

Affording tax cuts Conservative Home article

A lot rests on the budget

The polls show there are many former Conservative voters refusing to commit to Conservatives again who do not trust Labour or want a Labour government. They say they will not vote, or will vote Reform. When pressed they say they want the government to do what it promised and what they expect Conservative governments to do.

Defining this and delivering is therefore the task of Prime Minister and Chancellor. They recognise they need to curb migration, as the 2019 Manifesto promised and as the Prime Minister has pledged. As they lower the excessively high rates of legal migration this year they need to make sure the Treasury and OBR accounts for this in an accurate way. They should put in many economies on public services, as cutting migration by 330,000 as promised (legal and illegal) reduces pressure for school places, for health treatments and above all for subsidised housing. It should make it easier to honour the pledge to get the waiting lists down in the NHS. The EU in 2016 said a new migrant cost a state Euro 250,000 in capital to provide a home, and in costs to offer good public services.

The government understand that winning people back is above all about the economy. Three of the Prime Minister's own five pledges are to lower the debts, halve inflation and grow the economy. That is the right emphasis. People expect from a Conservative government prudent finances, lower taxes, more jobs and decent growth. They know from bitter experience that past Labour governments end with burgeoning debts, higher unemployment and downturns. The 1964-70 Labour government devalued the pound and had to go for austerity. The 1974-9 government ran out of money, had to borrow from the IMF and created a recession. The 1997-2010 government allowed an inflationary banking bubble, created a deep recession and ran out of money. This government and its Conservative predecessors since 2010 have created 800 extra jobs every day they have been in office, got unemployment down, and presided over faster growth than the larger European countries. Even the shocks of covid lockdown and the Ukraine war did not undermine the good record on jobs, essential to people's living standards and self esteem.

All this makes the budget crucial to plans to win back lost voters and to show the economy is on track to deliver that faster growth, lower inflation and controlled debt people expect. The big inflation was a blow delivered by the Bank of England, making similar mistakes to the US and EU Central banks. If only

they had kept money under better control as Japan and China did we could have been spared that agony. Labour of course supported the Bank's bad policies throughout.

The task of growing the economy with low inflation is made very difficult by the very institutions that are meant to bring stability, wisdom and competence to the task. The Bank has followed its inflationary monetary policy phase with overdoing the correction. It now needlessly sells bonds at big losses to sandbag the Treasury and taxpayer with huge bills. The OBR pads the figures with bad news, usually exaggerating the future deficit and borrowing and acting as a shop steward for more public sector spending. It ignores the productivity collapse in the public sector and assumes all the current spending is worthwhile.

The Chancellor needs to cut through all this unhelpful policy and commentary. It is not money well spent to send the Bank of England £34 bn so far this year to pay for their losses. They should stop selling the bonds they bought so badly at a loss and hold them to redemption. They should copy ECB policy on the payment of interest on commercial bank reserves to curb the running losses on their ill judged portfolio.

He should demand more care with quango and nationalised industry spending. Why are Post Office managers paid so much for losing the state a small fortune and for treating their sub postmasters so badly? Why do the railways need £12bn a year of subsidy when they run so many near empty trains that people do not want to use, and fail to run trains people do want because they cannot get on with their staff? Why do large projects like HS 2 and the nuclear plants overrun so badly?

He should speed up and intensify the work he has asked the Chief Secretary and Cabinet Office Minister to do to win back the big losses of productivity in public services. There is around a £30bn extra cost to deliver the same things as in 2019 before allowing for all the extra costs of inflation on top. Where is the stop to all external recruitment into the civil service and administration of other public services to start winning back lost productivity? Why has the explosion of managers and Directors in the public sector resulted in so much worse productivity?

He needs to review value for money and desirability of the various policies for net zero. £20 bn for carbon capture and storage is a huge sum. This idea should be largely financed by the private sector with limited and phased taxpayer money. The Government car service has one third of its fleet now as electric cars, which cost 18% more than the ICE cars they would otherwise have bought. Is this value for money? Why can't the government concentrate its net zero spend on obvious wins like proper insulation and controls on heating and lighting in its vast public estate? Spend to save money as well as cut energy use would be a win win.

Labour tells us we need more nationalisation, starting with the

railways. As they are largely nationalised already they see a way to do this without having to compensate existing owners. Which features of nationalised HS 2 management does Labour think would help with the rest of the railway? Or is it the Post Office model of computerisation and treating staff that appeals?

Armed with better cost controls and an attack on some of these areas of needless spending Chancellor and PM could show how you get more public service for less cost under Conservatives. That would mean money left over for tax cuts to boost living standards and make it more worthwhile working. That is what all these reluctant Conservatives want.