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Calm down, stay cool – and drop this talk of tax rises. It's too early to know how everything will settle down.

Ryan Bourne

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I feel as if I am stuck in some mid-2010s time warp. Rishi Sunak will today update us on how much the Government has splurged during this Covid-ridden year and what it intends to spend next year.

But commentators are already pivoting to sizing up what deficit reduction will eventually be needed, and whether tax rises or spending cuts should fill the future fiscal hole. That conversation will be spurred today by the Office for Budget Responsibility updating its guesstimates of how far the pandemic will permanently impair the economy's potential, and so the "structural deficit" to deal with. Welcome to the Austerity Wars 2.0.

As I've said before, all this debate is massively premature. Yes, this pandemic has caused masses of government borrowing—producing a deficit of 21 percent of GDP or around £400 billion, according to the Resolution Foundation. But we are (still) in a once-in-a-half-century pandemic where we have knowingly kept shuttered swathes of the economy and paid people to sit at home.

There will obviously be "deficit reduction" next year, in the sense that the vaccines ending the pandemic will bring furlough to a close, make Covid-19 test and tracing redundant, and see the end of the inoculation and PPE scrambles. Like demobilisation at the end of war, so the government will de-Covidise its budget with drastic cuts to virus-related expenditure. Likewise, as things re-open, tax revenues will ascend again. So, the deficit will fall.

But anyone who claims they know what level it will settle at, and so what "needs to be done" to re-achieve pre-Covid borrowing levels, is, quite frankly, talking poppycock – including the Office for Budget Responsibility.

None of us, nor them, really have a clue what the long-term impact of this crisis will be on the economy. Will a whole bunch of industries shrink permanently now that the risk of government shutdown orders in future pandemics is understood? Will people stick with online retail and eat out less than they did? Will professionals work from home more, transforming parts of inner cities? Or is there a pent-up demand for socialising and "the old life on speed," with a roaring 20s to come, as after the Spanish Flu?

Without knowing all this, nobody can say what demands on public service spending will be or how tax revenues will perform over the next five years. Add in the uncertainty of whether there will be a Brexit deal, and the underlying budget position for Sunak is pretty much unknowable today – the whole reason, remember, that the Chancellor is only delivering a one-year spending review.

To see the scale of uncertainty, note that various independent forecasters have predicted that UK government borrowing in 2021 could be anywhere from £102 billion up to £273 billion. That's a bigger range than the actual unprecedented borrowing of 2009/10.

So we need to take whatever comes out of the OBR's economic and fiscal outlook today with gallons of salt. Their forecasts have already proven unduly pessimistic, with borrowing outturns from April through October a massive £76.5 billion lower than they were expecting. Nor, historically, have they had a stellar record in assessing the growth potential of the UK economy exiting a deep crisis.

Back in 2010, remember, the OBR predicted a return to robust productivity growth, meaning George Osborne's strict spending limits were predicted to eliminate the structural deficit as early as 2015. That didn't happen, despite spending levels being delivered as planned.

So it's baffling why think-tanks are taking the OBR assessments today as truth, and outlining "fiscal repair" measures of £40 billion to be delivered from 2023 onwards already. The Resolution Foundation wants significant tax rises on everyone earning over £20,000, for example.

Why not just calm down a bit, and see how things shake out? My central assumption is indeed that there will be a bit of a hit to our growth potential from living through this crisis, pushing the structural deficit up. And, obviously, if the Government keeps NHS spending higher and permanently raises Universal Credit generosity even after the pandemic ends, on top of recent announcements on defence spending and the "green industrial revolution," then this makes the prospect of future deficit reduction less likely. But it's the underlying economy that still has the biggest impact on the public finances, and that should be our focus right now.

Indeed, in talking up the need for restraint, the Chancellor, the OBR, and others may be unwittingly damaging our recovery prospects. Tell people big tax hikes are coming, and they begin thinking their permanent incomes will be lower because the economy's prospects are weaker.

Of course, the Chancellor is trying to balance risks, and make clear to bond markets that the government is aware of the need for fiscal discipline in the longer-term. But what does he think headlines telling people to "prepare for tax pain next year" achieve? As Julian Jessop asked, wisely, on Twitter, what should that preparation look like? "Increase savings? Cut investment? Dump assets? Don't start that new business?" How is that helpful given where we are?

Rather than lasering in on the deficit as a target, it would be better for now if the debate stayed focused on how to achieve a strong recovery. Whether they help or hinder the economic rebound should be the metric by which we judge almost all new spending and tax choices today, as well as regulatory policy. Anything that we can do to ensure the vaccine roll-out goes as smoothly and quickly as possible, for example, will produce a huge economic stimulus. Bringing forward the end of pandemic restrictions by just one month could generate tens of billions in value.

But even beyond getting that right, we need to stop talking as if spending measures are something wholly independent of our recovery prospects. The whole public sector pay debate, for example, has been tiresome in focusing on whether the Government can afford to raise public sector pay, or whether it is fair too, rather than about how setting pay rates will affect the jobs recovery. A more disaggregated analysis would surely conclude that raising pay in areas of the public realm under severe strain due to Covid is highly desirable to ensure good retention and recruitment, whereas pay restraint is justified in areas where public sector productivity has plunged due to home working.

Yet, sadly, thinking through how spending or tax policy affects our growth potential is not where public discourse is. Instead, people are already fighting the last war, battling over shaping the narrative on whether another round of spending cuts are desirable, or else buttering us up for yet higher taxes despite the historically high burden even before Covid-19 hit. The biggest 2010s economic policy mistake was not austerity, but that the focus on it led us to being fatalistic about growth. Let’s not do the time warp again.

Ryan Bourne is Chair in Public Understanding of Economics at the Cato Institute.