A Budget for growth, lower inflation and a lower deficit

I have been proposing a budget for faster growth and lower inflation. The notes beneath give the outlines of it.

The Prime Minister has three economic aims
• Get inflation down
• Promote growth
• Cut the deficit

These reinforce each other.
• More growth brings more revenue and lower spending on benefits
• Falling inflation reduces spending pressures, helps business with costs and lowers the deficit

The budget judgement
• The OBR forecast £131 bn deficit for 2023/4. Revenues have been better than expected so there is a £20bn improvement available
• The right kind of tax cuts can promote growth and boost other tax revenues more than the OBR model suggests. The OBR often under forecasts tax revenue.
• There are spending controls and reductions that can help cut the deficit as taxes are brought down a bit

Inflation is too much money chasing too few goods
• Our inflation stems from excess money, credit and bond buying by the Bank in 2020-21.
• Money supply is now falling. The Bank has lurched from far too easy to very tight.
• Government can help the Bank get inflation down by cutting taxes on expensive energy whilst prices remain high, and by offering tax cuts to the self employed and to businesses to promote more output.
• The Bank wants to get inflation down by stamping on demand. More work to boost supply would help.

What the Bank should do next
• The Bank is independent in in setting short term interest rates. It is likely they have now set them high enough, but they will make that call.
• The Bank acts as agent of the Treasury in buying and selling bonds, with a full Treasury indemnity for losses
• The Bank should stop selling bonds at a loss in the market and sending huge bills to the Treasury (£24bn in the first 4 months of this year) Run the portfolio off as and when the bonds are repaid.

Affordable tax cuts for growth
• The UK has lost 800,000 self-employed since February 2020. Some of this is the result of the 2017 and 2021 changes to IR 35 taxation. It is now difficult for the self-employed to get contracts from companies.
• The government should restore the pre 2017 tax regime. This should produce

a good increase in self-employment, saving money on benefits and leading to extra taxes on incomes form self-employment.
• Self-employment offers a flexible and fast way to expand capacity in a wide range of goods and services.

Boost small business with a VAT cut
• Raise the VAT threshold to £250,000 from £85,000. Many small businesses turn down extra work or have closure periods to avoid going over the VAT threshold in any given year.
• There would be a rapid increase in capacity as small business adjusted to a less onerous regime. There would be offsetting tax gains on taxing employee and business income as a result.

Take 5p a gallon off motor fuels whilst oil prices are high
• The government will get more revenues from domestic oil and gas production and from sales of energy all the time oil prices rise and stay high.
• Offer 5p off fuel duty per gallon all the time oil stays above $75 a barrel. Review three monthly.

Suspend 5% VAT on domestic energy bills whilst gas and oil are high
• As with fuel duty, remove VAT temporarily while oil is above $ 75 a barrel
• These two measures on energy will help push inflation down, which lowers public sector costs which have to match inflationary rises.
• They will also help contain business costs

Make a further reduction in Business rates
• Many businesses which provide a good service by occupying physical property to serve customers are suffering from high and rising business rates.
• Offer a further reduction in these costs to help business recover from the covid and interest rate shocks that have damaged output and profits.

Tackle the public sector productivity collapse

• ONS figures show public sector productivity is down 7.5% in the 3 years 2020 to 2022. This is a £30bn hit to budgets, raising costs by that amount to produce the same output. This is on top of large money increases in spending to handle inflation.
• Ministers need to work with public sector senior managers to restore the 2019 levels as soon as possible, freeing money for other purposes.

Cut the benefits bill by helping more people into better paid work
• The measures to boost self-employment and small business will help reduce welfare costs
• Switching more employment by helping people already settled here into jobs instead of increasing the numbers of legal migrants will also cut costs, both by reducing benefit demands and cutting the extra costs of providing homes, surgeries, school places for additional arrivals

Overall budget judgement
• The Treasury seems to think IR 35 changes would cost £2bn, the fuel duty change £2.6bn and VAT change £4 bn. Business rates could add another £5bn

- This is less than the current £20 bn increase in revenues/lower deficit experienced. It is also balanced by productivity restoration in the public sector. If only one third of the recent losses were regained in the first year that covers two thirds of this package.
- The return to work and self-employment changes would also generate spending savings.
- Any success in cutting inflation faster would also generate savings on the costs of government debt, given the way they account for Index linked