

## Cameron's tax "lock down" can only mean one thing

2015-05-01 15:05

With spending pledges raining down like confetti during this election campaign, one might have thought Britain is awash with cash. Yet the talk on economic policy from both main parties has been all about reining in the deficit. The old adage of "who can best manage the economy wins the election" dominates the rhetoric, but does it dominate the reality of election campaigning?

As Ben Chu reports in the Independent on Sunday <http://www.independent.co.uk/news/business/comment/stupidly-the-election-doesnt-seem-to-be-about-the-economy-this-time-10204088.html> for some reason, this election hasn't been about the economy. It has been about fantasy spending pledges. This is all the more strange if we believe the rhetoric on debt reduction we've heard over the last five weeks and especially the last five years.

As if to prove the point, David Cameron's five-year "lock down" on Income Tax, National Insurance and VAT is yet another shower of confetti. <http://www.telegraph.co.uk/news/politics/david-cameron/11569593/Election-2015-David-Cameron-pledges-5-year-tax-lock.htm> But the numbers – assuming he makes it to Number 10 – can only mean one thing. Cuts in public spending are likely to be deeper than we ever thought possible.

Let's take a look at the Office for Budget Responsibility's (OBR) own figures for 2015-16. Government income from taxes and other sources is around £655 billion a year. Of that amount, Income Tax, National Insurance and VAT make up £414 billion. These are the taxes Cameron has said will not increase over the life of the next Parliament if he becomes Prime Minister. This doesn't include Corporation Tax which brings in a "modest" £42 billion a year on current figures. And, though there's no official "lock down" on Corporation Tax, Cameron has said he doesn't think these should rise either.

Now, some simple maths says that, even without Corporation Tax, Cameron has ring-fenced over 60% of the UK's tax income from any rises between now and 2020. The wriggle room he has, to use a well-worn phrase, is therefore only on taxes such as Business Rates, Excise Duties and, yes you guessed it, Council Tax. But these taxes are a small proportion of the total he has to play with – less than 40%. With around £250 billion of taxes that he can raise, bringing the deficit under control can't be done unless Council Taxes and other "non protected" taxes rise by unprecedented amounts. Or money comes from somewhere else.

Of course, one of the big myths of this election is that any party taking power will have to carry out brutal fiscal "consolidation", as they say. This is why the "narrative" about bringing down the deficit is seen by many as a way to shrink the state. The deficit for this financial year came in at £90 billion. Current

growth and spending forecasts suggest that repairing the fiscal damage will be complete by the end of this financial year. Only with strong growth and rising tax revenues, it is said by the OBR and others, will the rest of the problem be taken care of by 2019-20. This is good news if taxes can rise to some extent. Without these, the growth in our economy has to be stellar or the state shrinks further.

Cameron's self-imposed tax strait jacket, added to the Conservative Party's determination to cut real spending quickly, means that only dramatic growth in the economy will bring in the money required, unless the cuts are deeper than even they care to admit.

So, Conservative election promises to fund the NHS with £8 billion and to cut tax for high earners by 2020, along with an exacting timetable for deficit reduction, are going to hurt someone. We know £12 billion of that will be directed towards people in receipt of benefit, though where exactly has not been spelled out. And revenues from attacking corporate tax evasion are notoriously hard to project, though who would argue they deserve some pain?

So, there it is. The numbers simply won't add up – unless the 40% of “unprotected” taxes rise substantially or someone – meaning a great number of us – get hurt a lot. Where the axe will fall is the conundrum for a Conservative Party that, if it governs, has seriously limited its room for manoeuvre. After benefits and the NHS, it is education, local government and defence that cost the most in terms of annual government spending.

I'd guess local government and benefit claimants will have to brace themselves yet again. But it still won't reach the numbers the Tories themselves have said are required.

Either the confetti of Conservative spending pledges we have seen during this election campaign will vanish into thin air or the pain will be unbearable. Or both. Go figure.

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