Prosperity not austerity

When the new government announced its economic aim is to promote growth and prosperity it heralded a most important change. It was a change I had pressed for for several years, meeting with disapproval from Mr Hammond.

The old government had as its main aim the reduction of debt as a proportion of GDP. This requirement of the Maastricht EU Treaty forced the government to constrain public spending too much and to keep tax rates too high. Indeed it often encouraged Mr Osborne and Mr Hammond to impose new taxes that were economically damaging, like their Stamp Duty and vehicle Excise Duty hikes which hit the homes and car markets.

Now the promotion of growth is the aim it allows the government to make selective increases in public spending in areas like health and schools where increased capacity and higher quality requires more and better paid staff. It will also require more tax cuts on earning and on transactions in our economy.

The official machine has clearly hit back a bit against the welcome revolution. It has placed a weaker version of the debt control back into the fiscal framework saying that over a five year period state debt as a proportion of GDP should decline. This is an improvement on needing an update of the position of state debt every time there is a new forecast with adjustments made in the short term. At each forecast there is an OBR admonition and a new pledge from government to get the debt down.

I support the control that says all current public spending must be paid for out of tax revenues. Allowing borrowing for capital investment is fine. It does require good capital investment assessments and good controls over build costs and project management. Some of these need improving as the government plans more public investment.

Meanwhile we await some signs from the UK economic establishment that they recognise the rest of the world is engaged in a battle to prevent the slowdown turning into something worse. Today’s problem is not the threat of too much inflation, but too little activity. The rest of the world is cutting taxes, boosting liquidity and cutting interest rates. The world should escape recession as a result.

In the Eurozone Mrs Lagarde has stated that she thinks the negative interest rates, money creation and bond buying they are still doing is as far as the ECB can go. She wants some fiscal relaxation to boost growth.