

The Budget judgement

The UK economy grew well until the spring of 2017. Policy was then changed to slow the economy by a combined fiscal and monetary squeeze. In the year that followed money growth halved. The combined effects of the 2016 property tax rises and the 2017 car tax rises damaged activity levels in the two largest purchases people make, homes and cars. The tax effects were reinforced by the reduction of credit availability. Money growth slowed thanks to higher interest rates, the removal of special Bank of England facilities to the commercial banks, and the Bank guidance to lend less on car loans, mortgages and consumer credit.

It is time to lift the squeeze. There is no great inflationary danger lurking in the UK economy. There is only a modest increase in wages. The world background is not inflationary, with some monetary tightening in the USA and the Euro area. This budget should not strive to get the UK deficit down further, and should seek to repair the damage done to individual sectors by past tax rises. The forecasts should be more realistic, after a run of forecasts which exaggerated the deficit.

The Prime Minister has said she will end austerity. This then is the budget to do so. Austerity is not just something in the public sector. It was what Labour delivered with the falls in output, jobs and real incomes at the end of the last decade. It has dragged on for some thanks to the slow recovery and the poor growth rates in earnings since the banking crash. To lift austerity we need to spend a bit more on some public services, and take less tax off people in work so they have more of their own money to spend. The good news is we can afford to do both. The Treasury regularly under estimates incoming revenue, and ends up cutting the deficit more than planned.

The UK has a modest state deficit these days, but a rather bigger balance of payments deficit. I have been more worried about the balance of payments deficit than the state deficit for some time. That deficit needs financing by either selling assets to foreigners, or borrowing from overseas. It has resulted from the very large trade deficit we run with the EU, dominated by large imports of food and cars and by the huge payments we make in EU contributions and Overseas aid. We could grow more of our own food and buy more of our own cars. This will depend in part on what tariffs we put in place for next March – or for any later exit date from the EU.

Ending the EU contributions will make an important contribution to cutting the balance of payments deficit. Today we have to sell a lot of assets to meet those contributions, as it is all money we need to send across the exchanges into Euros. Spending more of the overseas aid on the set up costs of the asylum seekers and economic migrants at home would also be a helpful option. Ending EU contributions also frees up that part of the budget for domestic spending or tax cut priorities.