Water supply and floods

Yesterday I met Thames Water and reaffirmed the need for more action to be taken to ensure adequate water supplies for the south-east by adding to reservoir capacity. I also urged more retention of water in reservoirs or areas where it can be stored during periods of heavy rainfall and swollen rivers to reduce the flood risk.

Retail sales keep on growing

Today we will hear how non food sales in February fell. This is to take the British retail Consortium figures of sales for non foods on a like for like basis, adjusting for expansions in shop space. The overall true figure is total sales of all items grew by 0.4% on the month, with food especially strong showing growth of 2%. Non food was affected by a later date for Mothering Sunday delaying purchases compared to last year.

Many shops continue to be pessimistic, as more retail spending takes place on line rather than in shops, and as severe competitive pressures keep down prices.

How could the Chancellor help raise productivity?

The budget is billed as helping drive productivity higher. That would be a good idea. If we work smarter as a country then each person can earn more. The government seems to have in mind labour productivity in its plans, though making productive use of capital, energy and other inputs also matters and can help make a country richer if done well.

The way to encourage smarter working and higher earnings must begin with fair taxation with low rates of tax on enterprise and effort. Politicians of all parties regard work as a good, yet all agree it must be taxed. Given the volume of public service we want as a country, it is true there has to be some tax on work. It is also true that if you tax work too highly you send it abroad, you persuade higher earning people to value leisure time more, you encourage early retirement. I trust the leaks about higher National Insurance for the self employed are just Treasury officials greedy for revenue and not inspired briefing. Starting a productivity drive with a big increase in taxes on some of the most productive people in the economy is not a great idea. Small and new business offers us scope for major adjustments in our economy and improvements in its performance. It is the new fast moving smaller businesses that often pioneer the modern more productive techniques and technologies, offer the new goods and services, and use labour well. Cutting marginal rates of tax on enterprise, employment and business success will encourage more of what we need.

In both manufacturing and clerical work providing more machine power and computer power at the elbow of each employee raises productivity. UK productivity in factories in recent years has surged as elsewhere in the advanced world. What was done by hand and arm power in a sixties factory is now often done by robot or mechanical power. What was done in an office by people on typewriters, calculators and adding machines is now done by computers and electronic programmes with less human intervention. The full internet revolution has further to run to automate and take more of the routine out of office and factory working. The new jobs will be in machine minding, programming, managing and reviewing the output, and in designing and selling.

The waves of change that are often ascribed to imports and foreign competition also have been driven by automation. A more productive economy has to welcome these waves of technical progress and adopt more machine power to compete. It is then equally important that those who have lost their jobs as a result ar helped and trained to undertake the many new roles a machine driven culture produce. What can a Chancellor do to bring this about?

He can and should concentrate on helping the public sector to adopt the new ways of doing things that will be smarter, higher quality and more efficient by using computer power. Productivity performance has been disappointing in the public sector this century. He can and should with the rest of government to do more to ensure the casualties of such changes are also winners, by backing retraining and recruitment into the new more productive jobs investment can spawn.

[“A £60 billion Brexit fund”?]

I awoke to an odd headline yesterday in the Sunday Times. The Chancellor we were told is going to set up a £60bn Brexit fighting fund.

Fortunately the Chancellor’s own words in the same newspaper said no such thing. It was a silly headline. The government is scheduled to continue borrowing a bit more each year up to 2020, beyond our likely date of exit. The additional borrowing each year is now well down on the peak rates of the previous decade, and will continue to fall this Parliament. All the time we are adding a bit to state borrowing we cannot create a fund out of tax revenues.

Nor did the Chancellor write that there can be no net increase in spending in the March budget. He acknowledged that growth has come in faster and the revenues higher than forecast in the Autumn Statement. He has pre announced more money for vocational training and hinted at more spending on social care. He of course states his wish to see continued progress this Parliament in cutting the deficit further but has not said he wishes to stop all new borrowing. He will have some options as the Treasury and OBR correct some of their forecasting mistakes from the Autumn.

The headline about a Brexit fund is doubly misleading. The sum involved just happens to be the sum the rest of the EU would like us to pay as an exit payment. That is why we must rush to explain to them there is no such fund, no such money, as well as telling them there is no liability for us to have to pay. Nor does Brexit require a special fund. The future path of the UK economy is going to be mainly influenced by interest rates, the performance of the US and global economy, world commodity prices and their impact on inflation, and by the balance of domestic fiscal and monetary policy. In other words after Brexit as before the main determinants of our performance will have nothing to do with whether we are in or out of the EU, just as our past performance clearly got no visible benefit out of being a member of the EU internal market. Inflation is rising as many have predicted, but so far UK inflation has risen in line with US and German because it is led by world oil prices, not by the fall in sterling.

In the EU we experienced two great crashes. One was caused directly by EU policy when we fell out of the mad and dangerous Exchange Rate Mechanism and plunged into recession. The second, the Great Recession and banking crash of 2008-9 was a common crash in the USA, the Euro area and the UK brought on by similar Central Banking and commercial banking mistakes in all three zones. The EU did not cushion or ameliorate the problems, and then added their own twist of the recessionary knife with the Euro crisis that followed.

Let’s hope our authorities have learned from these bitter experiences so we have a good economic performance as we leave the EU. To do so we need interest rates that allow continued expansion without damaging the pound further, as the US hikes her rates. We need some relaxation of credit for good projects, home purchase and other affordable purposes in the private sector, and we need accelerated rates on investment in infrastructure to catch up with our needs.

Let’s have a budget for prosperity

We need to move on from austerity. The Treasury needs to write back some of the tax revenue it will collect over the next couple of years, that it took out of the forecasts in the Autumn Statement. It was too gloomy then. It needs to spend enough on social care, schools and the NHS to provide a good service. It can make spending reductions elsewhere, starting with the EU contributions and other items I have highlighted on this website.

It also needs to unleash more infrastructure investment. Much of this in energy, broadband and some in transport can be privately financed. The government may need to assist with loan guarantees, permissions, licences and co investment. It needs to do more to promote enterprise through tax cuts. It has a programme to raise the 20% and 40% tax thresholds for Income Tax. It would also be wise to cut Stamp Duty rates to help homebuyers. It could offer entrepreneurs and small businesses additional tax relief.

Mr Trump’s plans to increase infrastructure spending, cut personal and company income tax rates, and relax banking controls to allow bit more lending all make sense. The UK is already well ahead of the US in lowering corporation tax rates for large companies, but needs to sharpen its competitiveness for start ups and smaller companies. We should tax work, effort and enterprise less, as we want more of it.