What economic policy now? (written for Telegraph)

The abrupt decision to sack the Chancellor and to signal a 31% hike in business taxes was a bad idea. It leaves the government searching for more to fill its Growth strategy. The political debate over the growth strategy is now even more fevered and not well informed. Critics of the tax cutting plans assume the borrowing levels that result will be too high, and lasered in on wanting to hike Corporation tax to correct the elusive number they use for the alleged excessive borrowing. They should wait to see the spending plans, and to read the government's considered forecasts of what might happen to revenues and outgoings as a result of all the changes. The new Chancellor needs to work up convincing spending, taxing and borrowing numbers with OBR assessment. The OBR need to get a lot better at forecasting deficits as they are so crucial to tax judgements.

It is clear that after two years of wild pessimism about likely borrowing by the OBR, this year their forecast for borrowing was too low. I have found myself having to disagree with OBR forecasts three years running. The truth of the current situation is whether we raise Corporation tax or not, borrowing this year will be considerably higher than forecast. The main reason is the cost of the energy package. All agree we need to do enough to help hard pressed consumers and businesses. Forecasting the cost of the current scheme depends on the gas and electricity price over the winter, which could ease the costs or could escalate them. Tweaking the scheme to limit all household consumers to the controlled price for a specified amount sufficient for the average house could cut costs a bit, charge better off consumers with large houses more on the extra fuel they burn, and be a further incentive to reduce fuel use. We need to be generous to those on low incomes but careful with overall spending on this package.

The choice we are making is do we hike taxes now with the likelihood that this would intensify the downturn and lengthen a possible recession, or do we provide more offset to the downturn through a mixture of financial support and tax reductions? Arguably we will have lower overall new borrowing if we offset some of the downturn than if we rush into tax rises. The economy is going to slow whatever taxes we set, as the Bank of England is determined to drive interest rates and mortgage rates up whilst the high energy prices are like a huge tax rise on all of us. The more we pay for energy the less we have to pay for other things, and the fewer jobs and incomes there will be supplying the discretionary items that many have to give up. As mortgages are forced up so mortgage holders can afford less. Tax rises will deepen the downturn and slash the revenues as a result.

Amidst all the extreme argument there is some agreement. Most MPs agreed with cutting National Insurance as we do not need a higher tax on jobs at this juncture. Most MPs agree with the general principle of offsetting some of the impact of the energy price hikes to stop a worse downturn. The idea of a Growth strategy is still a good one. If the economy grows faster we get more revenue and have less spending on benefits as more people have better paid jobs and more are in work.

Instead of trying to undermine the Growth strategy the critics should be urging it on and demanding more action. We still await the details of the investments, regulatory changes, incentives, Enterprise Zones and the rest that it will need to boost our capacity, increase domestic energy and home grown food and expand industrial capacity. I want to see a bold set of measures, alongside a budget that tells me what the income is likely to be and what will be spent. Anyone who wishes our country well would want this too. Rushing to make the UK a less desirable place for businesses to invest and create jobs would not be a good start to such a strategy. When we know the whole package we can discuss its balance. We cannot afford tax rises, as these will worsen the downturn and cut the overall revenues.
