The Chancellor’s Autumn Spending Statement – we need a new fiscal framework

We are promised a Statement on Wednesday, and now know some of its contents from pledges made by the Prime Minister and Chancellor. We know that they will ensure every secondary school receives a minimum of £5000 per pupil per year of grant, and every primary school £4000. I have been pressing for this for some time as Wokingham and West Berkshire schools are at the bottom end of the English spending league tables, and need more cash. This was apparent in an unflattering tv account of a Wokingham School this week. The government will increase money for all schools, but see that the lowest funded get a larger increase to take them up to the new higher minimum. This is only fair, as it does not cost less to employ a teacher or buy some books in Wokingham than in a large city.

We know that the government will pay for an extra 20,000 police to be recruited and employed, and will increase money for Further Education Colleges. It has also announced an additional £1.8bn for the NHS, targeted particularly on 20 different hospitals in need of extra investment and revenue.

I assume this will be a prelude to an early budget this autumn which needs also to cut taxes. The UK economy is slowing too much, in line with the slowdowns in the Euro area but more than in the USA. The US economy has enjoyed faster growth thanks to big tax cuts, a spending boost and an easier money policy. The UK needs the same treatment, at a time of Euro slowdown. Most forecasters expect the UK to grow a bit faster than Germany or Italy, but we need to do better than current forecasts and that requires policy stimulus.

Some worry about the present level of state debt, and wish to follow the EU policy of cutting state debt from its current stated gross level of 85% to the 60% Maastricht target. The actual level of UK state debt is currently 65% of GDP, if you eliminate from the calculation the £435bn of gilts owned by the Bank of England who in turn are owned by the taxpayers. The annual deficit is now well under 2%, which in turn is well below the rate of investment by the state sector. These figures allow scope for some fiscal relaxation. A suitable new rule might be that we keep the idea of a ceiling of 3% on the budget deficit from the current rules, and aim to be at zero or below when the economy is growing at more than 2.5% with more risk of inflation. When the growth rate falls below 1% the government should go closer to a 3% deficit ceiling, with the deficit being borrowing to finance capital investment. This would be compatible with a normal current budget surplus, and with no current deficit in low growth periods. We can of course spend more and cut taxes more once we have stopped making large payments to the EU, which I wish to see from November.