Getting the economy growing faster

Too much navel gazing about Brexit is crowding out time and space to discuss how we should respond to the worldwide slowdown in growth, to the recession in parts of the European continent, and to the need for policy change here to stimulate more enterprise, jobs and higher living standards.

In the USA, UK, Euro area and China the Central Banks have been tightening. Money and credit growth slowed markedly in 2018 especially in the UK. The US had rate rises and reduced Quantitative easing, but there was a big offset with the large tax cuts the President put through the Congress. Money growth fell off late last year. This year the Fed has reduced its QE cancellation rate and signalled a softer approach, leading to some rebound in money growth and a big rally in share markets from relief.

In the UK we had two rate rises, the cancellation of special loan facilities for the commercial banks, no more QE and tough guidance on consumer credit, on top end mortgages and car loans. Money growth halved. UK tax policy has been hostile to property and to cars, with big hikes in Stamp Duties on numerous transactions, and in Vehicle Excise Duty deterring purchases of new vehicles. UK fiscal policy has also tightened considerably, and this year there was an additional substantial further tightening from an unplanned extra cut in the deficit.

In China a doubling of car purchase tax to 10% and a credit squeeze brought down their car market and added to the slowdown induced by tougher money policies. In the Eurozone they ended Quantitative easing , continued to battle under reserved banks and hit the car industry with new emissions regulations. The gilet jaune protests damaged French sales and growth. Italy moved into recession. Germany had a fall in GDP in Q3 with no growth in Q4.

In such conditions with slowdown in our major trading partners around the world the UK should be taking sensible measures to promote expansion. Inflation is below target and unlikely to become a problem any time soon. The government should cut Stamp Duties. The present rates are reducing the revenues and have caused quite a shortfall compared to Treasury and OBR forecasts. The government should take VED back to pre 2017 budget levels to reduce the tax on buying a new car. Business rates on the High Street should be cut to help retailers. VAT should be removed from green products and domestic fuel, helping keep inflation down. The Bank of England should announce new good value loan facilities for commercial banks wanting to on lend for new business and growth. It should remove its special strictures against car loans as there is no evidence of credit danger threatening the system. It should state, as the Fed has now done, that it will be patient before any rate rise, and will want to see evidence of faster economic growth and a decisive upturn in money growth before a rate rise. This should all happen whatever we do on Brexit.

Let us assume we leave on 29 March without signing the Withdrawal Agreement which is what will happen unless Parliament legislates to delay or stop

Brexit or legislates some Withdrawal Treaty. The government should then hold a budget in early April to spend the money we will be saving from end March on our net budget contributions. It could spend an additional £12 bn next year on better public services and tax cuts without increasing the deficit. Given the substantial tightening and the low level of the planned deficit I would go further and spend £20bn or half the budgeted £39bn cost of the Withdrawal Agreement in the first year. That would provide a welcome 1% boost to the economy. Our schools, social care and public security budgets all need more, whilst selective tax cuts could boost home buying, cars, green products and the High Street if we cut VED, Stamp Duty, Business rates and VAT. Some of these tax cuts would yield more revenues as they are currently stifling business.