

Prosperity not austerity

On Thursday I set out the opportunity we have to set a new fiscal framework or economic policy once we are free of EU Treaty requirements. They have made us run our economy with the twin aims of cutting the government deficit and cutting state debt as a percentage of GDP. Labour, the Coalition and Conservatives in government since 2008 have accepted these imperatives and set the debt and deficit targets as required.

I recommend that the purpose of economic policy is changed to

The promotion of higher living standards through the growth in real incomes for all

The target should be

Government policy should aim to achieve over the next ten years a rise of one fifth in average individual spending power. Average net incomes should rise by one fifth plus the amount of inflation as measured by the CPI(H) index

The government should also continue to be prudent with public finances. It should adopt a Balanced budget rule. This should say

The government will ensure it collects enough revenue to pay for all current spending. It may apply a symmetric cyclical stabiliser, running a surplus during good growth and a deficit during a bad recession.

The government may borrow for public capital expenditure purposes. Each project approved must meet an appropriate test to establish it will make a decent economic return or to establish its importance to the provision of an approved list of public services free at the point of use.

This new fiscal framework would allow us to reduce the tax burden today to boost real incomes and promote more growth as a result