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Don’t fret about this debt – at least not yet. Big tax rises would choke economic recovery.

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What are we going to do about all this new Government debt? It is testament to George Osborne’s legacy that commentators already ask this question – spoiling to re-run post-financial crisis debates.

As borrowing spirals with tax revenue collapses and emergency spending programs (the Government plans to sell an additional £180 billion of gilts between May and July alone), focus is quickly turning to “how to pay for it.”

The implied message is that it is necessary to run tighter public finances after the pandemic to reduce debt-to-GDP back to where it would have been without the crisis. James Forsyth already reports Conservative ministers saying that “austerity [through spending cuts] is just not politically possible.” Plenty of Tories therefore seem to think big tax rises are inevitable or desirable.

I am fiscally conservative. I supported the last deficit-reduction programme, although not all details of timing and incidence. But such discussion seems misguided and premature.

For now, we should be relatively unconcerned about the additional public debt, given the extraordinary conditions driving it. More importantly, it’s simply too soon to tell what consequences this pandemic will have on the structural government deficit. If this proves a temporary blowout rather than permanent, accumulated debt levels being modestly higher looks manageable, with small fiscal adjustments over long periods. Major tax rises today for a rapid debt payoff, on the other hand, would be a sure-fire way to kill-off a restarting economy.

Today’s situation is different conceptually from 2010. This pandemic was an unforeseen shock that will pass in a year or two. With governments mandating business closures, and little market pandemic insurance, there was a strong case for taxpayers to step in to avoid good businesses going bust and to insulate people from complete income collapses, at least temporarily.

This, of course, raises Government debt through new borrowing – the Centre for Policy Studies estimating up to £300 billion more of it, or around 15 per cent of GDP, in this year alone.

But here’s the key point: just as with wartime expenditure, pandemic-related spending eventually stops. Once our market economy adjusts to new demand and supply conditions, tax revenues pick up. We have no real reason to just assume that the crisis will permanently expand the underlying budget deficit, other than the small uplift in debt interest payments.

So while the level of accumulated debt will no doubt rise owing to the crisis, the on-going gap between spending and revenues afterwards might not. Debt may settle at a higher level, but without this crisis affecting much its future path.

The post-financial crisis situation was markedly different. Yes, near-term borrowing had spiked due to the downturn and stimulus programs. But it soon became clear that permanent changes to the Government's budget had also occurred. Tax revenues associated with finance were permanently lower.

The UK had sailed into the crisis running large "structural" budget deficits, too. The Office for Budget Responsibility estimates that the structural deficit – the part that would not disappear as the economy recovered – was over eight percent of GDP in 2010. Absent deficit reduction, debt was therefore on an ever-rising and unsustainable path.

This is shown by the fact that only in 2017 did the debt-to-GDP ratio peak, after years of spending restraint and tax rises. This time, after winding down explicit relief programs, we might not face a much larger "structural" deficit at all. Our public finance question, in this case, would not be "how quickly should we stop rapid new debt accumulation?" but "should we reduce accumulated debts through rapid fiscal consolidation?"

I'd argue "no." Just like a major war, a pandemic is the type of emergency that government debt should really act as a shock absorber for. The net debt-to-GDP level may well rise from 81 percent to 100 percent of GDP, reflecting the socialisation of pandemic risk.

But spreading that risk over current and future taxpayers is the very point of government intervening. With current financing relatively cheap and little inflationary pressure, we do not face an impending funding crisis. And provided the structural deficit hasn't risen significantly, good economics would suggest we engage in "tax smoothing," spreading the costs of that debt with very minor budget adjustments over long periods of time. That allows us to keep tax rates low and maintain better incentives to work, save, and invest – crucial conditions to a robust recovery.

Of course, this approach may require reassessment. As we exit the crisis, we may find the economy's growth potential permanently reduced or find that the Government is unwilling to end emergency support even as normality returns.

Perhaps a large number of people will suffer lung damage, impairing productivity. Maybe the Government will decide it needs to give NHS workers a huge pay rise, or provide more generous benefits from Universal Credit. Maybe the Keynesian drumbeat for a "fiscal stimulus" will be heeded.

If these occur, sign me up to some nearer-term deficit reduction to stop debt ever-spiralling or to prevent unjustified transfers from future taxpayers. But let's not put socialising pandemic risks in the same bucket as borrowing for on-going spending or old-school demand management.

Now some people I respect highly make a political economy argument for larger temporary tax rises. Philip Booth worries that if today's population experience the relief without costs, a "something for nothing" budget view will entrench itself.

But large, temporary income tax rises to pay back debt immediately, or even the more destructive capital levies Ed Conway writes about, would really just precipitate the economic

hardship the relief sought to avoid. I am not sure that gifting people large financial burdens after lockdowns will win hearts and minds for balancing future budgets.

To be clear: we do indeed face genuine longer-term public finance challenges that require action. This pandemic inevitably leads us into them in worse shape. Population aging will bring a fiscal tidal wave that punctures a huge permanent, ongoing hole in the budget.

The OBR calculates that, on unchanged policies, rising spending on health, social care, the state pension and debt interest will increase the deficit by 18 percentage points of GDP over five decades. These are real (inflation-proofed) claims that cannot be inflated away. Future large tax rises or reforms to these programs – i.e. deficit reduction – will certainly be inevitable.

But it's difficult to think of a worse time to make headway on this issue than when an economy is spluttering back into life following forced closure. No, for now, fiscal conservatives should sit tight and wait and see what the budget looks like once normality returns. Plotting large tax rises today is heedlessly destructive.

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