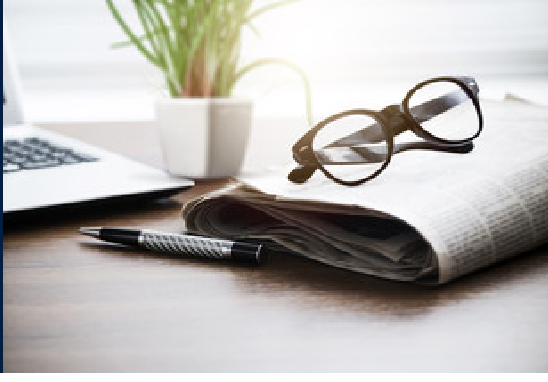
The UK Budget - it didn't need to be like this



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The superlatives to describe last month's UK Budget are too numerous to list, but finding positive commentary has thus far proved a challenging task. It is therefore regrettable that the budget could have been so different.

I will start by being fair to the Chancellor. She is operating in a tough economic environment, productivity growth has been anaemic for over a decade which constrains tax revenues, government debt is high and climbing, inflation remains stubbornly high, and we have an ageing population, all of which significantly limits her room for manoeuvre.

Many of these factors are not the Chancellor's fault and even when she has tried to do the right thing, such as removing winter fuel allowances from better off pensioners or implementing modest welfare reforms with the then Work and Pensions Secretary, Liz Kendall, to reduce control the deficit, she has been undermined by the Prime Minister. This is scarcely believable given the scale of the Labour majority in the House of Commons.

That said, both the Chancellor and the Prime Minister must take full responsibility for two significant economic follies. The first is that they do not seem to be learning important economic lessons. Last year, between the general election in July and the Budget in October, the Government created significant uncertainty with the £20 billion 'black hole' they claimed to have uncovered. This negatively impacted business confidence which reduced investment and recruitment. That should never have happened and was a rookie error, but the fact that they made the same mistake again this year is unforgivable.

The second folly is that both budgets to date have lacked a coherent approach to growing the economy. Increasing tax rates is the hard way to raise revenue, instead economic growth should do the heavy lifting. Importantly, many European governments have also failed on this issue over several years, but this government came to power with the promise to restore economic growth.

A more coherent fiscal policy to support economic growth requires clarity and consistency. This provides greater certainty for businesses to manage risk and whilst lower taxes would always be preferred, there is recognition that is not possible in the current climate.

However, businesses have a reasonable expectation that the policy direction is clear and surprises are minimised. Historically, budget announcements have held very few surprises as most policy changes are trialled well in advance, but on this occasion proposals were floated, tested in the media, then dropped or watered down within days because of the response from the Government's own back benchers. Irrespective of whether you agree or disagree with the individual policies announced, that is no way to run a government.

Fiscal policy, particularly when spending is constrained, also needs to be aligned with a public service reform agenda. This has been an issue for a significant period and was a big criticism of George Osborne's budgets when spending constraint was imposed without any meaningful reform. The salami-slicing approach to budgets was politically easier in the short term but damaging in the long run.

The disappointment is that a Labour Government, with a large majority and increased spending plans, did not combine that with a wide ranging reform programme. Both sides of the political divide should agree that maximising public service delivery and value for money should be a priority, and it has been overlooked for decades.

The irony is that the Budget didn't need to be like this. Setting aside whether the Chancellor misled the public, the Government certainly created the perception that the public finances were in a worse state than transpired. They turned a win into an own goal.

In addition, lost in the noise are positives from the Budget. The first is that the government seems to be promoting and protecting investment spending. In particular, increased budgets for UK Research and Innovation in technologies such as bio-tech and improved regulation of the nuclear industry, an essential component to achieving net zero targets.

The Government's proposed Planning and Infrastructure Bill currently making its way through Parliament also merits mention. Too often large investment projects take too long to deliver because of issues around planning and if the Bill works as intended, it could be this Government's most important economic growth policy – and it does not cost money to deliver.

The second positive is a technical point, increasing the fiscal headroom from £10bn to £22bn is important. The £10bn headroom from last year was too low, which meant that any negative economic news or downgrading of forecasts created significant problems for the Treasury and in turn the need to increase taxes was never out of the news.

This created the uncertainty that held back business investment for the last 6 months. With greater headroom this time around, the uncertainty that preceded the last two budgets should not be an issue again next year.

Perhaps more in hope than expectation, but if only this government could stop making mistakes, there could be some basis for green shoots ahead.

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