Ministers and civil servants

Our constitutional practice used to be based around the fundamental proposition that government power must be accountable and this is best done by Ministers reporting to an elected Parliament on the conduct of government. Ministers have to defend the actions of their officials and departmental administrations, or explain what action they are taking to correct mistakes, reform policies and change personnel where things go wrong. Ministers are meant to decide and civil servants are meant to advise. In the toughest version of the doctrine Ministers had to resign for mistakes made by officials which they knew nothing about until they came to light with the damage they caused.

This practice could scarcely apply to a large number of areas of government activity when we were in the EU that came under EU regulation, directives and court decisions. There was no serious attempt to think through the consequences of these changes. Ministers usually shouldered the burden of responsibility for laws and decisions taken in Brussels, even where they had opposed them. The public decided to sort this out and reassert the need for genuinely accountable Ministers who could change laws and policies where needed by voting to leave the EU legal structures. With EU laws and policies Ministers could face failing policies which they were both blamed for and could not change.

In recent years under governments of all three main UK parties this has been further modified. There has a growing enthusiasm for so called independent bodies. Many politicians came to the conclusion that it was better to appoint specialists to run quangos that could take big decisions, make a wide range of rules under statute, enforce rules, impose penalties , spend large budgets and set out blueprints for the future. The Bank of England gained control of interest rates and money policy. The Environmental Agency set policy on water and flooding. NHS England gained more control over health budgets and management. The vast HS2 project was run by an independent highly paid team of managers.

As we survey the surge in inflation and the giant bond losses of the Bank, the flooded farms and the pollution of rivers from the Environment Agency, and the huge waiting lists at the NHS the public demands Ministers sort it out. They do not want to hear that the main budgets and powers are all exercised by highly paid managers who insist on independence from Ministers. HS 2 showed that high pay with plenty of independence did not necessarily produce a good outcome.

There is much to be said for reasserting the original idea that Ministers can direct and alter the management of these bodies as they will take the blame when things go wrong. Some things done by quangos would be better done directly by the sponsor government department, cutting overheads. Ministers may well opt for substantial management delegation, but need to find good managers they trust and who deliver to make that model work. They need to to be able to reward and promote them and in bad cases to remove them. They need full ,access to important information about the way the service and the policies are working out.

Appointing Ministers who know the subject or who have an enthusiasm for it would help. Keeping them in post for long enough to have an impact and to know the area well is important. A Minister like Nick Gibb was allowed to work in Education where he was a great advocate of synthetic phonics to improve reading abilities. More importantly he was allowed long enough there to make a big difference and see the results of his approach come through with better literacy scores. We need more of that.

The Treasury needs to think again about inflation

Briefing from the Treasury for over a year now has been rightly telling us inflation is too high, and wrongly saying what we need to do about it.

Their mantra is unfunded tax cuts cause inflation. No recognition that the last two years of high inflation have been years of tax rises, so there is no possibility the current inflation was caused by unfunded tax cuts. No mention that if unfunded tax cuts can cause inflation then so can unfunded spending rises. No mention of the huge surge in spending in the last three years.

They should think again. The present inflation was brought on by

The Bank of England printing £150 bn of extra money during 2021,a recovery year.

The Bank keeping interest rates near zero by paying ever crazier prices to buy up state debt and to enable the government to borrow huge sums at very low rates

The Treasury imposing high carbon taxes, fuel duties and windfall taxes on energy to give us very dear energy at a time of high market prices

The Treasury agreeing to a 103,000 increase in civil service numbers from 2017 to today and a 68,000 increase in other public administration posts , resulting in a 7.5% fall in public sector productivity over the 3 years 2020-22.

The big expansion of state debt this decade effectively financed on a Bank of England overdraft

Tomorrow I will examine how the right tax cuts offset by spending controls and asset sales can bring inflation down. I am not recommending more borrowing to fund tax cuts, but if you did borrow by issuing a longer dated bond to pay for a tax cut the bond withdraws the same amount of spending power as the tax cut injects, though from different people.

