

Boost the economy

I have been warning for two years that the combination of fiscal squeeze and tight money policy would slow our economy. So it has proved. Indeed if anything I am surprised that our economy has not slowed more. The global background is an additional reason for the weakness, with Germany slowing more than us and the USA less.

The USA has shown that the combination of rate cuts, liquidity provision by the Fed, and big tax cuts are delivering better growth than we and the other Main European economies are showing. That is why I welcome the new government's decision here to increase spending on schools, the NHS and police. I also think we need some tax cuts soon, so individuals and families have more money to spend on their own priorities.

Those who write in to say I am too lax about the debts misunderstand the position. Faster growth will boost tax receipts and some of the tax rate cuts will bring in more revenue. After allowing for the state debt the Bank of England owns on behalf of taxpayers our debt to GDP ratio is fine. The QE debts we owe to ourselves so there is no net interest cost.

The latest GDP figures show we avoided recession last quarter and are growing at around 1% a year. We should aim to double that growth rate, which a sensible fiscal and monetary easing with the right tax cuts could do.

Labour wants to plunge us into massive debts

The costings of Labour's programme are off the chart because Labour has made so many expensive pledges or promised so many unaffordable policies. The Conservatives put it at £1200 billion over five years or an extra £240bn a year. That's a huge tax rise and a colossal borrowing increase.

There is the £196 bn cost of nationalising utility firms and the estimated £85 billion cost of the four day week they propose for starters.

Labour say these costings assume all the ideas and pledges they have told us about in the 2017 Manifesto and since gives the wrong impression because they will do not do all of them. They will get round later in the election campaign to deleting some of the items to make some reduction in the staggering bill.

This is trying to have it both ways., They want some people to vote for them because they are offering them more money or less work or a slice of

nationalisation. They will keep the offers out there for longer to draw them in, and hope people do not notice when they cut some.

Given the enormous cost even after they have cut back some proposals they will still be recommending a huge increase in taxes, borrowing and debt.

We know what happens when a government spends too much and tries to borrow too much. Labour did in in the early 1970s, had to go begging to the IMF for a loan and ended up making big public spending cuts. Labour did it again in 2008-9. They overdid their spending and borrowing and presided over a huge credit expansion, only to have to slash spending during the recession they created. Just look at the poverty in Venezuela and the cuts in Argentina where governments have tried to spend and borrow to excess in recent years.

Don't let them do it again.

Remembrance Sunday

Today we remember all those who died so we can live in a free country. Their selfless sacrifice in two world wars led to more peace loving democracies emerging in Europe and Asia.

It is good news that 74 years have now passed without our country being enveloped again in total war. Today we also remember those who have died in more recent local and regional wars despite the success in avoiding full on conflict between the great powers.

I will attend the Remembrance service in Wokingham in a private capacity. I have explained to local organisers that there are currently no MPs so there can be no official wreath laying on behalf of the constituency. Conservatives are not campaigning today in the General election.

Fiscal rules OK

The balanced budget rule which says spending on current budgets has to be covered by tax income is sensible and prudent. Whilst education is an investment in young people, teachers' pay is still a current and recurring item of spending.

Some of you are concerned that the government can borrow to invest. Investment means the capital budget where you buy items like new school buildings or a new road which will be used for many years going forward. Most

investment in the state sector is building and construction work.

The Balanced budget rule still provides a constraint on how many new buildings you can build to expand a free to the user service, as all the staff and running costs of the new buildings fall on current account under the Balanced budget rule. It does encourage investment in replacement buildings that are more fuel efficient and in other ways cheaper to run or public investments that generate a revenue return.

In order to justify borrowing to invest we need to show the need for the new capital provision and the imputed return where it is for a service provided free to the user. Let us take the case of the M25. This expensive motorway offers no direct financial return to the taxpayers who paid for it, because we do not have road charging. If we had put in place a road charge system instead of the current Vehicle Excise duties and fuel duties, the M25 would have shown a great return for the state investor. The state has to impute a value to the likely use of the facility to assess one public sector project against another. By definition this can only be a judgement based on stated assumptions. The state also has to take into account that use is likely to be higher because it is provided free.

In the case of borrowing to provide a new school the case is overwhelming where there are more pupils than school places in a local area. If it is a replacement school then the project needs to show substantial running cost savings compared to the building it is replacing, and preferably a return of capital to the state from disposal of the one it is replacing unless on the same site.

A new railway line is easier to assess, as the railways do collect money from train users. Spending a lot of money on a heavily loss making line would not be a wise investment.

Somehow the state has to improve its way of evaluating all these competing projects to come up with a list that genuinely expands the national wealth or are essential to the delivery of good quality public service like health and education.

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