

# The Treasury is too gloomy

The UK economy has done well in creating many new jobs, generating considerable additional tax revenues for public services, continuing to grow and attracting large new investments from leading companies around the world since the referendum. This has happened despite a series of tax attacks on it by successive Chancellors out to damage the housing and car markets amongst others and against the background of a substantial monetary tightening engineered by the Bank of England. It has been possible thanks to past reforms and thanks to the growth of a large cadre of entrepreneurs prepared to venture their time and their money, and to many people willing to work in new areas and jobs. It has happened with the Treasury and Bank forecasting a recession in 2016-17 that did not happen, and constantly telling us of unlikely negative effects of our chosen policy of Brexit.

This week again the big difference between the Chancellor and the government was visibly on view. This is not a new problem.. He was elected along with all Conservative MPs on a Manifesto which said we would get on and implement Brexit. The Manifesto saw the benefits of taking control of our laws, our money and our borders. It looked forward to spending plans that spend the EU contributions on our priorities, and to trade and migration policies that make sense for the UK and are fair to all parts of the world. The Chancellor thought otherwise and has spent his time in office trying to delay or derail Brexit by recreating as much of our current arrangements within the EU as possible.

The government line on timing was that we will leave on 29 March 2019. Under pressure from the Treasury and others the PM then allowed the government to say that if they reached an Agreement late with the EU, any individual clause or requirement of the Agreement that could not be put in place by 29 March 2019 could slip to a later specified date. She proposed a variable implementation period. This was still not sufficient for the Chancellor who led the charge to demand a 2 year delay in our exit from the EU. The EU pushed this back to 21 months and demanded a high price for this concession. It meant that a Chancellor who is famous for seeking to block any good idea to spend a bit more on a domestic public service that needs it, was happily flagging through a huge new set of payments to the EU in order to stay in it for a bit longer. The absence of effective Treasury resistance to the financial demands of the EU is one of the worst features of their behaviour. One of the main reasons I and others voted to leave the EU is we want to spend the money we send them here at home on a mixture of increased spending and tax cuts to promote faster growth and a stronger economy and society.

Six members of the government and two Conservative Vice Chairmen resigned over Chequers because they rightly saw it granting too many concessions to the EU undermining what people expect from Brexit. Looking at the arguments within government that have spilled over into the press the differences between the Chancellor's views and where most of the rest of the party is are

larger than the disagreements between those who resigned and the compromise position he helped force on the government at Chequers. As this week has made clear the Chancellor is fundamentally against the whole idea of Brexit, wrongly seeing it as damaging to the economy, a central policy put to the people in the Conservative Manifesto of 2017 and a core policy of the government. He should back it and be sensibly optimistic about the economy he helps guide, or pursue his disagreements from the backbenches. He should also reverse the damage his and his predecessor's higher taxes have done in the next budget.

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## In praise of experts?

I did not agree with the distorted version of what Michael Gove said about experts. I find people with a genuine knowledge, enthusiasm and expertise about issues and problems are worth listening to and may be able to fix the trouble. A good doctor can diagnose and prescribe remedies. A good plumber can find the fault with your system and mend it. A good cook can produce a great meal. Studying, practising and keeping up to date in the relevant discipline is an important part of being able to do this.

The politician is the elected generalist who has to judge the expertise of the experts as a legislator and in some cases as a Minister making government decisions. When you are placed in such a position you soon discover that there are in most areas a range of experts you can turn to who may have substantial disagreements about what is good advice. Most government and legislative issues are different from needing to know you have broken your arm where you need a medical support for the bone to heal. They are wider and permit a range of views of how to resolve a problem. There may even be big disagreements about what the problem truly is. The politician has to cross examine the experts, think through the balance of probabilities, and apply commonsense and a judgement about what the public will accept when making the decision.

What Michael was getting at was an even bigger problem in today's world, where a large number of experts in a given field close ranks and all agree about an explanation or a preferred policy where the public is sceptical and where there is a reasonable chance they are wrong. This tyranny of the experts has bedevilled UK economic policy making all my adult life. As an example, for years the Bank of England, many in the Treasury and international organisations told the UK we must join the Exchange Rate Mechanism. I and a few others pointed out it was likely to cause boom and bust and to be deeply damaging. Our credentials and credibility were constantly questioned. The establishment had its way. It duly generated a very predictable boom and bust, with huge damage to the CBI businesses who had supported it and to many workers who lost their jobs. The same tyranny of the experts disagreed with rather more of us who said the credit boom of

2004-7 was unsupportable, only for us once again to be proved correct. The experts also ganged up to try to get us to join the Euro, which would have done grave damage to both the UK economy and the Euro had we done so. Fortunately the public was more sensible than the experts and made it impossible for government to join.

