Budget reflections

As we had read in the newspapers, the Office of Budget Responsibility decided to downgrade their forecasts for productivity, which led to a reduction in the growth forecasts. These growth forecasts have been up, down, up and now down a bit over the last two years as various assumptions have been changed. The latest version shows growth at 1.4% in 2018 and at 1.3% in 2019, down from 1.6% and 1.7% in the Spring forecast. These forecasts relate mainly to the pre Brexit period, with growth rising again in 2021 and 2022 after exit.

Despite this revision the government is still on track to start to cut debt as a proportion of GDP from next year onwards. Public sector borrowing is now estimated at £49.9bn this year compared with the £58.3bn in the Spring forecast, and to fall in cash terms for every year over the next five years. Revenues have been more buoyant than the forecasters expected.

The OBR may be right to reduce its productivity figure, as all major economies have experienced slower productivity growth than before the banking crash of 2009. The UK has been particularly successful at creating many more jobs. This will tend to reduce the average rate of productivity growth. Productivity is measured by comparing the value of the output sold with the numbers of employees creating it. As an economy increases the share of certain services it will tend to slow the growth of productivity. Faster productivity growth with higher productivity numbers is generated by large investments in oil extraction, chemical plants, automated engineering works and the like where the amount of output per employee is very high reflecting the large amounts of capital equipment put in.

It does seem that the global number crunchers are having difficulty capturing the value and the efficiency of the new digital revolution. The big digital service providers are cutting prices of traditional activities and supplying substantial service free to the individual user. Is this fully captured in the way they calculate the figures?

Meanwhile the official forecasters have struggled by taking too pessimistic a view of Brexit. Their idea that investment and confidence would be hit badly affected their short term forecasts after the vote. Some of this has now been adjusted in the latest forecasts which assume business investment will resume growth from this year onwards after a pause in 2016. They now expect employment to rise each year a little as the economy continues to create extra jobs. They expect good growth in UK exports this year and next, with very little growth in trade in 2020 and 2021.

Overall the forecasts look more sensible than the pessimistic ones in the summer of 2016. There could be more surprises on the upside, as there were today on the deficit this year and the tax revenues.

First time buyers in Wokingham to be spared Stamp Duty

The Chancellor announced in his budget that most first time buyers will be exempt from Stamp Duty. Anyone buying a home under £300,000 will pay nothing. Anyone buying a home up to £500,000 will pay no duty on the first £300,000.

This is welcome news in the Wokingham constituency, where house prices are high and it is difficult for first time buyers to get together both the money for the deposit and the Stamp Duty on purchase.

A new UK fishing policy

I have long argued we should be able to produce a new UK fishing policy which is kinder to both our fish and our fishermen.

Fishing for Leave has come up with some interesting proposals designed to allow us to catch more fish for our own consumption whilst conserving more fish at the same time.

As they point out, it is not difficult to design a better policy than the long lasting Common Fisheries Policy. This was based on a quota system for each type of regulated fish. A fishing vessel had to throw back all dead fish that did not conform to the required limits on landings. It meant the UK fishery caught a lot of fish that had to be dumped dead.

After years of this damaging approach they decided to try to ban dumping. This is difficult to enforce without cameras on every boat in the right places. It also means when enforced vessels are banned from fishing as soon as they hit quota problems on any given species.

Fishing for leave recommends a different approach. All fish caught should be landed and used. If we can eat all the fish caught we can catch far fewer fish than needed with a discard policy in place, whilst landing more than under the old policy. The fishery would be protected by limiting days at sea for the fleet, to limit overall catches. In order to stop vessels pursuing too many fish of a particular kind because it is valuable or popular the system would include reducing days at sea for any vessel that did pursue too many fish of a species that was at risk.

This proposal looks like a good basis for forming a new policy. The aim must be to protect our fishery so it is there for the future. There has to be some way to prevent excessive exploitation leading to a bad decline in fish stocks. It should also aim to deliver a fishing industry that does supply us with the fish we want to eat. We always used to have a surplus of fish when we ran our own policy, and can do so again.

Official figures for the UK contributions to the EU

The official HMT and OBR figures for 2016 shows the following

Total gross contributions   £23.148 billion   (£445m a week)

Gross contributions less rebate   £17.865 bn   (£343 m a week)

Gross contribution less rebate and monies paid back to the UK through EU programmes   £11.73bn (£225 m a week)

The gross contributions are made up from

Customs revenues   £3.347bn

VAT EU share   £3.647bn

GNI levy   £16.154bn

We need some new estimates of what customs levies would bring in were we to opt for the WTO model. Indicative figures are that the UK would levy £12bn on EU imports into the UK. This money would be available to give back to UK consumers as tax cuts and benefit increases, so customers were not worse off if they wished to continue to buy so much EU product. The EU would levy £5bn on UK exports to the EU, which would still leave our products more competitive than two years ago before the rise of the Euro.

The WTO model the big attraction of no so called divorce bill.

Better jobs

The UK economy has been good at creating many new jobs over the last seven years. It has been successful at taking unemployment down substantially. One of the main aims now should be to promote higher skilled and better paid jobs. This is the essence of how to tackle the so called productivity problem.

It is normally easier to get from a job to a better paid job, than to get from unemployment into work. It is possible for many to work with their employer. Good companies have schemes to foster training and to help employees achieve qualifications. This usually leads in turn to promotion within the firm.

There are many skilled areas where the UK is recruiting where we could do with more skilled young people from our own Colleges. Various companies and industries complain of a shortage of good people with the right skills. Often they turn to inviting in people from overseas to fill the gaps. The UK economy has been great at generating jobs for new migrants as well as for people already settled here.

Raising employee productivity can take place in several ways. The company may just get better at selling service or product, and raise the amount supplied per worker through good sales combined with processes that allow the existing workforce to service some of the growth. The value of the company's output may rise for other reasons. When, for example, the oil price goes up the employees of the oil producers become more productive because the value they each produce rises. A company may introduce better product or service which commands a higher prices which also boosts productivity. A company may invest more capital in computing, automation or more modern process which can allow the same workforce to produce and sell more.

The UK has a great opportunity to replace more imports with domestic production given the improvement in our competitiveness in the last couple of years.