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CPS Autumn Statement Reaction

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The Chancellor's Autumn Statement speech today outlined a number of welcome changes as well as a lot of tinkering. Replacing the stamp duty slab system with a far less pernicious more gradual system from tomorrow is a bold reform which will cut the cost of buying a house for most people. However, much more detail is required on new measures such as a "diverted profits tax" which could deter investment if poorly implemented.

Growth forecasts have been revised upwards to 3% and 2.4% in 2014 and 2015 but have been downgraded by 0.4 percentage points in 2016 and by 0.2pp and 0.1pp in 2017 and 2018. The OBR has also reduced its forecasts for real wages. Despite much lower forecasts for CPI, average earnings forecasts have been cut by 0.7pp, 1.2pp and 0.5pp in 2014 to 2016. Apparently we are then to expect a return to 2% real wage growth from 2017.

There are still a lot of unanswered questions. The OBR now forecasts higher economic growth and higher borrowing this year and next but lower growth and lower borrowing in the following years. This breaks all the normal economic rules. Given the downward revisions to expected tax revenues, the credibility of the deficit reduction programme now depends entirely on new public spending cuts which have yet to be outlined. The Treasury now expects to raise a cumulative £8.5 billion from new schemes to reduce tax avoidance which are notorious for being unreliable revenue raisers.

The Chancellor's comments on the need to increase productivity are welcome and whilst a boost to R+D tax credits is helpful, he needed to do much more to boost underlying productivity growth. Another increase of £100 in the personal allowance to £10,600 is a good step. Abolishing the so-called 'death tax' on ISAs is a good step in merging pensions and ISAs. In addition there were cuts in Air Passenger Duty for children, another extension in business rates relief and a small cut in the supplementary charge on North Sea oil companies. However, these small changes just highlight the need to abolish APD entirely and radically reform business rates and the taxation of North Sea oil companies.

There are some things to cheer in this Autumn Statement but much more detail is required on public spending and measures to increase productivity.

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