# The huge fallout from the mini-Budget has quelled its positive growth measures

A week is clearly a long time in politics.

Last Friday, we saw the biggest tax cutting event in half a century followed by seven days during which the pound dropped to its lowest level ever against the dollar, the IMF criticised UK Government policy, the Bank of England made emergency interventions, and a potential mortgage crisis was created due to uncertainty over interest rates

Since the “mini-budget” signalling £45bn of tax reductions, it would be the understatement of the year to say that the fiscal strategy adopted by the new government did not go down well.

With rising inflation having been a result of increased energy prices due to the war in Ukraine, an interest rate rise was always inevitable although the Bank of England had developed a strategy to manage this carefully over the next two years.

Now that the pound has been under further pressure, that rise may increase to levels unseen since the 1990s and it could be a difficult few months for homeowners and businesses.

Hopefully, that won’t be the case, but if it does, then it could add thousands of pounds to the average mortgage and nullifying any benefits from tax cuts within the budget. That is why many can’t understand why the UK Government failed to ‘read the room’ when it came to the unexpected abolition of the upper tax rate at a time when the country is going through a cost-of-living crisis.

It was avoidable and unnecessary as it did little to deal with the immediate economic crisis and could have been delayed until next year when the economy had settled down if it was an integral part of the UK Government’s radical economic agenda.

More relevantly, the Chancellor should have asked the Office for Budget Responsibility (OBR) to examine the impact of the changes as it has done previously.

Whatever the outcome, it would have at least given comfort to the market as to the potential impact on the economy even if it wasn’t favourable. Instead, we were left with a situation akin to a business asking for a loan from the bank without producing a cashflow forecast.

This approach gave the impression that the sums simply didn’t add up and created a furore that took attention away from the reversal of the increase in national insurance and the cancellation of the proposed rise in main corporation tax.

Both reductions in tax should have had a significant effect on businesses at a time when every penny counts as many would already have factored the increases into their budgets going forward.

This would have then saved firms tens of thousands of pounds which would otherwise have been paid in tax and national insurance contributions and would have helped to alleviate the current financial pressures on the business community and the inflationary wage stresses that many firms face.

Unfortunately, these savings now must be balanced against any additional costs due to the increase in interest rates and the general uncertainty in the economic environment going forward.

Worst still, the noise generated over the last week meant that little attention was given to notable changes targeting business growth and investment. For example, the proposed creation of investment zones to drive up growth through tax incentives and the simplification of planning restrictions should be welcomed. And whilst the UK Government will have to work with devolved administrations to administer these outside of England, this could be transformational in revitalising areas such as the South Wales Valleys which, despite being given billions of pounds of European funding in the last two decades, still need vital support more than ever.

Making the Annual Investment Allowance of £1m permanent will support investment by businesses in new plant and machinery which is sorely needed if we are to improve productivity. Also, the changes to the Seed Enterprise Investment Scheme (SEIS) to encourage more seed funding into new businesses will encourage greater entrepreneurial activity.

However, what no-one seems to have picked up on is the important decision to provide up to £500m to support new funds designed to promote investment from pensions schemes and other investors into the UK’s science and technology businesses.

This proposal is revolutionary, long overdue and, more importantly, could be the catalyst in releasing billions of pounds of funding needed to create leading edge businesses in world class sectors. In fact, this policy will make a significant difference to the growth of the economy in the medium term and is as ambitious in its scope as Labour’s plans for a publicly owned green energy company.

But what is easy to forget as the fallout from the budget continues is that the UK recently went through the worst recession in over three hundred years and that measures to boost growth and recovery must be the focus of any economic strategy going forward.

Some of the measures discussed above are a step in the right direction but there must also be greater action by the Chancellor over the next few months to deliver proposals that will boost productivity, innovation, and skills within the UK. If the 2.5% growth rate is needed to pay for tax cuts and to stabilise any market uncertainty, then these are the areas which must improve after a decade of slow growth in the UK economy.

Last Friday, the question being asked was whether the decisions made by the new Chancellor were radical or reckless and initially it seems that the financial markets had made their minds up on this issue. However, as I write this column, the value of the pound has now recovered to where its value before the mini-budget.

Given this, the question now is whether the UK Government will learn lessons from the events of the last seven days, adjust its strategy accordingly to reassure the markets and, most important of all, focus 100% on what is important to ensure that the UK economy does achieve the required growth over the next two years.

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