

# Getting the deficit down is undermining the Chancellor

When I listen to the PM and Chancellor I want to remind them they are trying to steer or improve a £2600 billion economy. All we hear from them as they seek to find an alleged £22 billion items involving £1 billion or £2 billion. These are scarcely rounding errors in the national accounts. If they want to make a difference they need to be moving and finding tens of billions as £26 billion is just 1% of the total.

The big idea to get faster growth bears a resemblance to the previous government's policy, with the injection of a faster pace and less realism. It is to generate green jobs through decarbonising energy in a hurry. This entails writing off much of our fossil fuel driven economy before it is worn out, making net growth difficult to achieve. The £3 billion a year of state investment through the National Wealth Fund and Great British Energy is tiny in relation to the total investment of well over £200 billion it would take to decarbonise electricity generation and to replace the nuclear power stations about to close through old age. It is not a lot more than the previous government was spending through U.K. Infrastructure Bank and the British Business Bank. It is an expensive new pair of letterheads and brass plates and more management overheads.

They invented a £22 billion black hole as a political slogan to seek to bury a Conservative Party that had been badly wounded by a disastrous election defeat. They do not deny that £11 billion of it is their very own inflation busting no productivity gains awards to public sector employees. They do not set out how many underspends or over provisions they also inherited. Without the detail why should we believe them?

There is a rule emerging. Every spending cut or tax rise they want to make can disappear as it hits reality. Taking fuel payments away from most pensioners is meant to save a modest £1.3 billion. Now they are energetically trying to get more pensioners signed up for Pensioner Credit. If 400,000 do so there is not net saving from the change.

They told us they could get £1 billion more from taxing Non Dom's more. As the rich head for the exit it is quite likely there will be no net Non Dom gains. Meanwhile a lot of money that would otherwise fund businesses, employ people and lead to shop and VAT revenues will have gone elsewhere. There could be an overall loss.

They look to VAT on school fees to bring in another £1.4 billion. They now face a court case claiming VAT on school fees violates the very Human Rights laws Labour normally reveres. They could lose the case. Meanwhile they need to offset against the extra tax the costs of more pupils taking state school places when their parents can't afford the fees. Those parents who do dig deeper to pay may then not be paying so much VAT on other things they would have bought if the school fees cost them less. The schools will of course be

able to reclaim the VAT they pay on inputs which also reduces the gains by a Treasury estimated one quarter.

The extra oil and gas windfall tax helps kill off extra investment and production from the North Sea. Aiming to raise maybe an extra £500 million it is along with the end of new licences likely to mean a fall in revenue. At a combined tax rate of 78% who is going to want to take the risks of anything new?