

A budget to beat recession? (from Conservative Home)

The Autumn Statement will be one of the most crucial budgets ever delivered. Rishi and Jeremy have in their hands the opportunity to rescue the UK economy from poor performance and recession if they wish, or they can accept the depressing official advice and double down with austerity. Tax rises and the wrong spending cuts now will turn a downturn into a nasty and long recession. This will lead to job losses, struggling businesses and a bigger state deficit.

Their challenge should be to put forward a budget and plan for growth as Liz Truss proposed, but one with forecasts, numbers and sensible controls over spending and borrowing which in his haste Kwasi left out. This is important for the whole country, and for MPs' constituents. It is also important for the Conservative party whose reputation for economic competence hinges on it.

Over the last fifty years we have seen Labour lose badly on two occasions and Conservatives lose twice, once badly, thanks to presiding over recessions

Edward Heath presided over the 1973-4 recession. His 1970-2 policies of competition and credit control were inflationary leading to a borrowing binge. The inflation was worsened by the energy crisis when OPEC hiked the oil price. He tightened too much in response and lost the 1974 election.

Harold Wilson lost control of the economy in 1974-5, created a recession and left office. Labour lost the next election under his successor.

John Major on official advice put us into the Exchange rate Mechanism. As I warned it took us through a very predictable violent boom/bust cycle with a five quarter recession. This led to a huge defeat in 1997 which took the Conservatives 13 years to recover from.

Gordon Brown created his own disaster, leading and encouraging the wrong official advice. He put us through a banking and credit boom, only to collapse it too fast through severe policy. The five quarter recession took the economy down by more than 6%. Labour have still not won an election in the 12 years that followed, with their reputation for economics in tatters.

It was a pity Boris did not use the advice he was offered to cut out the money creation and bond buying and tighten money policy last year to keep inflation down. We have more inflation now than we needed. Japan and China remind us with their low inflation rates it was not all caused by oil and gas prices. It was a tragedy Liz did not present a rounded and costed Growth Plan within an economic framework that would have worked as some

proposed. These mistakes must not lead the new team to conclude they must impose more austerity. The prime task today is fighting recession. Inflation will come down rapidly next year thanks to the monetary stringency now being applied. The Bank itself sees inflation down to 2% in a couple of years time.

If government accepts all the OBR and Bank advice to tighten too much into a downturn it will be bad economics and worse politics. We will end up with a deeper and longer downturn than we need, and with a bigger deficit than if we had been more willing to offset some of the recessionary forces. You cannot tax your way into growth and recovery. A fractious and unhappy party is in no mood for tax rises nor for spending cuts that harm individual incomes and front line services in health, law and order and education.

Of course there is a need to rein in wasteful and less essential public spending. In recent years the purse strings have been loosened across a very wide field. The Chancellor should stop the Bank of England taking losses on bonds. There is no need to do this. This will produce an immediate saving of £1bn this year. This has always been a joint control policy where the Bank needs the Chancellor's approval.

The Department of Work and pensions should promote more employment for the many on benefits that could do some work. Remove the 16 hours rule for working whilst on benefit, and improve mentoring and assistance into employment as we need to fill many more job vacancies from people already settled here. There is an unfinished part to Iain Duncan Smith's excellent benefit reforms.

The government could suspend the Smart meter programme saving more than £1bn a year, as everyone who really wants a free smart meter now has one. The Treasury should stop Councils borrowing to buy up property. The Cabinet Office can impose a recruitment freeze on public sector jobs other than uniformed roles, teachers and medics. This will give more opportunities for promotion to those already working in the civil service, and assist in increasing productivity after a period of no progress. They can reduce the central London office estate to reflect more home working and transfers out of London. There should be a privatisation programme including the sale of Channel 4, the British Business Bank and more Nat West shares to the private sector.

The Transport department should cut rail subsidies which are funding far too many near empty train services following the collapse of commuting. The Business and Energy Department should trim the energy support package. They could limit cut price energy to a normal family amount so larger users pay full price for the extra they buy. We should not accept the need to provide more overseas aid for net zero or any other purpose other than a new disaster where we want to help generously and energetically.

We also need to boost tax revenues. Often the way to increase tax revenues from capital gains, profits, transactions and incomes is to lower the rate, not raise it. Every time we lowered Income tax and Corporation tax rates revenues rose. The government should accelerate licences for North Sea oil and gas fields. Every extra barrel we produce ourselves switches substantial tax from a foreign country to ourselves as home production

replaces imports. It also cuts the CO2. Government should allow the private sector to finance production of oil and gas from the large Falklands islands discovery which would also displace foreign imports and help with expenditures. It could use more of the Defra grant money to boost home food production backed by more mechanisation/glasshouses. This will boost taxable farm incomes.

Any amelioration of the downturn will be revenue rich. The UK figures are very sensitive to the growth rate. As we saw last year, a bit higher growth rate gave us a central government borrowing requirement £120bn below the budget OBR forecast. Let's have that budget for growth. It would help unite the party, it would help restore our economy and would cheer people up. It would be good economics and even better politics. It would also be quite a surprise.