

Maastricht should no longer rule our economy

Since 2008 the Maastricht EU Treaty rule that state debt should not exceed 60% of GDP has governed our economic policy. It did not do so before Labour's big build up of debt because we were below the ceiling.

Three Chancellors of very different views and ambitions, Messrs Darling, Osborne and Hammond all accepted Treasury and legal advice that state debt as a percentage of GDP had to drive policy. They battled first to get the annual deficit down to the Treaty ceiling of 3%, and then took it down more to get debt as proportion of GDP down.

Pro EU people often argue the UK did not have to do this because we were not Euro members. This is untrue. It is true we did not face fines for non compliance, but we were bound by Treaty rules and the UK state always accepted the discipline. Every year Parliament held a debate on our compliance. Every Red Book and OBR report included a report on progress with hitting the debt targets as a central part of economic policy.

It was bizarre to hear Opposition MPs condemn the budget stance as austere whilst insisting we stayed in the EU and obeyed its Treaties, as the Maastricht rules were at the centre of the policy.

Now we are out the new PM and Chancellor are right to expunge the state debt rule from our economic policy. Current levels of UK state debt are not too high. The UK can borrow at 0.6% for ten years, showing markets have no worries about debt levels. They supply affordable debt.

The Maastricht rules did not allow us to use the true figures of state indebtedness which should be net of the one quarter of outstanding state debt which the state has bought in and owes to itself. Adjusted for this our debt to GDP ratio is around 67%. This is low by international standards, well below Japan, Italy, Germany, France etc. The Maastricht rules are right to make Euro area states include State debt the ECB has bought in, because of course a Euro state does still owe that debt to an outside party, the ECB. The UK owes money to the Bank of England which it wholly owns.

UK Economic policy should be geared to growth and low inflation, not to state debt levels as the main target.

The Bank of England's options.

Inflation is at 1.6% compared to the target of 2.0%. Thanks to the world

slowdown and the Chinese epidemic oil prices have fallen by one fifth this year, with freight rates and other commodities also well down. The pound is rising against the Euro and yen. All this points to no inflationary surge ahead. Indeed if there is an inflation problem it is it will be too far below target, as the target is meant to be symmetrical.

The Bank of England should recognise that its tightening of credit conditions through two rate rises, FPC advice against car loans and consumer credit, and tough rules on mortgages has greatly reduced money growth. Tight credit has helped slow the UK economy down to almost a standstill. There is nothing wrong with some increase in credit to people in jobs to buy homes and cars, or to businesses needing more stock and equipment because their revenue is growing. The Bank has to work with the commercial banks to assist low inflation growth.

I do not think a 0.25% cut in the low official rate will do much. I would prefer a new round of Funding for Lending, a scheme which makes cheaper money available to UK banks prepared to undertake sensible new lending to the UK economy. This worked well before and would ease pressures in various areas.

The second is to do what the Fed is doing and make clear to markets that the Bank will make cash available by buying Treasury Bills if needed to preserve liquidity and enforce the current low rate structure in money markets. Commercial banks need to know the Central Bank is not about to squeeze them or damage them as the Bank of England did in 2008-9 by leaving markets short of cash.

Prosperity not austerity

Prosperity, not austerity, was my slogan for both the 2017 and 2019 elections. When it became clear Mrs May was going to keep Mr Hammond as Chancellor and allowed such a negative approach from the Treasury and her top officials, I joined with others to replace her so I could advance the cause of Prosperity.

The new Prime Minister made clear his economic policy is the promotion of Growth and Opportunity. He has from the start injected a welcome optimism into the country's view of our future. When his chosen Chancellor fell for Treasury pessimism and tax rises, he asked him to work using shared advisers with No 10. I think the PM was right. The Chancellor was unwilling so had to resign. I think we will be better off now we have a new Chancellor who should understand what the PM is trying achieve.

One of the Chancellor's jobs is to tell Treasury officials that we want realistic optimism about the UK's economic prospects, with an expansion minded budget which will boost our growth and improve our outlook. It was not a case of the outgoing Chancellor valiantly defending a Treasury orthodoxy

that is right against a PM who wants too much expansion. It was a Chancellor giving in to the excessive pessimism of the Treasury/Bank/OPBR that has fuelled so many bad and wrong forecasts from them since 2015. The new Chancellor needs to say that we have growth in our own hands, and that whatever the outcome of trade talks with the EU the UK can have a good economic future if we take the correct decisions now.

