British and there is that little bit in all of us that really wants to believe it. Labour's high tax policies make the dream harder to believe ...and to achieve!

Stable tax cuts

The case for cutting taxes therefore rests on us all being richer, having more choices and cutting first taxes that fall on the least well off who cannot afford to pay.

The case for stability is based on the fear that the electorate will not tolerate any reduction in public spending – therefore tax cuts are out and any surplus must go to plugging Labour's excessive borrowing and improving public services ahead of any reduction in taxes. In other words, it presents itself as the mature, gravitas laden approach. And as the economy grows, some of that growth will go to more spending on public services, some on reducing taxes – a sort of “judgement of Solomon” approach (except we do not know if it will be 50:50 or something else).

Within all of this, there are points of agreement:

- There is strong evidence that cutting business tax will be self funding and a spur to economic growth. So a pledge to cut business taxes from 30% to 15% on this basis would please the tax cutter and the stabiliser;
- Pensioners and the poorest in our communities paying so much tax without the means to pay it is a blot on the political landscape and should be given priority;
- Britain should be an economic powerhouse and, frankly, growth shouldn't be a problem if we ensure supply side freedom.

Moreover, the stabilisers' case is that the proceeds of growth should be shared. Let us take the example of the projected growth in tax revenue between now and the end of the current Parliament as a simple example. GDP is projected to rise by £150Bn a year and the tax on this will amount to 39% in total - after taking into account whole economy inflation (using a "GDP deflator") the extra annual tax will amount to around £50Bn a year. The stabilisers might argue that half of this amount should go to reducing borrowing and then reducing taxes while the tax cutters would be delighted to have a pot of tax cuts to consider. So is the gap really that great and is there room for a stable tax cuts accommodation?

On the face of it, applying the judgement of Solomon analysis, the tax cutters would be delighted to have a pot of £25 Bn of tax cuts to play with. However, the fly in the ointment is that the stabiliser wishes first to get public borrowing under control. So the real issue is therefore likely to be where the balance is to be struck between reducing public borrowing and reducing taxes in the Tory Government – and the potential accommodation lies in the balance being struck at a point that both the cutter and the stabiliser can accept.