

Autumn Budget 2018 - A Wishlist

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Summary

- In his Budget on Monday, the Chancellor should resist the siren calls to ramp up public spending and recommit instead to reducing the burden of tax and regulation. This may be ‘boring’, but it would also be bold.

Analysis

- **The first rule of Chancellors, like doctors, should be to ‘do no harm’.** Mr Hammond is under growing pressure to announce a splurge of public spending, financed by tax increases that would undermine the economic recovery. Instead, I hope he’ll be bold and recommit to cutting taxes again.
- The Prime Minister has already promised to end ‘austerity’ and spend another £20 billion a year on the NHS by 2023. My wish here is that this spending is matched with a commitment to fundamental reform of healthcare provision in the UK, based on best practice in the rest of Europe. But this is something for the comprehensive review of public spending, scheduled for next year.
- **Brexit uncertainty also works both ways: the economy could respond very positively once the fog clears.** This is another reason to hold fire.
- In the meantime, though, there is no justification for further tax increases. **The tax burden (as a share of national income) is already at its highest for nearly 50 years.**
- What’s more, the economy has been held up well despite Brexit fears, productivity finally appears to be recovering, and the budget deficit has been falling more rapidly than expected. The upshot is that **the Chancellor has plenty of headroom to spend a little more, if required, now and probably in future too, without raising taxes.**
- In particular, the Chancellor should stick to his promises on taxation. He should reaffirm the commitment to ease the burden of income tax (by raising personal allowances further) and to planned reductions in corporation tax (from 19% to 17% in 2020). **Backtracking on corporate tax cuts would be a terrible signal to send to businesses deciding where to invest after Brexit.**

- **The roll-out of Universal Credit should continue. This reform has the potential to help many more people, by making work pay and reducing their dependency on state benefits.** But it was always hugely ambitious and may require additional spending to help the most vulnerable during the transition.
- The Chancellor should resist pressure for more support (i.e. taxpayer giveaways) for first-time home buyers. At best, these measures only help one group of buyers at the expense of others, such as young couples looking to upsize as they have children. At worst, they simply drive prices up further.
- **Instead, the Chancellor should announce fundamental reviews of planning regulations and property taxes, including business rates, council tax and stamp duty.** The aim should be to find market-based solutions to the housing crisis, as illustrated by the entries for this year's Richard Koch Breakthrough Prize, run by the IEA.
- The Chancellor should also avoid the temptation to intervene to protect High Street shops facing increased competition from out-of-town centres and online retailing. These shifts are primarily a natural response to changing tastes and technologies. Instead, he should work with the market, for example by making it easier to turn shops into homes.
- There is a long list of taxes I would like to see lowered or scrapped completely, including 'sin taxes' (such as the sugar tax) that mainly hurt poorer households. **But a more realistic wish for this Budget might be the abolition of the apprenticeship levy,** which acts as a crude payroll tax, resulting in reduced wages or reduced employment, especially for low-skilled workers.
- None of these proposals requires increases in taxes. Nonetheless, **if more money is needed now (a big if), the least-bad move might be a further reduction in the tax reliefs on pension contributions for those on higher incomes.**
- Finally, pensioners have largely been protected from welfare reforms. The demographic timebomb means that this cannot continue. **It is not too soon to try to build a consensus for better targeting of spending on the elderly.**
- A sensible package would include means-testing benefits such as free bus passes and the winter fuel allowance, and replacing the triple-lock on state pensions with a single link to CPI inflation (which would be sufficient to achieve the most important aim of protecting the value of pensions in real terms).

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