

My Article in Conservative Home

Treasury briefing keeps telling us unfunded tax cuts will cause inflation. We have just lived through two years of surging and high inflation with increased taxes. That should lead them to question their bizarre view of inflation. If they believe that tax is the key to inflation why don't the Treasury think the tax rises also caused the inflation? In one sense some of them did, as they heaped higher taxes on energy as energy prices soared.

The Office of Budget Responsibility acknowledges that it has overstated this year's borrowing so far by £20 bn yet carries on asserting there is no scope to cut taxes. The reason borrowing is lower is once again they got their forecasts of tax revenue wrong. I read in the press they keep sending the Chancellor very different forecasts of how much borrowing there might be in five years time. The Government uses this to decide what tax cuts they can afford. The OBR forecasts though wildly fluctuating never seem to fluctuate to allow tax cuts according to the press briefings that filter out. Why does the government use the five year forecast to decide anything? It is bound to be wrong. The last three years have seen many overstatements of future borrowing by the OBR for the immediate year which should be a lot easier to get right than five years out.

The Treasury and Bank need to think again about the inflation they have just presided over. Let me give them some thoughts on what did cause it. The Bank should grasp that printing £150 bn and paying very high prices for bonds to keep interest rates close to zero was inflationary. The Treasury should understand that boosting spending by £350 bn a year over three years and borrowing the money to pay for much of the extra spending was inflationary. They ended up borrowing it at overdraft rates from the Bank of England. These rates then surged as the Bank decided to hike them. It means it was very unwise to borrow like that. If they had funded it long it would have been a lot cheaper and arguably less inflationary. The Government needs to grasp that recruiting 103,000 more civil servants over six years and allowing a 7.5% collapse in productivity was inflationary.

They will reply that the surge in oil prices from the Ukraine war was inflationary. It certainly drove up energy prices but does not account for why UK inflation was already three times target before that happened. Nor does it explain how big energy importers China and Japan did not have a big inflationary surge as we did, but then they did not print lots of extra money and drive their interest rates lower.

The budget needs to cut taxes. It also needs to help bring inflation down and it needs to push downwards on the deficit. Far from being impossible to do these three things at the same time, the right policies will indeed do all three together. If only the Treasury had a model of revenues that picked up how increases in growth deliver higher revenues more accurately it would be easier to persuade them. If only they were better at controlling public spending and at avoiding big falls in public sector productivity that would help too.

Let's have a go at a budget that they should grudgingly agree using their wayward models will achieve these ends. Let's start with getting inflation down more quickly. Suspend the 5% VAT on domestic energy for heating for the year ahead. Take 5% off petrol and diesel by a temporary cut in fuel duty. This will give a useful nudge down to energy costs just as world prices are increasing again. Some of the revenue lost will be compensated by higher profit and windfall taxes on the energy companies as they benefit from higher world prices. Cover the rest with some of the proceeds of selling the whole remaining holding in Nat West shares. A lower rate of inflation earlier will also save some money on public spending which is very geared to the inflation rate.

The budget should proceed to expand the supply side of the economy to offset some of slowdown the Bank is creating. The VAT threshold for registering small businesses should be raised to £250,000 from £85,000. This would release a lot of new capacity quickly which in turn would produce a bit of downward pressure on prices. More importantly it would generate additional tax on incomes and profits as the small businesses did more. Treasury models will score this as a revenue loss so offset their fictional figure with rephasing some of the £20 bn carbon capture and storage spend. It is unlikely anyway that large scale projects with good business cases will be available to subsidise any time soon.

We have lost 800,000 self employed from the workforce since February 2020. Some of this may be Covid related. It is also the result of tax changes in 2017 and 2021 which make it too difficult for some to grow their businesses in the way they used to, particularly where they need business customers. Change the rules back. Again Treasury will claim a loss, though it should save government money especially where people move back into self employment from benefits. This could be more than offset by imposing a strengthened version of the civil service recruitment controls the Government is talking about. Natural wastage should slim the civil service after the increase of 103,000 in just six years.

Switch farming grants for the future away from stopping people growing food to supporting them for doing so. That will generate more business success to tax. It will cut imports which do not deliver any income tax, national insurance and corporation tax on the food growing,

Save on anti driver schemes the Transport Department helps fund, in accordance with the welcome new approach outlined by the Prime Minister.

There are many other places for reducing the costs of government. All this means we can have lower taxes, a lower deficit and lower inflation. This is a cautious package. It would be possible to move further and faster to generate more growth. Look at the USA which has managed to get inflation lower than us despite their Central Bank making the same mistakes as ours. It has also just recorded 4.9% growth.

Just do something to cheer us up. We are fed up with being controlled by wrong forecasts by the OBR. Nor should we have to pay further for the wild policy swings of the Bank of England who did much to give us inflation in

the first place. We do need higher public sector productivity, lower costs of Government and a lower deficit. This can advanced with tax cuts which lower prices, create more supply and boost incomes and profits to tax at home.