

The budget and the productivity black hole

The ONS tells us productivity is still not rising. They say they got their forecasts wrong again and need to serve up worse figures for the UK outlook just in time for the budget.

I am not surprised they got the numbers wrong. They usually do get them wrong. They were fashionably too pessimistic for the year after the Brexit vote. It is a difficult task to get right.

Nor am I surprised they and others are worsening their figures for next year as growth is slowing a bit. I have forecast continuing problems in the housing and car markets thanks to tax attacks by successive Chancellors and to credit tightening by the Bank of England.

Productivity is stagnant for good as well as bad reasons. The UK economy continues to generate a lot of extra jobs in lower value added activities, whilst high value added like oil production and some banking services are in decline. Its good news we are creating more jobs. Industrial productivity is doing fine. The bad news is the weak productivity performance of the large public sector.

So what should the Chancellor do? Instead of going gloomy and saying there is no money for spending or tax cuts he should have a budget for extra growth.

Selective tax cuts to boost incentives and enterprise should figure prominently. As I have often described, the right tax cuts can also pull in more revenue. The public sector does need a bit of extra spending and needs to help people work smarter. We need to make sure all EU contributions stop in March 2019 to help pay our bills.