

Chancellor can still end our economic decline

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EACH year, the punditocracy announces that this is Gordon Brown's last Budget and each year it gets it wrong. Today will see Brown's 10th Budget – a record. The Scotsman's big achievement at the Treasury has been stability. Yet all is not well with the British economy. Some of us may have lost the plot, but the truth remains that to be competitive in the 21st Century, Britain needs far reaching structural economic reform culminating in a smaller state.

What we desperately want is a Budget that starts to address the long-term priorities; housing, pensions, tax, productivity and above all, boosting economic growth.

Affordable housing:

Property inflation has distorted and undermined the UK economy. In the last 40 years, there has been a massive inter-generational transfer of wealth from the young to the old via the high street banks and finally back to the state through inheritance tax. Consequently, household debt according to the Bank of England now stands at £1.168 trillion – slightly larger than gross domestic product. Although people are earning more, housing is one area where it would be right to say Britons have become measurably poorer. A recent series of papers from Policy Exchange has made this clear. To his credit, Brown has recognised that Britain needs more homes built to bring down the price of property. And Kate Barker who has conducted a housing review on his behalf, has managed to attract a pan-political following in making the case for building more homes.

Yet building more homes with Britain's tortuous planning laws takes time. Brown could act now to lift the Inheritance Tax threshold to £500,000 from the paltry £275,000 at present. The vast majority of the 2.5 million households – now in the North as well as the South – are, typically, anything but rich. More often than not, they are cash poor and have failed to plan for inheritance tax.

Richer pensioners:

By rights, at the end of a working life, workers should be rich from their accumulated assets and savings. That we in Britain seem to specialise in pensioner poverty is shameful. There are some who would argue that consequently we need to increase state pensions to compensate. This just won't work. We simply do not have enough resources to make a difference. The unpopular and practical solution would be to raise the retirement age and offer incentives to the elderly to keep working. Why not make more use of pensioners who are healthy and want to work?

Where Brown should act quickly over pensions is in the private sector. Pensions funds have significantly underperformed in recent years. They should be given a permanent exemption from capital gains tax.

Competitive taxation:

Almost all British politicians think lower taxes are politically a non-starter. Yet the CBI, the IOD and the British Chambers of Commerce have recently all called for lower taxes. They can cite the World Economic Forum's annual global competitiveness rankings that put Britain in 13th place in 2005, down from seventh in 1997. They could also refer to similar studies by the International Institute for Management Development and the Economist Intelligence Unit's business environment rankings that show similar results.

Many now claim that the case for lower taxes is ideological. Not so. There are mountains of evidence that lower taxes boost economic growth. Chief Economist David B. Smith at Williams de Broe has done some of the best work on this. The private sector is just miles better at generating returns on investment than the public sector. So that's where capital should go. That's why Gordon Brown should set a medium-term goal of reducing government expenditure by one per cent annually for the foreseeable future – a reversal of recent trends.

A productivity revolution:

It's astonishing that during a long run of relatively good years, Britain has lagged by up to 20 per cent behind France and Germany in productivity and as much as 40 per cent behind America. Britain's productivity growth has been snail-like, and the gap with the USA keeps widening. The root cause is a command and control education system that has no market incentive to mirror the skills gap in the UK workforce. The current argument over pupil selection at state schools largely misses the point. The goal for any education reform has to be mass specialisation. This can only come from mass selection – which is only possible by the introduction of a voucher system. Gordon Brown should call a halt to the mandated percentage output of graduates from Higher Education. Instead, universities should be allowed to take as many or as few pupils as they think fit – especially revenue-boosting English language students from abroad.

The imperative for economic growth:

Gordon Brown has been lucky for a long time with the economic cycle. This won't last. It's not too late to start cutting government expenditure with a view to balancing the budget deficit, currently at three per cent of GDP. That's why Gordon Brown should consider a three-year budget freeze for the executive quangos and a permanent freeze in the local government grant. Over time, this latter reform could price local democracy back into life by enabling it to raise more of its own revenue, and be held politically accountable for it.

The new benchmark for Britain to keep its place in the world, must be to match or surpass global economic growth. Once you strip out the effects of increased consumer expenditure growth, the real economic growth figure in recent years has been 2.2 per cent annually. This is about half what the world economy grew by in the last three years.

As the recent press coverage over Geoffrey Howe's 1981 Budget shows, there's always a chance to break ranks with public and received opinion and reverse our economic decline.

This Chancellor could still do the same.

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