

The need for new thinking at the Treasury and Bank

I have written many times before about the way the UK economic establishment has been wedded to the EU rule that we must bring state debt down to 60% of GDP. This has been the main constraint and guide on economic policy for the last decade. We need instead a new central aim of promoting faster economic growth whilst keeping inflation low.

I have also drawn attention to the Establishment's unhelpful use of two pieces of economic theory, the Phillips curve and the Laffer curve. The Phillips curve which says inflation rises when unemployment falls has not been adjusted for the global economy we live in, failing to understand how inflation has been kept down by large inward movements of low wage labour and by importing substantial quantities of cheaper goods and services. As a result money policy has been tighter than needed.

The Treasury used to deny the Laffer curve, which states that if you raise a tax rate above an optimum level revenue falls. Now they accept the theory but choose to assume the optimum rate is much higher than experience tells us it is. As a result they have had bad shortfalls on taxes like Stamp Duty and have failed to maximise tax on higher incomes.

Since the 2016 referendum the Establishment wrongly forecast an immediate recession, and then has gone on and on about an alleged hit were we to leave without a trade deal. Meanwhile they have continued to tighten the fiscal policy of the UK and keep money tight, which has predictably slowed our performance whilst still in the EU single market.

The government has added to the difficulties by successive Chancellors making a tax raid on property through higher Stamp duties, and on new car purchase through higher VED. This has predictably hit both the housing and car markets, the two largest purchases people make.

It is time to relax policy to promote growth, and to set tax rates that allow enterprise and activity to flourish. The external shock of the virus means the case for tax cuts is even more urgent now. There is both a demand and a supply shock. Tax cuts can help a bit on the demand side. Lower interest rates are less useful. We are getting lower rates for government borrowing anyway.

Visit to Royal Berkshire Hospital

I visited Royal berks recently and held a meeting with the Chief Executive.

I asked him about Coronavirus preparations, where he confirmed the need for people to self isolate and ring 111. There are contingency plans for those needing treatment.

We also discussed the preparation of a business plan for the development of the hospital, as it is listed as hospital for potential substantial capital investment.

Coronavirus

This blog raises some questions and seeks your thoughts. Contrary to the assertions of a couple of my recent correspondents I do not have a view of what is the right course of action for the UK authorities to take, and this piece does not offer a solution to the problems posed.

Let's begin with the way the government is proposing to handle this. Chris Whitty, England's Chief Medical Officer is an epidemiologist who has studied contagious diseases. He will lead for the government in keeping us informed of how many cases there are, what the current state of knowledge is concerning the virus and its transmission, and progress with diagnosis, testing and a possible vaccination in due course. He will also give advice on how government and private sector should respond to contain and defeat the virus.

Most of us who are not medical experts will listen carefully to him. I have also taken advice from two doctors so far on this issue, and have talked to my local NHS General Hospital about their response.

To yesterday Chris Whitty has reported 19 cases in the UK, all thought to have been caught outside the UK. The latest four come from Italy, Tenerife and Iran, showing the spread of the disease worldwide.

The Secretary of State will announce governmental decisions based on the advice, and will be responsible for informing Parliament, passing any necessary legislation and ensuring the NHS has the resources needed for its role. The Chief Executives of the NHS in England and the devolved Administrations will be responsible for planning for contingencies, providing sufficient capacity for patients, and balancing resources should numbers escalate substantially.

Whilst the politicians will lean heavily on the professional advice, they ultimately will have to make crucial and difficult judgements. As Chris Whitty has said recently, a policy like closing all schools or cancelling lots of sporting events and entertainments might be needed, but they do not yet know they would be a good idea. As the CMO said "We do not know yet. We need to find that out. ... How likely are they to work? What's the evidence? What's the cost?"

The problem for both the experts and the politicians is that they do not know enough about the virus. Will higher temperatures kill it off as they do many flu strains? How long does it rest in someone without symptoms, and how catching is it from that person? Is it true it little affects young people? Can we believe the Chinese numbers implying they are gradually getting in control of it in Wuhan at the centre of its genesis? Is the death rate the same or lower than conventional flu, or is it worse?

Current advice is to self isolate and to ring 111. It is also to wash hands thoroughly and frequently as a likely route for infection. Are there additional measures which could usefully be taken to try to prevent further transmission?

How far should a free society go in banning flights from affected locations or requiring people who may have been in contact to be isolated for 14 days?

Current policy also hinges on tracking contacts of anyone confirmed as having the virus. What happens when someone with it has been on the tube or attended a football match?

All this shows that the response is a matter of judgement. Currently governments and experts seem to be relying to a considerable degree on the World Health Organisation, who are spreading information and helping co-ordinate work on this infection. I wish them all well in researching it more thoroughly so we do know exactly how it is transmitted, and can produce a vaccination to ward it off.

Meanwhile the government will also need to weigh the practical consequences of any advice or regulations they bring in. Closing all schools means many parents having to stay at home to look after children. Imposing more movement restrictions and flight cancellations has an economic cost. If safety clearly requires it then it should be done, but Chris Whitty's questions about efficacy and cost need answering before any such decision. There is also the issue of fairness related to efficacy. Is banning a play or sporting event fair if we are not banning conferences or demonstrations? Parliament itself could be a good way to spread the virus but presumably we wish to keep it meeting.

Meeting with Transport Secretary

I met with Grant Schapps to discuss short term and longer term ways of cutting road congestion. He is working on schemes to let Councils bid for more funds to improve junctions, provide bypasses and resurface roads. He was interested in my proposals to get more utilities away from under a main road, to flex light timings to traffic needs and to strengthen local strategic networks.

More market warnings of recession and slowdowns.

The UK 10 year state borrowing rate fell to 0.43% today. Meanwhile the German share index was one of the worst performers, falling another 4.6% as some in the markets pencilled in a German recession.

Still no new economic actions from western governments or Central Banks.