My Telegraph Article on growth

I am publishing this today as it contains unfinished business on monetary and fiscal policy. It appeared in the Telegraph before the Autumn Statement. My schedule got too crowded to fit it in ahead of the Autumn Statement, but the issues deserve a further airing, particularly on bond sales and public spending.

The official advice in the run up to the Autumn Statement has been well leaked. It all seems designed to stop as many tax cuts as possible, at a time when the public and the Conservative Party are desperate to turn the tide of rising taxes and unleash some growth.

There is the doctrine of headroom. We are told based on OBR forecasts of deficits that are likely to prove as overstated as the past that there is little or no headroom for tax cuts. They never comment that there is no headroom for spending increases, which continue week after week with inflation of costs, plunging productivity and Ministerial announcements.

There is the doctrine that tax cuts cause inflation. Apparently from media accounts of this thinking a cut in Inheritance Tax is not inflationary because the money goes to someone rich enough not to need it or spend it. Any tax cut that goes to someone who does need it and spends it is automatically assumed to be inflationary. Then the same must be true of increases in benefits. I think we can afford some better news for the many with tax cuts that help get inflation down

The official view is all very bad economics. Money and credit play an important part in inflation. The Uk public sector refuses to apologise for an independent Bank creating huge quantities of money and the state borrowing large sums at near zero interest to spend. Surely these lie at the heart of the inflation we are living through. Japan and China facing the same price rises of energy and food on the back of the Ukraine war did not have the same inflation we and the EU had. Their Central banks did not step up the money printing and bond buying.

If the state borrows to spend more on services than it collects in taxes that is not necessarily inflationary. Borrowing the money to pay the bills takes that money away from the person or company that has the savings so they cannot spend it. It is if the banks are awash with Bank of England created money and then lend it out as they did for property and other asset purchases that you get inflation. They do not warn us that borrowing more money to spend on state services or benefits is inflationary yet that must be true if tax cuts are inflationary. The aim of state spending is to give employees and benefit recipients more money to spend.

What I want to see is the end to the aggressive selling of bonds by the Bank sending huge bills for the losses to the taxpayer. That drives rates including mortgage rates still higher and flattens the economy more. I want the bank to be able to cut rates a bit to price mortgages back for people who want to buy a home and to lend to companies that want to expand.

To do so we need lower inflation. So Chancellor, suspend VAT on domestic fuel. Cut fuel duty of petrol and diesel. Suspend carbon taxes on heavy energy using industries. These will directly cut the inflation rate. These are tax cuts to bring inflation down sooner and more.

As this happens so the Bank will be able to ease the squeeze. The Chancellor will have some flexibility even on pessimistic OBR numbers. He can add to this by selling all the shares in Nat West. He can delay some spending on carbon capture or turn to the private sector to finance it. He can pursue a drive to get the lost productivity back in the public services. A recent big fall has cost us around £30 bn extra for doing the same things.

He needs to boost output and capacity in the economy. More services and goods on offer will help bring inflation down. The quickest and cheapest way to do this is to lift the VAT threshold for small business. Many of them want to do more and have the ability to do so. They do not because they cannot face all the costs and compliance of registering for VAT.

He should reverse the changes to IR 35 . This measure blocks self employed people from getting contracts from businesses nervous about being caught up in an argument with HMRC about the tax Status of their sub contractor. He could lower their National insurance as well to provide more incentive. We have lost almost 800,000 self employed since February 2020. We need to help them back. They would give us more supply, more flexibility, more choice.

Halving inflation this year is welcome but it is not job done. Key to growth and future prosperity is getting it down faster. Then we can have a better money and credit policy to boost jobs and growth. Tax cuts are essential to competitiveness, to promoting self employment and helping small business. Cheaper energy helps everyone, giving hope of a better Christmas with more to spend on good food and presents thanks to lower heating and driving bills. Growth brings more capacity and choice, removing inflation creating shortages

If only the government would break free from the gloomy advice and models at OBR and Bank which have given such wrong forecasts. If we set the same business tax rate as Ireland we would see our business revenues shoot up. Ireland gets four times as much business tax per head as we do by setting a much lower rate of tax.