CITY A.M.

Tax increases for the NHS are the last refuge of the unimaginative

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But last Thursday they delivered a baffling statement, claiming there was simply "no more room" to increase health spending in future by reallocating resources from other government budgets. The implication for funding the NHS is that over the coming years "taxes will have to rise".

Now, demands on healthcare expenditure will undoubtedly increase in the coming two decades, not least due to population ageing. The Office for Budget Responsibility estimates that spending on the NHS needs to go up by nearly two per cent of GDP by 2037/38.

But even taking this at face value, claiming the only way to possibly meet that is by taxing the average family £2,000 more per year is bizarre.

Is the IFS really suggesting that the British state is already operating at peak efficiency, and that it couldn't possibly be over-spending elsewhere? Are all other spending streams utterly indispensable and unchallengeable?

Yes, it's only one small example, but given that we just heard how the British government is funneling aid to a Rwandan regime which in turn is using funds to sponsor Arsenal football shirts, my working assumption is we haven't quite cut to the bone just yet.

No doubt IFS director Paul Johnson (a former colleague of mine) thinks he is speaking truth to power in outlining this warning. But jacking up families' transfers to government seems the easy way out of fiscal challenges – far easier than suggesting that the government does too much, or to rile up the vested interests dependent on public largesse.

The truth is that public receipts as a proportion of GDP are already at their highest levels since 1986, and tax revenues at their heaviest burden since 1981. Yes, spending has been cut significantly as a proportion of GDP since 2010, but only back down to 2007 levels.

During the interim, the government has chosen to make the state pension much more generous through the introduction of the triple-lock, ramped up foreign aid, turned on the spending taps on childcare subsidies, and much else besides. Cuts have been made in other areas, most fiercely in local government, but these have been choices reflective of increases elsewhere.

So even leaving aside scope for efficiency improvements in healthcare itself, there are plenty of areas where spending could be rowed back. There are also others where much-needed supplyside reform could negate the need for existing spending.

Liberalise planning laws and allow more houses to be built, and you bring down the trajectory of housing benefit payments. Unwind some of the regulation on childcare providers, not least tight staff-to-child ratios, and evidence suggests you can reduce childcare prices without affecting the quality of care, negating the need for government subsidies.

Both policies would also bring the double-dividend of greater labour and job mobility, which could boost productivity, GDP, and hence tax revenues.

Similar arguments about a boost to GDP could be made about regulatory, public service, or energy market reform. But none of these ideas seem to be in vogue. Rather than engaging in the harder thinking about how to raise economic growth, the political discourse is infested by a bookkeeping mentality, with even Conservative MPs musing about the need to raise taxes.

Before asking families to fork out more of their hard-earned income to keep the show on the road for all existing public services and transfers, the IFS and our politicians should take a step back and ask a few questions. What should the government actually do? Is it doing this efficiently? And do existing policies hold back GDP growth?

It seems hard to believe that the current answers are “everything it currently does”, “yes”, and “not at all”. In which case, it’s nonsense to say there’s “no more room” to rethink spending.

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