There's no need for austerity

The Chancellor tells us in his Autumn Statement the fiscal deficit is still around £70bn, which means there is a lot of pressure him to continue with George Osborne's austerity programme, including cuts to benefits and essential public services. But it has been as much this austerity programme as our EU membership, though of course the two are linked, that has generated such anger amongst those on low wages and which helped win the Brexit referendum. If austerity continues, with or without Brexit, that anger will only build further and disillusion set in.

The irony is that there is in fact no need for austerity at all. I am defining austerity here as being further cuts to essential public services and welfare or increases in personal taxation. We can balance the books without it. Here's how:-

Application of Funds	Notes	Timescale (yrs.)	£'bn
Current deficit	1	20	70
Income tax and welfare reform	2	10	50
Introduction of structural regional policy	3	5	50
Reconstruction of public services	4	15	60
Maintaining state pension triple lock	11	20	20
Total additional funds required:			£'bn 250

Source of Funds	Notes	Timescale (yrs.)	£'bn
EU Budget contributions saved		1	10
Post-Brexit import tariff revenues	5	1	25
Charging multinationals CT on basis of global profits	6	3	20
Introduction of Resource Management for public services	7	4	15
Use of SWF for self-funding infrastructure projects	8	10	30
Introduction of National Credit Card for public services	9	15	75
Phasing out of Tax Credits system	10	20	25
Pension reform	11	20	15
Real economic growth	12	20	35
Total additional revenues:			£'bn 250

Notes:

1. All these figures are necessarily very broad brush and a new (or enlightened!) Chancellor will have a lot of number crunching to do to tighten them up. Not only that, many of the larger revenue items build up progressively over the longer term as indicated, which means higher interest costs on the national debt. Even so I have allowed for contingency throughout, and I believe the national debt, including any additional interest

thereon either from cash flow timing or interest rate rises, can be fully hedged by a Sovereign Wealth Fund (SWF) over the remainder of this century.

2. My proposals for income tax and welfare reform are contained in my earlier post "Breeding for Benefits and Welfare Reform". These reforms taken together will be crucial to delivering on the promise of Brexit. I was gratified to see that Mr. Hammond has reduced the clawback rate to 63% and we now know the cost is only £bn. That means that the reduction to 33% which I advocate, though not necessarily all at once, will cost £15bn which is well within my estimates above, as is the cost of increasing the earnings disregard.

3. My proposals for the introduction of a strategic regional policy, with the aim of achieving in due course an even level of percentage employment across the land, post-code by post-code, are contained in my earlier post "Housing, Regional policy and the Dis-economies of Devolution". Essentially this involves introducing a second personal allowance into the income tax system related to local levels of unemployment. Again such a policy will be essential to delivering the promise of Brexit, as well as reducing the prospect of Scottish nationalism as part of a one-nation approach to setting a minimum standard of living across the whole UK.

Both the above two reforms will have the effect of reducing the level of unemployment at which inflation starts to rise, which also has the effect of reducing the average level of unemployment over the course of an economic cycle, and thus how much of the deficit is cyclical rather than structural. However I have not taken this into account or allowed for the creation of a cyclical surplus for when unemployment is below the cyclical average as this surplus would be unavailable for spending. Broadly I am assuming that unemployment is currently at around that cyclical average, but to the extent it is still above that point, as I have previously argued, there will be some additional revenues which for this purpose I am simply regarding as additional contingency. Without accurate un- and under-employment figures it is difficult to assess where we are at present.

4. Austerity has decimated our public services and undermined attempts to put in place effective border controls. This plan assumes their reconstruction and the aim of delivering first-class services for all, but see also Note 9 below.

5. See my article "There is no such thing as a soft Brexit" on ukipealing.com.

6. There is no point in reducing corporation tax rates on the false assumption it will make the UK economy more competitive so long as multinationals continue to transfer-price their profits elsewhere. We are losing out on both counts that way. Better to maintain a strong rate of corporation tax, say 20%, and then ensure it cannot be avoided. If global profits, apportioned on the basis of national to global turnover, rather than national declared profits are used, the tax cannot be avoided because they cannot take their UK customers with them, nor could they avoid apportionment of internet sales. Ideally the assessment of taxable profits should be carried out by the WTO, with each country applying its own rate after allocation, but we don't have to wait for that. A multinational would be defined as any company having turnover in more than one country, irrespective of where staff are employed. Double taxation is not our problem. See earlier post "Greece, the Eurozone and World Trade".

7. See my post on "The Management of our Public Services". For example, I continue to be amazed that NHS England, the largest employer in the land, still does not have a Human Resources director on its board!

8. See my post on "Pensions" for one of a number of articles I have written on the necessity, opportunity and possibility of setting up a Sovereign Wealth Fund to hedge our national debt and future unfunded pension liabilities. It could also be used to finance, at 5%, infrastructure projects (which should be subject to that rate as a self-funding viability test using suitable user charges), provide working capital for the National Credit Card (see note 9 below) and equity for technological development projects.

9. See my post “Financing the NHS and other public services”. The introduction of a National Credit Card to enable the private sector to be used, as a voluntary option, on a means-tested basis instead of the supply-side public sector could fund eventually up to around a quarter of the cost of these services, as well as providing a strong incentive through the purchase decision in an open competitive market to improve both quality and efficiency. It is those improvements which I believe will drive the migration away from the supply-side services, and adjustments to the means-test gradient will facilitate an orderly and gradual transfer.

10. Back to “Breeding for Benefits and Welfare Reform”. I advocate that working tax credits be replaced immediately by a big increase in universal credit earnings disregards (far easier to understand and therefore a much more effective incentive to ‘make work pay’), and that child tax credits, which have led to birth rates to those on benefits being on average double those who are not, be phased out over eighteen years by the simple expedient of not allowing additional children onto the register. In any case tax credits are an expensive duplicate system which does not offer anything the universal credits system cannot. I am not advocating any absolute reduction in the welfare budget (other than will be brought about anyway by a fall in unemployment – see notes 2 and 3 above), but a rebalancing between adult and child benefits. Indeed increases in welfare payments are almost certainly the most effective form of fiscal stimulation when that is required.

11. See again my post on “Pensions”.

12. I have only allowed for around 0.1% pa average growth above inflation here, partly as further contingency and partly because much of it will disappear again in the form of increases in public sector pay.