

Treasury austerity

The Treasury tell us that imposing a windfall tax and raising taxes to tackle a budget deficit is exactly what Mrs Thatcher did, so they should do the same again. What they do not go on tell you is Mrs Thatcher only followed that Treasury advice for the first two years. It is true she inherited inflation that was far too high and very weak state finances from a spendthrift Labour government. When she took the Treasury measures it helped put the UK into recession, took the Conservatives to 23% in the polls and needed a change of policy to sort the economy out.

She and the Chancellor shifted policy to relax the squeeze and then embarked on a series of cuts to Income tax, taking it down from 30% to 25%. Various smaller taxes were abolished. The economy started to grow again, which was much needed both to bring the deficit down as revenues picked up, and to cut unemployment which had been far too high in the 1970s.

The latest figures show that Treasury austerity has badly slowed the economy this year compared to the world leading growth of last. Just as last year faster growth meant the borrowing kept on undershooting Treasury/OBR forecasts by a large margin, so now we see borrowing in excess of their forecasts. Let me try and explain again. The amount of borrowing, the gap between spending and tax revenue, is very sensitive to the growth rate. If you grow faster you get more tax revenue in and have less money going out on benefits to the unemployed and low paid. If you sandbag growth there will be less tax revenue coming in and more people need financial support.

So Treasury, give us a growth strategy, not more austerity.