Ministers and MPs do have to stand up against the united voices of experts who have all collectively backed the wrong explanation or policy. That requires insight and courage by the elected officials, who will always be told they have no right to gainsay the experts, by of course those same experts. The media often makes this more difficult for the politicians. I had to spend much of my interview time during the referendum defending myself from the media complaint that I must be wrong and the so called experts right when the Treasury forecast a recession with 800,000 job losses for the winter immediately after a Leave vote. This as I expected was a completely false forecast, but at the time the media went on asking who I was that I dared to contradict the Treasury and the IMF. I used to point out I had been on the right side of the forecasts over the ERM and the banking crash with the Treasury and the Bank on the wrong side, but the media didn't care. They suffer from expertitis. If all the main experts agree the media just argues their case. The media never gives experts the difficult and challenging interviews that they rightly give to politicians.

We now have the same again over leaving the EU. So many experts gang up to tell us the world has to stay exactly as the EU has designed it. They are once again making a huge misjudgement. Fortunately the public are more sensible than the experts in this matter, so they tell us just to get on with it.

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## **The Chancellor gets his big fiscal consequences of leaving wrong- we will have £39bn more to spend!**

The Chancellor's re use of silly forecasts by the government this time admits that the model they use "is not well suited to analysis of short term developments". That as near as we get to an apology for the disgracefully wrong forecasts of the aftermath of the referendum they used to try to frighten people into voting to remain.

He just says in 15 years time there will be a bit less growth and tries to convert this into tax loss. Meanwhile he studiously refuses to argue the case in government which he should be arguing, that there is no way we should give £39bn to the EU when leaving! Now that would provide a great boost to our economy in the short term, as we could start spending it in April next year.

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## Deal to some means signing a dreadful one sided Withdrawal Agreement – why would we want to do that?

I am against us signing up to the draft Withdrawal Agreement. It is all take and no give from the EU. We do not owe them money after we have left. Why offer them £39bn for nothing?

Some in the government say they will only recommend signing the Withdrawal Agreement if there is at the same time a Future Partnership Agreement. Others in government accept under questioning that there will be no such Agreement drafted and ready to sign at the same time. The best they expect is some kind of Heads of Terms, or more likely an agreement to talk about such an Agreement. So why would anyone conducting sensible negotiations sign the Withdrawal Agreement without seeing a completed Future Partnership Agreement, or at the very least enforceable Heads of Terms which secure sufficient to justify the Withdrawal Agreement?

I do not see what in the proposed Partnership Agreement justifies the idea that we should pay them £39bn anyway. The essence of the Partnership Agreement is likely to be a Free Trade Agreement. That is in their interests more than ours given the imbalance of trade under the current tariff free model. No country pays another for a Free Trade Agreement. Canada did not pay the EU to sign its pretty full FTA with them.

The proposed Partnership from the UK side also ranges widely over Intelligence and Security, where we contribute more than the EU does, and over criminal justice co-operation where countries do not pay each other to enter into extradition agreements.

The debate about so called Deal or No Deal is a mis description on both sides. Deal as envisaged by the EU is not a deal. It is an insistence that the UK signs up to a penal Withdrawal Agreement, to be followed by 21 months more business uncertainty as the two sides haggle more about future trading arrangements. No deal is not no deal. It will be a series of decisions to carry on trading and working across the Channel using the World Trade Organisation, the Chicago Convention on aviation and other international agreements and bodies to ensure smooth passage under an internationally approved system of governance.

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# The government taxed more than it spent in July

This week the latest figures for UK borrowing showed that in July the UK government collected £2bn more in tax than it spent. As predicted here, the four month figures for the year to date also showed continued outperformance of the borrowing target, with borrowing so far in 2018-19 £8.5bn below budget. The favourable outcome was entirely down to a further surge in tax revenues as the government continues with its budget strategy based on big boosts to tax revenue. Tax receipts were up by 6.6% in July.

The position could be even better if the government would reduce some of the tax rates it imposes. It could collect more higher rate income tax, more Stamp Duty and more CGT if it lowered the rates.

What I would like it to do is to increase public spending in the priority areas I set out recently, increase tax revenues by cutting over high tax rates,, and reducing spending in other areas. The government's financial position could be transformed if it leaves the EU without a Withdrawal Agreement payment. It could be further transformed if it cancelled HS2. Just leaving the EU without a Withdrawal fee would save £39 bn, allowing tax cuts for all of the kind where there is a cost to revenue, spending increases on schools, NHS, defence, a universal digital signalling expansion of railway capacity, more and better road capacity , and elimination of the deficit.

My critics here complained I just wanted to spend more and didn't care about the deficit. It would be easy from here to cut taxes for all – as well as cutting tax rates that do raise more revenue – increase spending and have a lower deficit. That is what I am recommending.