

Then there were two

I am delighted Liz Truss will be in the final with Rishi Sunak. I want a change of economic policy as readers of this site will know. Liz Truss will give us that change. Rishi has accepted Treasury and Bank advice which has given us a high inflation and if unaltered will give us a recession next year. We can do better.

Soaring spending and borrowing since 1991

I was sent this recently. I have not checked all the figures but thought it worth reproducing:

According to the ONS, in 1991, public sector employment was 5.985 million.

Now it is 5.76 million.

There has been plenty of outsourcing and contracting out over this period.

In 1991, public spending was 180 billion pounds. (central government)

This year it is projected to be 1062 billion pounds.

That is nearly six times as much.

This dwarfs inflation.

In 1991, GDP was 705 billion pounds.

It is now 2400 billion pounds or three times as much.

However the increase in GDP is dwarfed by the increase in government spending. Indeed, half of the increase is debt funded government expenditure.

In 1991, government debt was 154 billion pounds. Now it is 2200 billion pounds. 14 times more.

In 1991, spending on health was 27.5 billion pounds.

Now it is 210 billion pounds. This is EIGHT times more.

The population has increased by 10 million in that time or 20%. Mostly immigration. Half of it since 2010.

Average house prices have quadrupled.

There has been substantial inflation over those 30 years, just not in the basket of items in CPI or RPI.

Comment

The general trends outlined here are right. Real public spending has climbed substantially. This has often not resulted in productivity or quality gains. There has been substantial inflation and large flows of migrants. Government debt has soared.

The last decade since 2007 has seen a poor productivity performance, the closure of too many industrial activities and too great a growing dependence on imports.

Then there were four

Yesterday little new light was shed on the leadership battles by the hustings and other events. It was good that the last tv debate was cancelled. All candidates realised that the format of the C4 and ITV debates were designed to encourage blue on blue rows of a kind which the Opposition will savour and requote and there was no need to help them some more. It is best if the tough debates for the MP part of the contest take place behind closed doors where MPs can ask difficult questions and make unhelpful observations without broadcasting to the Opposition. When it comes to two candidates before the membership there is more of a role for broadcast media, though it would be sensible to favour GB News, Talk tv, LBC and other channels that allow Conservatives to put our case rather than feeding the ratings of channels that try to keep decent Conservative views off their airwaves by exaggeration, twisting, character misrepresentation and interruptions.

As expected Tom Tugendhat dropped out. Today we will go down to three and tomorrow complete the task of choosing the final two. It seems likely the issue to settle is which candidate will take on Rishi in the country? This is a battle over future economic policy, and over whether it is possible to live the Conservative brand of lower taxes, faster growth, more private sector led jobs and investment. Only Rishi is defending an unchanged economic policy based on adding large tax rises to the monetary and cost of living squeezes we already face.

The state of the leadership race

I find it odd to read that Rishi is attracting the vote of careerist MPs who think he is the establishment figure who will win and give them jobs. That cannot be right, as the polls all show he will lose if he is one of any two candidates in the final round with the members. We must conclude that there is a significant body of Conservative MPs who agree with him that we need higher taxes and especially higher business taxes and who think as he does that you can get faster growth from here whilst hiking taxes. That is not a winning strategy either for the country or for the candidate.

I do not know if they all appreciate that Rishi in government did not want us to move away from EU single market regulations for fear of retaliation over trade by the EU. They may not know he was against legislating on the Northern Ireland Protocol as he also feared the EU response. He did not want to legislate to make clear we can fix VAT rates in Northern Ireland as well as the rest of the UK. He did not want to cut VAT on energy, accepting continuing EU constraints on our freedom of tax action. He did not roll out the Freeports he argued so eloquently for on the backbenches for the first day of our exit, and did not want to give them decent tax breaks to make them really attractive. He had to be persuaded to help people with a package of financial support this year to deal with surging energy prices.

Most people think today will be about MPs deciding or getting closer to deciding which of the remaining four candidates should stand against Rishi, though Rishi himself still needs a few more MP votes to ensure a place in the final two. I urge Rishi supporters to think again. I expect Tom Tugendhat to come last this time and drop out. He has performed well and attracted support from people who want a fresh start led by someone who has never held Ministerial office. I think it is asking too much of someone to think they come in mid Parliament to the complexities of Ministerial life without the thorough preparation most people have by being in a senior government position before becoming PM. In the case of a Leader of the Opposition winning a General election who has not been a past Minister they come in after years of planning how to run a government advised by people in their party who have done it in the past. Tom has offered us a ten year Plan to be worked out later. We need a plan for the first ten days from September 6th as we need urgent action to tackle the cost of living crisis.

Why we need growth to cut the deficit

Let me have another go at explaining the importance of growth to all those who follow the Treasury/OBR static model. They say we need to raise a tax every time we spend some more money. They miss the dynamics of growth

bringing more tax revenues and the dangers of higher tax rates slowing growth and cutting them.

In Budget 2021 the Treasury said the deficit for 2021-2 would be £233.9bn. They used this and related forecasts to insist on tax rises for the following year to bring it down. The outturn as reported in Spring Statement 2022 was a deficit of £127.8bn for 2021-2 . So they exaggerated the deficit by £106.9bn . They had made a similar error of overstating the deficit the previous year.

The main reason they got the deficit wrong was they underestimated growth in revenue. The HMRC reported that in 2021-2 total tax revenue rose by a massive 22.9%, far more than the OBR/Treasury model expected. Tax revenue is very sensitive to the growth rate, which outperformed their forecast. They had not put up tax rates that year.

The danger is the OBR/Treasury will lurch from greatly overstating the deficit to understating it as the economy is slowed by higher tax rates, the cost of living squeeze and the monetary tightening now underway. The paradox they need to grasp is higher tax rates could slow growth and so damage the natural growth in tax receipts which you get from a growing economy with a bit of inflation.

The government does need to rein in waste and less necessary spending, but it also needs to promote growth to get fast expanding revenues. 2021-22 shows us that fast growth can come with maintained tax rates and selective tax cuts, clearly assisted by the end of lockdowns. Slow growth or no growth comes from hiking taxes too high, making it more difficult to get the deficit down.