

The timing of tax cuts

The main point I was able to make yesterday in the short speech Parliament allowed was that we need the cuts in tax rates now to promote faster growth. The Chancellor rightly says he wants them in due course. They should not be a reward for managing to grow against the headwind of high taxes. They should be a necessary part of a growth strategy. They will speed growth and make the rest easier to achieve.

The budget moved huge sums of money thanks to a major rethink over the official forecasts from just six months ago. The OBR has lifted its forecast of growth this year by a massive 2.5% or more than £50bn. It has raised its inflation forecast for next year from 1.8% to 4%. It has slashed its unemployment forecast from 5.6% to 4.9%. It has discovered £44 bn more revenue in the first six months of the year than it forecast in March. I argued that the March forecast was wildly pessimistic. Now the economy is slowing the forecasters have decided to up the projections for this year!

The OBR expects growth to slow to an average of just 1.5% a year in the three years 2024-26. Despite this it proposes a 3.8% per annum real growth in public expenditure. To make such large sums more affordable it is imperative to lift the growth rate. That will require the various measures I have written about to boost underlying capacity in many things from energy to food, from transport to engineered products.

The Treasury needs to review public spending to secure value for money.