

The Budget judgement

The UK economy grew well until the spring of 2017. Policy was then changed to slow the economy by a combined fiscal and monetary squeeze. In the year that followed money growth halved. The combined effects of the 2016 property tax rises and the 2017 car tax rises damaged activity levels in the two largest purchases people make, homes and cars. The tax effects were reinforced by the reduction of credit availability. Money growth slowed thanks to higher interest rates, the removal of special Bank of England facilities to the commercial banks, and the Bank guidance to lend less on car loans, mortgages and consumer credit.

It is time to lift the squeeze. There is no great inflationary danger lurking in the UK economy. There is only a modest increase in wages. The world background is not inflationary, with some monetary tightening in the USA and the Euro area. This budget should not strive to get the UK deficit down further, and should seek to repair the damage done to individual sectors by past tax rises. The forecasts should be more realistic, after a run of forecasts which exaggerated the deficit.

The Prime Minister has said she will end austerity. This then is the budget to do so. Austerity is not just something in the public sector. It was what Labour delivered with the falls in output, jobs and real incomes at the end of the last decade. It has dragged on for some thanks to the slow recovery and the poor growth rates in earnings since the banking crash. To lift austerity we need to spend a bit more on some public services, and take less tax off people in work so they have more of their own money to spend. The good news is we can afford to do both. The Treasury regularly under estimates incoming revenue, and ends up cutting the deficit more than planned.

The UK has a modest state deficit these days, but a rather bigger balance of payments deficit. I have been more worried about the balance of payments deficit than the state deficit for some time. That deficit needs financing by either selling assets to foreigners, or borrowing from overseas. It has resulted from the very large trade deficit we run with the EU, dominated by large imports of food and cars and by the huge payments we make in EU contributions and Overseas aid. We could grow more of our own food and buy more of our own cars. This will depend in part on what tariffs we put in place for next March – or for any later exit date from the EU.

Ending the EU contributions will make an important contribution to cutting the balance of payments deficit. Today we have to sell a lot of assets to meet those contributions, as it is all money we need to send across the exchanges into Euros. Spending more of the overseas aid on the set up costs of the asylum seekers and economic migrants at home would also be a helpful option. Ending EU contributions also frees up that part of the budget for domestic spending or tax cut priorities.

Whiteknights Primary School announced as an English Hub

I have received the enclosed letter from the Secretary of State for Education. I would like to offer my congratulations to all the teachers & staff at Whiteknights Primary School, which has been chosen as an English Hub:

On 2 October, I announced the 32 schools chosen to be English Hubs, and support the teaching of literacy in primary schools. Each of these schools has demonstrated excellent practice in teaching reading to its young pupils, and has achieved great results. I am writing to you to confirm that Whiteknights Primary School in your constituency has been chosen as one of these hubs.

Each hub school will offer support in early language and literacy teaching to up to 170 primary schools, with a focus on supporting improved teaching in the reception year and key stage 1, particularly for schools with high numbers of disadvantaged children. There will be an emphasis on improving the teaching of systematic synthetic phonics, which evidence shows is the most effective method for teaching the essential first steps in young children learning to read. We know that early communication and language skills underpin later educational success. Five years old children who struggle with language are about six times less likely to reach the expected standard in English at age 11 than children who had reached the expected standard of language at age 5.

Schools will be able to self-refer to the English Hubs programme by filling out an application form with their local hub. Hubs will offer half day showcase events, highlighting best practice in phonics and early language teaching, and will provide financial support to enable schools to buy resources including commercial phonics programmes. Some schools will be eligible for an audit of current provision, and in the second year of the programme hubs will provide an intensive programme of up to 6 days of in-school support in early language and literacy teaching for up to 20 local schools.

We will be funding English Hubs to carry out all the above activity. The precise amounts per hub have yet to be determined though, overall, we are committed to spending up to £26.3 million for the national network of English Hubs.

Yours ever

Damian Hinds
Secretary of State for Education

The UK budget – do no harm

The main thing I want from the Budget is no more damage to the UK economy from new and higher taxes. I see trailed a series of proposals on how to tax us more. There is no need for any such proposals. The government will have reluctantly to publish new forecasts showing, as predicted here, that their last forecasts were too pessimistic and they have raised more tax revenue than they expected. There is no excuse to put taxes up.

Indeed, as often argued here, if they cut some tax rates they would probably collect more revenue from the increase in activity the tax cut generated. In several areas they have imposed rates that are very damaging to output and transactions. As an act of policy they decided on tax hikes to cut Buy to let investing, and to cut diesel car sales sharply. They were successful in both cases. It doesn't mean it was a good idea.

