

# The Budget – Conservative Home article

The Truss team railed against the pessimistic forecasts of the OBR and tried a tax cutting statement without OBR forecasts and without setting out their alternative view of spending, revenue and borrowing. Many of us thought that unwise at the time. The Sunak team were strongly critical and argued for higher taxes and less spending. Now today the new PM and Chancellor ponder very difficult options for tax rises and spending cuts as the likely depressing OBR forecasts come to haunt them.

As regular readers will know I have long argued for a different control system for guiding our economic progress, where a tougher rule on inflation complements a growth target. A limit on interest payments on debt which is already in place would complete the framework for prudence. Unfortunately no post Brexit Chancellor wanted in better times to make a change to our system though we no longer have to follow the EU system based on state debt as a percentage of GDP. The current irony is the EU have seen how impossible steering with such targets is in today's conditions and have at least temporarily suspended them. Meanwhile the UK has to set a budget which demonstrates debt falling as a percentage of GDP at least by the end of the forecast period.

There are various problems with this approach. No-one can know what the deficit will be in three years time, so the controlling number is a guess. If the number shows a possible large deficit it forces tax rises and spending cuts which may result in a recession. A recession would then increase the actual deficits we ran up, as the deficit is very sensitive to growth rates. The marginal extra pound people and companies earn as the economy expands is highly taxed bringing in more revenue. Growth cuts the numbers out of work and increases taxable activity. Recession removes the highly taxed marginal pounds and plunges more people onto benefits.

The Truss team were right that you need to go for growth, or in current circumstances take some action to offset the pending downturn. You need to do so whilst eliminating needless or less desirable spending, showing concern to limit the deficit you run up. The new team need to grasp that they do not have a lower deficit option going forward. They either allow a bit higher deficit to offset some of the recessionary forces, or they reinforce the recession with tax rises and end up with an even bigger deficit. Raising corporation tax as much of the world slows down or slumps will doubtless mean much less inward investment and less new business, depressing our revenues. We will have to watch Ireland attracting more of the investment that is available thanks to their much lower tax rate.

The best approach both for the economic prospects of the nation and to bind the Conservative party more closely together would be a full launch of a Sunak growth plan, including limited tax cuts to foster more enterprise, investment and revenue, sensible spending levels and an appraisal of forecasts of the future deficits. Scenario forecasts rather than spot forecasts would be so much more informative given the range of variables. Gas and electricity prices will have a big impact on spending and inflation going forward. Interest rates will have a growing impact on debt service costs so let's see how outcomes vary with different levels of these and other crucial influences.

The Chancellor should reinstate the roll back of the aggressive IR35 changes of recent years. We need all the self employed and start up businesses we can get and the onerous rules deter or impede this progress. He should work with the Business Secretary to accelerate permissions for North sea oil and gas investment. We need to cut carbon dioxide output by substituting our own piped gas for the imported LNG, which will also greatly boost tax revenues. We need to extract and sell more of our own oil for the same reasons. He needs to put plenty of tax incentive into the new Enterprise Zones, and to ease Business rates generally. The carbon tax should be suspended all the time energy prices are so high, as it is forcing the closure of high energy using industry. More imports, fewer jobs and less tax revenue will result from failing to tackle very dear industrial energy in the UK.

The government needs to reduce spending. I repeat that they should tell the Bank of England not to sell bonds at a big loss, saving £1bn of payments to the Bank from the Treasury between now and next March. The bond portfolio of the Bank has always required government consent and underwriting and there is no need to sell these bonds now at current prices. They should amend the generous energy support package. They need to limit the amount of home energy any household can buy at the subsidised price to a reasonable amount of fuel. If rich people want to heat their swimming pools and outdoor hot tubs then they should pay full price for the extra power this takes.

They could postpone the changes to social care that have not been fully thought through and costed, keeping the current financial system in place. They could suspend the free smart meters programme which costs over £1bn a year, as the people who want them now have them. They could abandon the later phases of HS2 where construction contracts are not signed, saving maybe £100bn in future years. The collapse of commuting demand for rail travel has greatly changed the capacity case for this investment. The best cuts of all can come from intensifying work to help more of the people on benefits into the many jobs still available in our labour market. We need more mentoring, training, encouragement, and a clear understanding that benefits are temporary support whilst you find the new job. The government also needs to get on with the detailed work of slimming down the numbers of quangos, working through quality and efficiency agendas service by service, and helping civil servants deliver more with less.

November 17<sup>th</sup> is a big day for the government and our country it serves. It has to confirm sufficient help to people so all can afford the winter energy bills and the other rising costs. It has to demonstrate purpose to bring inflation down as the current higher interest rates should do. The future path of deficits and borrowing must look better as public spending control and a resumption of growth brings revenues closer to expenses. The future energy subsidies must be cut and more market discipline restored. We need to foster much more investment in domestic energy, not deter it by a nexus of price controls and windfall taxes. The government needs to remember you cannot tax your way out of recession, but you can tax your way into one. There is no way forward for the next year without borrowing more, but there are choices that can reduce the downturn. Austerity would make it worse. This Financial Statement or budget will define politics up the next election. Going for growth in a responsible way is what is needed.