

# The need for new thinking at the Treasury and Bank

I have written many times before about the way the UK economic establishment has been wedded to the EU rule that we must bring state debt down to 60% of GDP. This has been the main constraint and guide on economic policy for the last decade. We need instead a new central aim of promoting faster economic growth whilst keeping inflation low.

I have also drawn attention to the Establishment's unhelpful use of two pieces of economic theory, the Phillips curve and the Laffer curve. The Phillips curve which says inflation rises when unemployment falls has not been adjusted for the global economy we live in, failing to understand how inflation has been kept down by large inward movements of low wage labour and by importing substantial quantities of cheaper goods and services. As a result money policy has been tighter than needed.

The Treasury used to deny the Laffer curve, which states that if you raise a tax rate above an optimum level revenue falls. Now they accept the theory but choose to assume the optimum rate is much higher than experience tells us it is. As a result they have had bad shortfalls on taxes like Stamp Duty and have failed to maximise tax on higher incomes.

Since the 2016 referendum the Establishment wrongly forecast an immediate recession, and then has gone on and on about an alleged hit were we to leave without a trade deal. Meanwhile they have continued to tighten the fiscal policy of the UK and keep money tight, which has predictably slowed our performance whilst still in the EU single market.

The government has added to the difficulties by successive Chancellors making a tax raid on property through higher Stamp duties, and on new car purchase through higher VED. This has predictably hit both the housing and car markets, the two largest purchases people make.

It is time to relax policy to promote growth, and to set tax rates that allow enterprise and activity to flourish. The external shock of the virus means the case for tax cuts is even more urgent now. There is both a demand and a supply shock. Tax cuts can help a bit on the demand side. Lower interest rates are less useful. We are getting lower rates for government borrowing anyway.