A Budget for growth, lower inflation and a lower deficit

I have been proposing a budget for faster growth and lower inflation. The notes beneath give the outlines of it.

The Prime Minister has three economic aims
• Get inflation down
• Promote growth
• Cut the deficit

These reinforce each other.
• More growth brings more revenue and lower spending on benefits
• Falling inflation reduces spending pressures, helps business with costs and lowers the deficit

The budget judgement
• The OBR forecast £131 bn deficit for 2023/4. Revenues have been better than expected so there is a £20bn improvement available
• The right kind of tax cuts can promote growth and boost other tax revenues more than the OBR model suggests. The OBR often under forecasts tax revenue.
• There are spending controls and reductions that can help cut the deficit as taxes are brought down a bit

Inflation is too much money chasing too few goods
• Our inflation stems from excess money, credit and bond buying by the Bank in 2020-21.
• Money supply is now falling. The Bank has lurched from far too easy to very tight.
• Government can help the Bank get inflation down by cutting taxes on expensive energy whilst prices remain high, and by offering tax cuts to the self employed and to businesses to promote more output.
• The Bank wants to get inflation down by stamping on demand. More work to boost supply would help.

What the Bank should do next
• The Bank is independent in in setting short term interest rates. It is likely they have now set them high enough, but they will make that call.
• The Bank acts as agent of the Treasury in buying and selling bonds, with a full Treasury indemnity for losses
• The Bank should stop selling bonds at a loss in the market and sending huge bills to the Treasury (£24bn in the first 4 months of this year) Run the portfolio off as and when the bonds are repaid.

Affordable tax cuts for growth

• The UK has lost 800,000 self-employed since February 2020. Some of this is the result of the 2017 and 2021 changes to IR 35 taxation. It is now difficult for the self-employed to get contracts from companies.

• The government should restore the pre 2017 tax regime. This should produce a good increase in self-employment, saving money on benefits and leading to extra taxes on incomes form self-employment.

• Self-employment offers a flexible and fast way to expand capacity in a wide range of goods and services.

Boost small business with a VAT cut

• Raise the VAT threshold to £250,000 from £85,000. Many small businesses turn down extra work or have closure periods to avoid going over the VAT threshold in any given year.

• There would be a rapid increase in capacity as small business adjusted to a less onerous regime. There would be offsetting tax gains on taxing employee and business income as a result.

Take 5p a gallon off motor fuels whilst oil prices are high

• The government will get more revenues from domestic oil and gas production and from sales of energy all the time oil prices rise and stay high.

• Offer 5p off fuel duty per gallon all the time oil stays above $75 a barrel. Review three monthly.

Suspend 5% VAT on domestic energy bills whilst gas and oil are high

• As with fuel duty, remove VAT temporarily while oil is above $ 75 a barrel

• These two measures on energy will help push inflation down, which lowers public sector costs which have to match inflationary rises.

• They will also help contain business costs

Make a further reduction in Business rates

• Many businesses which provide a good service by occupying physical property to serve customers are suffering from high and rising business rates.

• Offer a further reduction in these costs to help business recover from the covid and interest rate shocks that have damaged output and profits.

Tackle the public sector productivity collapse

• ONS figures show public sector productivity is down 7.5% in the 3 years 2020 to 2022. This is a £30bn hit to budgets, raising costs by that amount to produce the same output. This is on top of large money increases in spending to handle inflation.

• Ministers need to work with public sector senior managers to restore the 2019 levels as soon as possible, freeing money for other purposes.

