

## More jobs and lower inflation

This week has brought good news that unemployment is at a 45 year low. Although slowing, the economy is still generating additional new full time jobs. Pay is rising at 3.6%, usefully faster than price rises at 1.5%.

The combined effect of job availability in most places with rising pay means people can afford to spend a bit more. Pressures on budgets ease when pay rises by more than prices, and when people get promotion or move to better paid jobs.

It has been a battle to get the state deficit down from the unsustainable Labour levels of 2009-10 to something we can afford. It has taken time to reduce the high levels of unemployment the government inherited in 2010.

There is nothing wrong with some borrowing, both for individuals and for companies. Buying your own home usually entails accepting a large mortgage. 20-25 years later you own the home with no more mortgage or rent bills to come. Buying a car with a loan or lease arrangement also makes sense as most people do not have the cost of a car in their savings account. If you have a job and a stable income the car is affordable.

Similarly successful companies can borrow to finance their stock or work in progress, or to finance capital equipment they need to produce their goods or services. A sensible level of borrowing can help their business and enhance returns for their owners.

Some query the need for the state to borrow. Under the new rules the government will only borrow for capital investment. Where the government borrows to deliver a service which the customers pay for, it can be a commercial return like any other. In most cases the state will be offering the service free to the user, paid for out of taxes. This makes evaluating the return more difficult. It does not mean there is no return or no need for necessary capital spending on roads, hospitals or schools. The government has to assess the outcome sensibly.

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## A green agenda

It is commonsense to save energy by investment in insulation and fuel efficiency in heating systems. It is a good idea to improve the fuel savings on vehicles and to find less fuel intensive ways of travelling.

It is important to our quality of life that we protect and enhance the natural world around us. We need to protect woods and fields from development where possible, and make sure we look after the beauty of the landscape and

the countryside beyond our cities and towns.

The government does run grant systems to allow people on qualifying benefits to insulate their homes with a grant, and to replace old heating boilers with modern more efficient ones. There is money available for loft insulation and wall insulation. It also makes sense for those of us not on benefits to make improvements in our own homes. Cutting the future fuel bill is a good idea. Modern boilers can be much more efficient than old ones Blocking off draughts and stopping heat leakage through walls makes sense.

We can also improve the fuel efficiency of our transport. More people are choosing to walk or cycle for shorter distances. New vehicles can be considerably more fuel efficient than older ones.

We can also cut down on food miles. One quarter of the freight miles travelled on our roads is carrying food around. Some perishable food coming long distance is flown in. If we choose more local produce or seek out the British label we can reduce the travel cost of our food and the impact that has on the environment.

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## Public and private sectors

Some contributors seem to think the public sector cannot add to national output or incomes. This is not true in either accounting or real terms.

A person attending a private school is paid for out of fees. Their education adds to national output. A person attending a state school has a similar education but their parents do not pay directly. It has a similar effect on national output to the private school place. The state provision is as much output as the private sector and is paid for out of taxes.

There could be a productivity effect. If in a particular activity public sector or private sector productivity lagged then the total economic impact would be affected accordingly. In the case of schools private schools may well have higher staff ratios to state schools.

When the UK had a lot of nationalised monopolies producing energy and transport we had an efficiency problem in those sectors. In those cases privatisation led to an improvement in productivity, which was possible to bring about because people accepted the principle of paying for use out of their own incomes. Market pressures encouraged adoption of better technology and more efficiency.

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## Boost the economy

I have been warning for two years that the combination of fiscal squeeze and tight money policy would slow our economy. So it has proved. Indeed if anything I am surprised that our economy has not slowed more. The global background is an additional reason for the weakness, with Germany slowing more than us and the USA less.

The USA has shown that the combination of rate cuts, liquidity provision by the Fed, and big tax cuts are delivering better growth than we and the other Main European economies are showing. That is why I welcome the new government's decision here to increase spending on schools, the NHS and police. I also think we need some tax cuts soon, so individuals and families have more money to spend on their own priorities.

Those who write in to say I am too lax about the debts misunderstand the position. Faster growth will boost tax receipts and some of the tax rate cuts will bring in more revenue. After allowing for the state debt the Bank of England owns on behalf of taxpayers our debt to GDP ratio is fine. The QE debts we owe to ourselves so there is no net interest cost.

The latest GDP figures show we avoided recession last quarter and are growing at around 1% a year. We should aim to double that growth rate, which a sensible fiscal and monetary easing with the right tax cuts could do.

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## Labour wants to plunge us into massive debts

The costings of Labour's programme are off the chart because Labour has made so many expensive pledges or promised so many unaffordable policies. The Conservatives put it at £1200 billion over five years or an extra £240bn a year. That's a huge tax rise and a colossal borrowing increase.

There is the £196 bn cost of nationalising utility firms and the estimated £85 billion cost of the four day week they propose for starters.

Labour say these costings assume all the ideas and pledges they have told us about in the 2017 Manifesto and since gives the wrong impression because they will do not do all of them. They will get round later in the election campaign to deleting some of the items to make some reduction in the staggering bill.

This is trying to have it both ways., They want some people to vote for them because they are offering them more money or less work or a slice of

nationalisation. They will keep the offers out there for longer to draw them in, and hope people do not notice when they cut some.

Given the enormous cost even after they have cut back some proposals they will still be recommending a huge increase in taxes, borrowing and debt.

We know what happens when a government spends too much and tries to borrow too much. Labour did in in the early 1970s, had to go begging to the IMF for a loan and ended up making big public spending cuts. Labour did it again in 2008-9. They overdid their spending and borrowing and presided over a huge credit expansion, only to have to slash spending during the recession they created. Just look at the poverty in Venezuela and the cuts in Argentina where governments have tried to spend and borrow to excess in recent years.

Don't let them do it again.