[Going for faster growth – how the government can help]

Growth mainly happens thanks to free enterprise and the opportunities of the market. Governments can help at the margin, and can hinder in so many ways if they follow anti enterprise policies.

I have been arguing in recent posts for two straightforward ways the government can help. It can spend more on items like transport capacity and education which make a direct contribution to a more productive economy. It can cut taxes that get in the way of enterprise and impede work.

In more detail, the government should take advantage of our exit from the EU to give UK competing businesses more scope to win government contracts. Strict application of EU procurement rules in the UK has meant the public sector buys many cars, machines and other supplies from continental producers. Who sees the French or German official buying a UK made car? A new Uk system should of course encourage competition to ensure innovation and keen prices for taxpayers, but it should also be friendly to competitive UK based businesses. We have started to demand more UK content in rail procurement for example, and have used the exemptions in the EU scheme to allow UK provision of much of our defence equipment in areas like naval vessels.

Intelligent buying by government can commission product for UK purposes that could also have an export benefit by selling the same or similar to overseas interests.

The UK needs to have a sensible approach to new borrowing. Borrowing huge sums for a large project like HS2 which is unlikely to generate revenues to service it is not sensible. Borrowing lesser sums at very low rates in the public sector today to build more cost effective road and rail capacity would be sensible. UK state debt is under good control when you adjust the totals for the £435 bn the UK state has bought in and owes to itself.

The best thing the government can do to promote growth is to cut tax rates on work and enterprise. The next thing it can do is to use the money it raises in taxes to employ people at home and provide services and incomes here instead of sending it to the EU.

[Getting the economy growing faster]

The combined policies of a fiscal squeeze – eliminating the deficit – and monetary tightening – cutting back on car loans, mortgages and consumer credit – has predictably slowed our growth rate in recent months, as forecast here. Last year the government produced a budget where the deficit undershot by £19bn over the course of the financial year. The Chancellor could report much faster and better progress with cutting the deficit, but in so doing took more money off us in tax than planned which helped slow the economy.

If he had spent all the £19 billion on a mixture of lower taxes and higher spending as identified in recent posts, there would have been up to a 1% boost to output. This in turn would have generated more revenues, allowing the deficit to come down a bit as well. The good news is this would reduce the amount of extra borrowing a bit more. The amount we borrow is quite sensitive to the pace of growth of the economy. When growth speeds up more revenue comes into the Treasury from people earning and spending more. As more people get into jobs, so the cost of their benefits goes down.

The UK economy has the potential to expand at more than 2% per annum, so we should be aiming to boost its current growth rate which is below that level.

Raising productivity – a policy all claim to like in general

If we work smarter we can be paid more. That is the simple message behind the economists' idea of raising productivity. Today there is plenty of scope to do just this. Robotics, the digital revolution, powerful computers all allow an individual at work to have more machine power at their elbow. More of the drudgery can be done by machine, leaving individuals to do the more interesting things that require talking to clients and customers, making decisions about product and output, and organising production.

The area of the economy that has been most disappointing in the last 20 years for productivity growth has been the public sector. Of course we want quality to rise, and do not wish to scrimp and save on teachers or doctors. That still leaves plenty of scope to run the NHS or the education system more effectively. Quality and efficiency often assist each other. High quality means less waste, getting things right first time, doing things well in a way which maximises the use of resources.

The productivity problem lies behind why the government must ensure in its directly managed NHS that it gets good value for the extra money. Some of the money should be spent on systems and digital age equipment which makes it easier for trained staff to do their jobs and helps them control and audit the quality of what they do.

Those who see productivity programmes as excuses for cuts and less spending need to be reassured that proper productivity programmes create more worthwhile work, and go with the grain of all staff who want to raise performance.

Growing faster – cutting taxes on transactions

The government has developed a bad habit of increasing taxes on transactions. It now penalises people heavily if they buy an expensive new car. It hits anyone investing in rental accommodation for others. It penalises anyone who buys an expensive home or who needs a second home to help with their work or provide for their holidays. High Stamp duties have cut the volume of property transactions, and high VED has helped slash the purchases of new cars.

It is doubtful these tax rises have produced additional revenue. Clearly lower volumes of transactions reduces revenue, though there are some offsetting gains from charging much more on the transactions that survive. There are also hidden tax losses. The property taxes mean less Estate agent and conveyancing income, less turnover for removal firms, less business for builders, decorators and home designers serving the needs of people moving and wishing to adapt their purchase. As car sales fall so there are losses of turnover and profit for car businesses.

The government should review its current transaction taxes and seek to find a level which does less damage to turnover and related activity. Cutting the duties would increase total revenue, and might even increase the revenue from the turnover taxes themselves , given the penal levels some now run at.

Growing the economy faster – cutting taxes on incomes

Government try to persuade us that they tax us to stop us doing things they think get in the way of a good life or damage the environment . So they single out smoking, drinking, driving and other conducts they do not like for taxes in the hope it will deter or reduce our activity in the penalised area. Those same governments claim to support work, and think work is good for us and for our neighbours who benefit from the work we do. So why then do they tax work so much?

They say they do not mean to deter us from working, but point out they need the money. They have to tax good things as well as bad things. They then claim to want to tax them in a way which wont be too damaging – unless they take a socialist position that high paid work is immoral or wrong. I agree that work is generally a good thing, providing incomes for people and interest to their lives. Many people get a sense of achievement out of producing goods and services others want, and enjoy some of the social contact that the workplace provides.

Under the Coalition the government recognised the need to make work more worthwhile, and did so by concentrating on taking more low income earners out of Income tax altogether. Today the Conservative government has choices. It could do more of that, or it could cut the rates. There is something to be said for rate cutting. If the marginal rate comes down working more is more worthwhile. Well done it might even bring in more revenue. Cutting the 45% top rate to 40% would tax the rich more – the cut from 50% to 45% as predicted here did bring in considerably more revenue. Cutting the 20% rate in stages to say 17.5% would provide a boost to most incomes in the country, increasing spending and activity. It too might boost revenue overall, when taking into account the extra revenue from VAT and other duties placed on transactions.

The USA, Italy and France are all going for tax rate cuts. The US economy is growing faster as a result, and the French economy is also doing a bit better. We need to catch up with tax cutting, so we do not become uncompetitive.