In future blogs I will be looking at the range of measures the government now needs to take to shake off the slow EU style growth rate we have sunk to, and to liberate damaged sectors that have been hit by too many taxes and wrong policies like housing, cars, general manufacturing and retail.

The Bank of England too needs to work with the government on promoting growth. Inflation is below target and looks set to remain weak for the time being, so the Bank should assist the drive for growth.

First Homes Consultation

I strongly support the aim of the First Homes proposal. More people want to own their own home than currently can afford to do so. We need more affordable homes for sale.

The essence of the proposal is twofold. The first is that some of the large gains that landowners and developers stand to make on the grant of planning permission should be shared with First Home buyers by giving them a discount on the normal market value of these new homes, paid for out of the money that is released by the development. The second is that a buyer of such a home accepts a restrictive covenant on the property that means when they come to sell they need to offer a similar percentage discount to the buyer that they enjoyed on purchase.

I have no problem with the idea that some of the gains on development should be shared with buyers, Currently these gains are effectively taxed to allow the state to spend more money on supporting community infrastructure and on affordable homes to rent. It is no greater distortion of the market to allocate some of the winnings to subsidise affordable homes to buy instead. It has the advantage from the state's point of view that the buyers take responsibility for repairs and maintenance, whereas with rented social housing the obligation remains with the state or Housing Association. Given the strong wish of many people to buy not rent, surely we should do more to help them.

The second proposition is a new intervention in the housing market. It means creating a parallel market to the primary market for buying second hand homes out of a group of people who qualify for the scheme. This will only work if the pool of such people is sufficiently large so a potential vendor of a First Home has enough potential buyers to make a decent market. The

Consultation wishes to limit the ability of First Home owners to rent out their property, as it has to be their home that they live in , and asks about reward for improvements. The danger in the scheme is the person will suffer a discount on the improved value of the home, not just on the underlying investment. So if someone bought a two bedroom First Home but was able to add two more bedrooms and extra downstairs accommodation they might not get back all they had spent on such a substantial extension given the application of the discount. The more restrictions that are placed on the First Home buyer the less attractive it is as a proposition, and the less like normal home ownership it becomes.

My view is I would rather share some of the gains with a First Home buyer than with some local Councils and their choice of projects to spend planning gain receipts on. We should not be afraid to help make people a bit better off by allowing them to buy a home at a discount. It is difficult to stop them renting out their homes if they suddenly get a requirement to work abroad for their employer or if an elderly person has to go into a long stay care home.

For this to work the rules need to be flexible. The issue is who should qualify? There does need to be some means test to stop people with substantial capital or high earnings from cashing in . The aim is to help local people, veterans and key workers like teachers and nurses. There does also need to be a cap on the price of property involved. I suggest this should be done by principal Council area from average prices in that area, where the cap is not above the average price. There will only be a satisfactory secondary market in First Homes if this is done at scale.

www.government.uk/government/Consultation/First-homes

[We need change at the Treasury](#)

Congratulations to Rishi Sunak. He is able and hard working, with a knowledge of the expenditure side of the Treasury from his role as Chief Secretary.

The immediate task is to challenge Treasury officials into completing the change from the Maastricht economics of austerity to a pro growth optimistic economics that chimes with the Prime Minister's vision. Boris has been clear we want growth, opportunity and levelling up. The aim is prosperity, not austerity. The purpose is more people in better paid work, more owners, a better spread of wealth and income around the whole UK.

You do not achieve that by writing the Maastricht rules back into the fiscal framework, nor by hiking taxes or trying to tax the rich out of the country. I think The PM was right to want common working between the Chancellor's team and his own. The leaks, briefings and rows about the forthcoming budget were not helpful. I expect Rishi to spend more time on persuading Treasury

officials to complete their journey. They need to move on from pessimistic Hammond style economics which said the UK cannot be a success on her own and needs to beg to stay close to the EU, to an optimistic global UK approach. We need to grasp the future by investing in it. We need a bigger and more prosperous private sector, which requires lower tax rates and a holiday from yet more prescriptive regulation.