

# The need to reform economic targets to get faster growth

I have written to the Chancellor wishing her success in getting the U.K. economy to grow at the fastest pace of the G7 economies. As she says if we achieve that we can afford better public services and infrastructure. We should also boost the after tax incomes of the many and help business grow profitably.

The task is difficult but not impossible. The U.K. along with the other large European economies in the G7 have fallen way behind the USA in GDP per head, with a much slower growth rate this century. The US has raced ahead on the back of nurturing seven world beating digital giants, going for cheap fossil fuel energy produced domestically which it is also now exporting to Europe, and demonstrating leadership in many areas from pharmaceuticals to defence equipment. The U.K. has higher GDP per head than the EU, and has done relatively better at pharmaceuticals and digital technology than the continent.

I suggest the government look again at the control framework for the U.K. The US has twin targets of 2% inflation and growth in jobs and activity. The U.K. government could regard the 2% inflation target as binding on itself as well as the Bank, as government decisions on pricing public services and managed prices have a direct impact on inflation outturns. It could then complement that with a growth target. 2% would be an attainable improvement on the past. Maybe they would need to adopt 2.5% to give us a good chance of outgrowing the US in the years ahead from the lower base.

Of course government should consider OBR forecasts of debt and deficit, as both need to come down as a percentage of GDP. Relying on their fifth year forecast is not such a good idea, as it is impossible to forecast accurately. If the OBR is too pessimistic it limits unduly choices to pay for a growth strategy.

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## Scrap the targets

I am a great believer in democratic parties and leaders telling us clearly what their aims are, and explaining the principles or beliefs that will help guide them. I am a critic of the modern craze to govern by targets.

Let's consider the target to spend 2.5% of GDP on defence. The aim should be to ensure our country is well defended and can make a good contribution to the NATO alliance. We need first to ask what forces we need, not how much we must spend. If GDP falls or grows slowly the target means we have less

defence, whatever the need.

A similar set of objections relates to the target of spending 0.7% of GDP on overseas aid. When this was in place the U.K. ended up backing projects of questionable worth and giving large sums to the UN and EU to spend in ways we could not control.

Worst of all is the deeply damaging national CO<sub>2</sub> target. This is encouraging all 3 main parties in Parliament to back closing down energy and industry in the U.K. to hit our domestic CO<sub>2</sub> target, only to import fossil fuel and industrial products so more CO<sub>2</sub> is generated elsewhere than we save.

The government's target of growing faster than any other G7 country is a good aim. It however depends on what 7 other economies do which we do not control as well as on what we do. Were they all to go into recession or slowdown beating them does not give us much growth.

Setting a target to get NHS waiting lists down a more sensible target as it is under government control and not relative to external events. Even this has proved to be beyond the U.K. public sector to deliver despite record NHS funding. They cannot even collect and publish reliable and relevant figures on how many are waiting for what. If you want to manage something that is under your control it helps if you can measure it accurately and watch progress.

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## Cheap energy boosts growth

Cheap plentiful energy is crucial to GDP growth and to the success of any industrial strategy. China achieves it both by relying too much on dirty coal and by buying plenty of discounted oil and gas from countries that are sanctioned by the West for their wars and aggressions in world politics. The USA has achieved it by finding and producing huge quantities of relatively cheap oil and gas for her domestic market, and exporting the surplus to an energy short Europe. Europe has been lefty struggling with scarce and dear energy. Germany for a time did well out of reliable piped gas from Russia, only to have to make fundamental changes in the wake of the Russian invasion of Ukraine. Relying more on spot market prices rather than agreed long term contract gas proved expensive and troublesome.

The UK has gone for some of the dearest energy in the world by adding to the market costs of the oil, gas and renewable electricity it produces or imports substantial carbon taxes and windfall taxes on producers, and VAT on fuel users. The UK decision to run down its own North Sea oil and gas fields earlier than nature requires has added to costs and imports. The decision to make it difficult or impossible to look for more oil and gas and produce it onshore has added to the strains. The most obvious thing a government should do that gives priority to economic growth is to be positive about finding and producing more domestic oil and gas to replace imports. This would not add

to world CO<sub>2</sub> but reduce it, saving the transport and gas liquefaction generated CO<sub>2</sub> on the imports. A larger UK oil and gas sector would generate a lot of better paid jobs, boost overall UK productivity and contribute substantial tax revenue to the Treasury.

