

Uncertain Economic Times

A letter to the Herald, Dec 2007

Sir,

We face uncertain economic times. Last week's quarter-point cut in interest rates is welcome for homeowners – especially the 1.4m whose fixed-rate deals end in 2008. But it is concerning that the Bank of England felt it necessary to do this just before Christmas, when ordinarily consumer demand should be buoyant anyway.

They are uncertain times in another way, too: the government is now less in control of what happens next. They (rightly) gave over control of interest rates to the Bank of England. But with more globalised capital markets, even the Bank of England is less powerful. And because of Mr Brown's irresponsible fiscal policy, there is little leeway to use the other levers of economic management.

The last 15 years have been relatively benign times in the world economy. Mr Brown should have been putting some of this good fortune 'in the bank' – avoiding borrowing and reinforcing the fundamental competitiveness of the economy.

Instead he borrowed even in the good times, and allowed personal debt to treble to £1.4 trillion. Too much of our prosperity has been bought on tick.

Meanwhile, business has been burdened with a mass of new regulations (many, but not all, from the EU) that stifle competitiveness. The headline unemployment figures heavily understate the real number of people out of work – talent wasted, while increasing numbers of job vacancies are filled by people from abroad.

The Halifax house price index shows consecutive monthly falls in September, October and November. This has implications for the wider economy, too: people's economic confidence, and therefore their spending, is driven to a large extent by the knowledge that their homes are appreciating in value.

Everyone hopes that current uncertainty won't turn into future recession. Thankfully, there is no fundamental reason yet to believe that it will. But Mr Brown and Mr Darling must urgently re-focus on the fundamental drivers of economic growth – skills, productivity, innovation and competition; rather than just tax, regulate, borrow and spend.

Sincerely,

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