Cut the benefits bill by helping more people into better paid work

• The measures to boost self-employment and small business will help reduce welfare costs

• Switching more employment by helping people already settled here into jobs instead of increasing the numbers of legal migrants will also cut costs, both by reducing benefit demands and cutting the extra costs of providing homes, surgeries, school places for additional arrivals

Overall budget judgement
• The Treasury seems to think IR 35 changes would cost £2bn, the fuel duty change £2.6bn and VAT change £4 bn. Business rates could add another £5bn
• This is less than the current £20 bn increase in revenues/lower deficit experienced. It is also balanced by productivity restoration in the public sector. If only one third of the recent losses were regained in the first year that covers two thirds of this package.
• The return to work and self-employment changes would also generate spending savings.
• Any success in cutting inflation faster would also generate savings on the costs of government debt, given the way they account for Index linked

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Artificial Intelligence

Whether we like it or not, Artificial Intelligence is going to make big advances and huge changes to business . I see many wins from it, enabling as it will a productivity advance and a quality advance in many clerical, administrative and analytical functions. It is a greatly enhanced Google Search facility and an improved Microsoft software package with more capacity to help. Like all such big families of invention it will costs us some old jobs but throw up many new ones.

Some worry that it will be used by the criminals and the tyrants for evil purposes. That is of course possible, just as they use current computers and communications systems to try to disrupt our lives, steal from us and threaten us. We will still need a police force in the age of AI, and that force will need to be AI savvy.

I would not leap into legislating to regulate the businesses and create new offences. It is too early to know if that might be needed and what shape it might take . In the meantime be reassured. Theft, fraud, sexual exploitation, terrorism and violence are all against the law. The police can still track and arrest even if they are using some AI as part of their crimes. Using AI will also offer a new way to detect them as use of computers leaves footprints back to the original criminal user.

The issue we should be discussing is why are the world’s three dominant AI/Cloud computing companies all US? It is good news there is lively competition to control costs for the users and drive faster innovation from Microsoft, Alphabet Google and Amazon Web Services. It should alarm the EU and worry us that no large company from this side of the Atlantic is seriously in the game and gaining substantial market share.

The BBC and world media

The meeting of the 1922 Committee with the Director General of the BBC on Wednesday evening was a private meeting and covered a wide range of topics before we had to vote in divisions. It led me to some more thoughts on the BBC and our media future which I would like to share more widely.

The BBC has an annual turnover of just £ 5.7bn. Whilst it remains an important presence in UK media, with access to substantial tax revenue in the form of the licence charge for watching live tv, it is a small presence worldwide. The global non UK activities earned just £2bn last year by charging users.

Netflix started up in 1997. It now has a turnover of $32 bn or 4.5 times that of the BBC. Amazon Prime Videos business is comparatively recent but already has a turnover larger than the BBC. Disney with a worldwide total entertainment turnover of $82 billion also has a tv turnover as large as the BBC without any preferential terms or tax in a particular country.

The BBC assures us it has a fine reputation abroad and it has ambitions to have a more influential world presence. To do so it needs to understand why the great US media corporations have been so successful at exploiting new technologies for dissemination of services and how they have captured the attention and the money of so many foreign viewers.

The BBC has a good back book of programmes and archival material from news to cultural events. It has plenty of expensive talent on its books. It commissions programmes from a range of independent producers. If it expanded its global business more rapidly this cost base could be defrayed over many more paying customers, and talent could be paid well out of the growing audience and revenue base.

Leaving aside the tax financed UK traditional business, the global/studios business could be expanded rapidly. To do so its ring fencing would need to be strong so no subsidy was paid across from UK taxpayers. It can have its own balance sheet with arrangements for accessing the back materials and the talent held by the UK BBC to the mutual benefit of the two arms of the Corporation. There could be talent sharing and revenue sharing arrangements where they were working jointly.

Some say the world BBC is held back by lack of money. With its own ring fenced balance sheet and revenue stream from overseas sales that should be easy to remedy. BBC Global could borrow against its talent, programmes and audience figures as it grows its own equity. It could bring in minority outside shareholders with equity contributions.

The UK has to earn its living. It should not sit and watch as Netflix, Amazon, Disney and the other US giants dominate the world media markets. With its reputation and established library the BBC should be able to help build one of the world giants of the new media age. Its immediate task should be to put another nought on the number for its non UK turnover. The UK has done well at building a bigger domestic film industry and has some competitive flowering in domestic tv and radio, but needs to add a media giant to the repertoire to make a difference to our balance of payments and living standards.