The UK needs to be realistic about the costs of early switching of electricity to renewables from gas. There needs to be more progress globally with improving and lowering the cost of storage of power generated when the weather is good for the purpose. There needs to be proper accounting for the costs of stand by gas power stations for days when wind and sun disappoints. Maybe there needs to be a general move to synthetic fuels as is planned for aviation, so the extra renewable power can be used to manufacture hydrogen and other derivatives that are storable fuels. Green jobs or green led growth will require decisions on what are the winning and affordable technologies and then government assistance in their roll out. Do we, for example, want a full roll out of charging points for electric cars, or would it be better to roll out hydrogen fuel distribution as it will be needed for trucks and could be used for cars as well, just as petrol and diesel are today.

The immediate task for an Industrial strategy must be to get the taxes and prices for fuel down for manufacturers. The UK is losing its steel industry, has lost all but one of its aluminium plants, is losing ceramics, cement, paper and other heavy energy users thanks to skyhigh energy costs.

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## The battle to oppose

Nigel Farage bid for seats in the election by saying he would lead a strong opposition to the likely Labour government. The Conservatives countered by saying only they could win enough seats to form a strong opposition, which is manpower hungry in a Commons full of debates, committees and question sessions that need staffing.

It will be interesting this first week in action for the new Parliament to see who does best oppose. Reform start with many institutional disadvantages that come from having so few MPs. It means if they want to be a more visible and sometimes audible presence they will need to be there all the time, rushing from debate to committee to Westminster Hall to cover the ground.

The Conservative Leader will get 5 questions at every PM Questions, and the Lib Dem's will follow as third party. Reform MPs will get occasional chances of a single question like other backbenchers but will not get a weekly slot. The Conservative lead will get first slot with time for a considered response on Statements and main debates. Conservatives will be represented on all Committees. Reform will only be on a few committees and will be lowly ranked for main debates and Statements.

This week Nigel Farage will have to find a way to make an impact on the

King's speech debate, the crucial debate about the new government's plans and legislation for the upcoming year. Will he be able to speak on the first day sometime after the PM, Leader of the Opposition and other senior MPs/ Privy Counsellors? What will be his main thrust? Will he have briefed the press and given interviews in advance, chancing what might be in the speech? If he speaks later it will get less pick up without pre briefing. Will other Reform MPs try to speak on later days of the debate to cover the different topics highlighted, as the official Opposition will do? The government speech appears to have been much briefed or leaked.

The Leader of the Opposition has time, stage and audience to make an important speech in the first response to the PM. It will be in good time for early evening broadcasts and for the Thursday papers. He needs to deal swiftly with the past and the election, moving on to tell us what they agree with and what they will oppose in this government's approach. Today should be an important day of preparation and briefing for both Mr Sunak and Mr Farage.

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## There is plenty of taxpayers money being spent, but not well

It is quite wrong for people to say this is the worst financial inheritance for a government. U.K. finances were much worse in 1979 after Labour's visit to the IMF for a bail out and aggressive over spending and borrowing. It was worse in 2010 when the outgoing Labour Chief Secretary to the Treasury said there was no money left. The U.K. was wrestling with recession and near bankrupt commercial banks needed hugely expensive taxpayer rescues.

In 2024 we have just witnessed 5 years of a large increase in public spending, partly paid for by tax increases. There is plenty of money being spent, but a lot of the spending is misdirected or wasteful. The government needs to sort out spending priorities and redirect cash.

It should tell the Bank of England to halve its losses. That would save taxpayers around £15 -20 bn a year. Following European Central Bank policies would save us by not selling bonds in the market and reducing the running loss on holding bonds,

It should aim to get public sector productivity back up to 2020 levels within two years, when it would then be saving £20 bn a year.

It should make a major reduction in legal migration for lower paid jobs, allowing substantial savings on social housing capital and revenue budgets and all the other capital and revenue costs extra people bring.

There's a £50 bn redirection to allow government to pay medics more and to build more new public sector facilities.