

## **Politicising The Civil Service- What Does This mean For The Economy?**

### **Vicky Pryce**

With the UK-and the world- in the middle of an energy crisis, there is so much that needs to be done to assist the economy that one would be forgiven for thinking that a steady pair of hands is needed to ensure money is well spent and not wasted. The National Audit Office will be at hand to retrospectively question the cost /benefit of any measures and whether they could have been avoided and the Public Accounts Committee will be bringing in the civil servants, usually the Permanent Secretary, to Parliament to answer questions. And then of course there is also the Treasury Select Committee which is an expert in dragging Treasury and Bank of England officials over the coals. This is arguably the worst time therefore to be firing the Treasury Permanent Secretary, as the new Chancellor did almost immediately on taking office amongst apparent concern about Treasury orthodoxy.

We are already hearing that the energy price freeze for households and businesses unveiled by the new PM Liz Truss in Parliament a few hours before the Queen's sad death was announced to the nation will cost a possible £150b. This is more than the furlough scheme during the Covid crisis. For households the period is for 2 years, for businesses only for 6 months in the first instance. Any extension or targeting of sectors for a time will cost more. There is also the £47b loan to energy companies to see them through this period as despite the direct support they will get, they have been under pressure for a while due to the high wholesale prices they have been paying, while unable to pass them on due to the functioning of the electricity cap.

Most of that one guesses will need to be borrowed. And the OBR had made it clear that there was little fiscal room for tax cuts looking ahead at the needs of the NHS and an ageing population. In any case, the pressures of public spending will increase with higher inflation, including the cost of public debt.

What is more, we are likely to see soon a further 'fiscal event' in the form of an emergency budget that is likely to contain tax cuts promised by Liz Truss during the leadership campaign – a reversal of the NI increase, unclear whether it will be for individuals as well as for employers and the deferral of the planned rise in Corporation tax to 25% from next April. There is also a possibility of widespread cuts in the rate at which VAT is charged.

True, VAT receipts have bounced back since the Covid recession and higher prices mean extra revenues at anyway. And there have been higher collections of capital gains tax and unemployment at lowest levels since the 1970s mean more income tax collected than envisaged. Also the freezing of income tax allowances announced by Rishi Sunak when Chancellor and higher nominal (rather than real) wages also mean more people being dragged into paying tax for the first time. And more people will be also entering the higher 40% tax band. The already announced windfall tax will make some small difference but calls to increase it are likely to intensify.

So in that environment, as fiscal rules seem to be abandoned, for a while at least, you need the civil servants in all government departments to be working to assist the government to ensure that a) money is well spent, b) it won't ruin public finances and c) will not scare capital and foreign exchange markets to such an extent that potential holders of government bonds are not prepared to invest in them and holders of sterling do not start selling the currency and cause inflation to rise even higher.

Well, a question then remains to what the sacking of Tom Scholar as head of the Treasury may have been partly obscured by the energy plan and the Queen's passing. But it will be important to prevent this from causing permanent damage to the credibility and long term sustainability of government measures.

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