What is Treasury orthodoxy?

Ever since the Maastricht Treaty the Treasury official advice has been a version of the Treaty controls on EU economies. These were designed for countries in or planning to join the Euro, so they were answering the question how do we get these economies to converge. They were not designed to optimise the growth/inflation outcomes, and usually entailed the target economies running with considerably higher unemployment than countries on different systems. It was only when covid and lockdown allowed the Euro controllers to undertake large QE schemes creating huge liquidity did the EU abandon the Maastricht criteria, and go for a mixture of much faster inflation and a temporary fall in unemployment from stimulus.

The two controls were to limit the budget deficit to a maximum of 3% with a lower average deficit across the cycle, and to try to get state debt down to 60% of GDP. This became more fanciful as the years rolled on, so the new aim is to get highly indebted states to start reducing debt as a percentage of GDP. The UK followed this with fervour, with an annual debate on progress and full reports to the EU, even though it had no intention of joining the Euro and did not face the same penalties for Treaty breaking on deficits as Euro members did.

Out of the EU the Treasury has reformulated these two controls, but they remain similar. It is now clear that in recent years they have not led to a combination of low inflation with good growth. The official forecasts have tended to be too pessimistic about debt and deficit levels leading to a bias in policy to higher tax rates than needed. There is also the issue of whether some higher tax rates are in themselves self defeating, leading to less activity and lower revenues than a growth based model would produce.

So Treasury orthodoxy at its worst conjured up a National Insurance Tax rise to come in in April 2022, a tax on jobs and a hit to real incomes at exactly the point where high inflation was undermining real incomes anyway. The official view was we needed to raise an extra £12bn and this was a good way to do it. Then they discovered an extra £77bn last year in tax revenues over forecast.

Any sensible economic policy aims to control public spending by concentrating on priorities and seeking good value for money. Excessive borrowing is not a good idea, and a control over how much tax revenue goes on servicing debt is a wise precaution. Good budgets and a strong Treasury value for money based Spending Control department is important. If the aim is to see off a possible recession higher taxes are a very bad idea. If you wish to have a lower deficit then more growth is a good way to achieve that.