Let's have a reforming Budget at last

By ROGER BOOTLE
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Brexit may well seem more urgent to Mr Hammond, but tax reform will boost the economy - and is long overdue CREDIT: TOBY MELVILLE/REUTERS

According to the Chancellor of the Exchequer, this Wednesday we will hear both his first March Budget and his last.

From now on, the customary spring Budget will be combined with what has usually been called the Autumn Statement, which traditionally concerned mainly spending rather than tax measures. Thus, for your delectation and delight, this year there will be two Budget Days, as November's offering will be the first combined Budget and "Autumn Statement".

I suppose that if you are a Budget junkie, this last event should be something to savour. Unfortunately, I doubt whether it is exactly going to set the pulse racing. In any case, I have lived through enough rejigs of the Budget and Autumn Statement merry-go-round not to be entirely convinced that this is going to be the last March Budget after all.

This year, the macro-economic backdrop is surprisingly favourable. When Mr Hammond presented the Autumn Statement last November, most commentators and analysts were still mired in Brexit gloom. The fiscal watchdog, the Office for

Budget Responsibility (OBR), was no exception. Its forecast envisaged the UK economy slowing to growth of only 1.4pc this year.

In the event, things have turned out much better and even the economic establishment is coming round to the idea that it may have got the impact of Brexit profoundly wrong, at least in the short term.

But the better outlook is not only about Brexit. The world economy seems now to be in better health. China has recovered; growth in the US has accelerated; many emerging markets have bounced back; and even the eurozone has managed to grow at a reasonable rate, at least by its own standards.

The upshot is that the OBR will probably revise up its forecast for this year's growth to about 2pc, although it may at least partially offset this burst of uncharacteristic optimism by reducing its growth forecast for the next two years: another case of ill-judged pessimism postponed.

Moreover, the OBR will probably acknowledge that this year's Budget deficit will come in lower, perhaps at about £58bn, some £10bn below its November forecast and £14bn lower than last year.

Make no mistake, though, this deficit, which amounts to 3pc of GDP, is still too high. Yet we must not forget where we have come from. At the worst point, the deficit was about 10pc of GDP. Although there is much work still to be done to stabilise the public finances, the end is now in sight. So what now?

Existing plans envisage a further tightening of fiscal policy of some 2.5pc of GDP, to get borrowing below 2pc of GDP in 2020/21. But by then Mr Hammond may have about £30bn a year in hand and still be on course to meet the objective. Compared to the existing plans, his options are to increase spending, reduce taxes, or to allow borrowing to fall faster.

Of course, he will be subject to enormous pressure from all the usual suspects to increase spending and cut taxes. Doubtless he will have to find more money for the NHS and social care. Some of his backbenchers also want him to cut the top rate of tax and to reduce the punitive top rate of stamp duty introduced by his predecessor, George Osborne. There are strong arguments in favour of both.

But the politics of such moves are not compelling. Those people who pay tax at 45pc of income and/or incur stamp-duty of 12pc, or even 15pc, of the purchase price of property are hardly likely to be members of the group that the Prime Minister, Theresa May, has dubbed the "Jams", or "Just About Managing".

Tax reductions benefiting the better-off need to be smuggled in under cover of darkness, when there are tax reductions for most people or major increases in government spending to dominate the headlines, or baldly announced in the first Budget after a government has just won a thumping parliamentary majority at the polls. Accordingly, they may have to wait for another day.

A number of measures have already been announced to come into effect this year, including a 2 percentage-point increase in the insurance premium tax and a cut in corporation tax. The Chancellor may well modify some of these measures.

He will surely concede some form of compensation for firms severely hit by the resetting of business rates. But, above all, he must keep current government spending under a very tight rein to allow the Government room for manoeuvre later.

Mind you, all this is going to seem pretty thin gruel. Could we please have some more? In particular, as I said last year, it would be good to have, if not a vision (and “Spreadsheet Phil” apparently doesn’t do “the vision thing”) then at least a glimpse of how the tax system is going to develop.

In fact, very few Chancellors find themselves able to embrace radical reform of the tax system. Usually, they are too busy grappling with the Government’s deficit to have either the resources or the time.

This is true now, and whatever energy is left is fully absorbed in preparing Britain for Brexit. Yet reform is badly needed. In so many ways, our current tax system is both irrational and inimical to economic growth.

Perhaps we can forgive Mr Hammond his first, and last, boring March Budget. But there should not be any more like it. Tax reform and making the most of Brexit are not alternatives. Indeed, as Britain faces its future outside the EU in a turbulent and risky world, one of the best things that a Chancellor can do is to ensure that the tax system does the most to attract and retain businesses in Britain, and encourages new business formation, innovation, investment and work.

Mr Hammond will not make progress towards these objectives by doing next to nothing, whichever month is graced with his inactivity.

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