

Conservative Party Fringe 2021: Boom or bust: The economy in a post-pandemic world

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Panellists:

- Mike Denham, chairman of the TaxPayers' Alliance
- Stephen Herring, former head of taxation at the Institute of Directors
- Matthew Lynn, financial columnist at The Daily Telegraph
- Soumaya Keynes, journalist, The Economist
- Annabel Denham, director of communications, Institute of Economic Affairs
- Dehenna Davison, MP for Bishop Auckland

Overview

The session began with a discussion on the unprecedented level of government support for the economy over the past year, with wages subsidised and the bill falling on future taxpayers. The panellists debated how the UK could grow the economy, restore productivity and ensure post-pandemic mobility. Working from home practices were also considered, as well as the need to simplify the tax system.

Government mission creep

Dehenna Davison, MP for Bishop Auckland, said there had been more "state mission creep" over the past year than most had expected, although she recognised that some of the steps were necessary to support the economic recovery from the pandemic. However, she said the economic recovery should not be encouraged by raising taxes, adding that this was why she had voted against the Government's Health and Social Care Levy.

Davison said that the Conservative Party believed that individuals knew how to spend their money better than the Government, adding that increasing National Insurance at this time was not the answer. She said the answer instead was reducing the burden on businesses and lower taxation, with better jobs for working people.

On productivity, she said the super-deduction had enabled businesses to invest for the sake of job creation. However, she said the tax system needed to be simplified, as it was too complex and there were too many loopholes, without enough room for businesses to grow.

Productivity and taxation

Mike Denham, chairman of the TaxPayers' Alliance, quoted OECD estimates that showed the UK was projected to be the fastest growing G7 economy next year. He said quoted figures from the Office for National Statistics, which found that wages were rising faster than prices.

He said the UK's productivity challenge had gotten worse since the financial crash, and noted that it had been flatlining since then. He said it was the private sector alone that could boost productivity, although the Government should incentivise them to do so while also encouraging individuals to be more enterprising.

Denham said the best lever was taxation, yet the Government had increased corporation tax and National Insurance, the latter of which he described as a jobs tax and a step in the wrong direction. He said Conservatives that believed in a small state were dismayed by this.

Mobility and post-pandemic growth

Soumaya Keynes, journalist at The Economist, said unemployment had not risen as much as people expected during the pandemic due to cushioning of the economy. She said the question was what would happen now furlough and other schemes had been withdrawn.

Keynes said that while there was reason for optimism and there was room for mobility to grow, she noted how mobility in countries such as Germany, France and Italy had recovered to pre-pandemic levels already, while it was well below pre-pandemic levels in the US and UK. She said the question was whether this was the new normal or whether there was still room to recover.

She also noted that at the beginning of the pandemic how was younger workers were disproportionately represented in the furlough scheme, whereas now it was older workers, which posed the risk of discouraging older groups who could become inactive due to diminishing opportunities.

Working from home and workforce management

Keynes said that the UK remained in a period of uncertainty and in such times businesses postponed investment. She questioned how the UK could restore momentum and how issues such as working from home would play out in the longer-term, including how receptive employers would be to this. She said precedents would be set on working from home over the coming years.

She said there were particular concerns around management, which the UK typically performed badly at despite research showing that well-managed companies performed better. The UK was also entering a challenging time when the economy was reopening whilst household incomes were being squeezed, which made this recession and recovery different from those previous.

Free market economics

Matthew Lynn, financial columnist at The Daily Telegraph, said the UK had seen a "magic money tree" mentality in the Government over recent years, which had created the impression that there was always money to pay for everything. He added that the UK had regressed intellectually. He said we needed to claw back the notion that less government and more freedom would be effective.

Lynn said post-pandemic growth would be challenging with higher taxes, noting that the free market was very adaptable and would evolve to the new economic landscape, for example around issues such as working from home practices. However, he concluded that legislative changes could also be needed, with the UK being stuck in a post-war, trade union focused economic approach. He said there needed to be more freedom on labour market practices.

Taxation and simplification

Stephen Herring, former head of taxation at the Institute of Directors, said the only way to escape an increased trend of borrowing and statism was with sustainable, long-term economic growth. He said a tax hike was not the way to achieve this. He said the UK had not had a bold chancellor on taxation since Geoffrey Howe and Nigel Lawson. He said taxation was globally competitive and that Government to ensure was that the UK was successful in this by setting our taxes at a lower level.

Herring said there was a great need for tax simplification, adding that he was disappointed with the Health and Social Care Levy because it was "crying out" for a private insurance arrangement. He said taxation was not the only solution to meet a cost.

He said the place to begin with tax reform, and specifically tax cuts, was with the taxes that collected the least. He said we should first focus on small taxes such as inheritance tax to simplify taxes, reduce the number of taxes and make them fairer as a marker for the future.

Q&A

Annabel Denham, director of communications at the Institute of Economic Affairs, asked if there was a risk that Labour could become a more attractive home for economically sound policy than the Conservatives.

Davison replied that there had been economically illiterate calls from the Labour Party to fund proposals through a one percent wealth tax. She said this was the new version of the "magic money tree," while the Conservatives remained the party of lower taxes.

Lynn said he could not see a Starmer-led Labour Party filling the void on taxes, although he added that the Government had failed to capitalise on the space presented by the pandemic for drastic reform of the taxation system.

Denham added that there was need for a greater discussion on how the Government funded public services. He said debates around funding health care were toxic because the NHS was the closest thing the UK had to a national religion.

He added that the Government had made many promises on deregulation, which he said was one of the main promised benefits of leaving the European Union. However, he said that instead there were major green policies coming through would be a drag on the economy over the coming years, especially as many of the technologies needed for the green industrial revolution were unproven.

An audience member asked if a policy on encouraging as many people as possible to go to university was partly to blame for our productivity problem.

Lynn said it was best for individuals and companies to decide on whether to attend university, adding that the Government did not know what skills we would need in the 2030s or 2040s.