When Mr Osborne proposed extra tax on hot take away food he had to back down in the face of opposition to the pasty tax. His caravan tax was not much more popular either, resulting in an amended scheme. He got away with his big hike in Stamp duties, but we live today with the damage it has done to the housing market. It has put off many people from switching to more suitable accommodation, and has made it more difficult for buyers in the dearer areas to afford a new home. His Buy to let tax has pushed out the smaller investors, favouring companies, but leaving a much reduced demand to buy and provide private rented properties.

This could be the budget when the George Osborne damage is reversed. Let's go back to pre 2016 rates of Stamp Duty, to allow more people to afford a home, and to allow the market for homes to clear better. Why do we want to prevent people trading down to a smaller property, or moving to a place closer to their work? Why did Mr Osborne want to reduce work for estate agents, conveyancers, removal firms, renovators and furnishing businesses, as these all benefit from more transactions? If you tax dearer homes too much you can damage or stop chains of purchases and sales that may be necessary for people buying cheaper homes.

Mr Hammond did damage to the manufacture and sale of new diesel cars in the UK. This was an odd policy, given the government's alleged concerns about car manufacturing over Brexit matters. The imposition of very high Vehicle Excise Duty rates on new diesels provides an incentive to people to keep old diesels for longer, and has hit hard the UK manufacturers who have invested a lot in new cleaner diesel technology and who used to sell a lot of sophisticated diesel cars. The 25% fall in diesel car sales shows just how powerful the tax attack was. In this budget he should go back to 2016 levels of VED to help the UK industry, and to speed the change from dirtier old diesels to cleaner new diesels. The government says it is worried about levels of CO2 output. Diesels remain the better bet than petrol on this

measure.

Cutting CGT would raise more money, as would cutting the 45% top rate of Income Tax. We need Income tax cuts for all, which I will discuss in a future piece.

[Global Britain's new independent poll](#)

The IQR poll for Global Britain asked people for their preferences on leaving the EU. 43% want to leave with no deal, or leave to trade on WTO terms, 31% would like a Canada plus trade deal, 11% want to stay in the EEA, 10% want a second referendum and just 4% support the Chequers proposals. It just goes to show the people remain more sensible than many of the MPs. It has usually been the case in the UK that only a small proportion of the public are keen supporters of the complete EU project, and this is borne out by these figures. The 10% for a second referendum is similar to the Lib Dem vote in the last General Election when they were the only UK wide party offering this choice.

The only poll that matters remains the referendum, when the public were invited to make the decision knowing that leaving the EU meant leaving the single market and customs union.

[The expansion of China](#)

Western policy towards China in recent years has been to welcome her economic progress, to assist her with technology and markets for exports, and to include her more in world bodies and world discussions. China was admitted to the World Trade Organisation on favourable terms as a developing country. She has a seat on the Security Council of the UN as a major power.

More recently President Trump has asked questions about China's approach to trade, investment and technology. He has argued that China has taken advantage of western good will and friendship to cheat on the acquisition of intellectual property. He objects to the asymmetric tariff regime China has been allowed, and has felt their currency has been too cheap to assist their exports. He has become increasingly suspicious of the Made in China 2025 policy which seeks to maximise self sufficiency and to gain access to more crucial technology. He is concerned about China's Belt and Road initiative, designed to increase Chinese political influence across Asia, Africa and the Middle East through strategic investments and partnerships.

China has mainly used calm and reassuring words to avoid these disputes becoming too heated. China has positioned herself as an upholder of world institutions and world rules, confirming that she is happy with the current trade deal she enjoys from the WTO. At the same time China has become much more aggressive throughout the South China Sea area. She has created artificial islands, extended islands and rocks, built runways for military aircraft on them and installed missile facilities. The USA and her allies are seeking to keep open the international shipping lanes whilst being challenged every time they seek to traverse the seas well off China's coast.

The UK is supporting her US ally in seeking open navigation of the South China Sea beyond Chinese mainland coastal territorial waters and shares some of the US concerns. The UK is also keen to develop its trading and wider economic relationship with China. China respects UK services and seeks know how and investment from the UK in those areas, whilst enjoying good access to our goods market. The issue is how should the UK proceed from here?

Is Mr Trump right to confront China over trade matters? What is the solution to the verbal battle of the South China Seas, as US and allied naval vessels are challenged every time they seek to travel in what we regard as international waters?