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Austerity is necessary restraint, not some problem the UK government must throw off

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A key lesson of political messaging is to avoid aping the language your opponents want you to use. Even worse is compounding the error by implicitly siding with them in a dispute over the definition of a term. Yet as Chancellor Philip Hammond and his Treasury team finalise Monday's Budget, they find themselves hemmed in by such a mistake from Theresa May, the Prime Minister. Specifically, her ill-defined party conference promise to end "austerity" in the coming years.

Of course, the term "austerity" has been with us since 2010. Then, after the financial crisis led to a ballooning budget deficit, the word became synonymous with the deficit reduction efforts of first the Coalition government and then the post-2015 Conservative majority.

The debate was a macroeconomic one: Labour arguing against the extent and speed of deficit reduction, as the Conservatives countered that "living within our means" was essential. The public, for what it is worth, always seemed to me to have a broader conception of austere times: recognising that the post-crash world would see us poorer than envisaged, necessitating public spending restraint, but also resulting in a tough broader private economic environment.

Eight years on, the budget deficit has indeed been brought down from near 10pc of GDP in 2009-10 to around 2pc today. That kind of borrowing would probably stabilise debt-to-GDP for a number of years. But with relatively slow growth expected, it would leave debt elevated at a historically high level of around 85pc of GDP.

What's more, the pressures of an ageing population will hugely widen deficits and render current policies unsustainable in the longer term. No government then, in a deficit reduction sense, can or should claim we have seen an end to austerity, unless they are willing to countenance ever-soaring debt in coming decades.

That's not to say May couldn't have started painting a more positive picture of the future. In terms of the additional deficit reduction required to get debt back on a downward path sustainably, the end is achievable with a few more years of restraint. The Prime Minister could have committed her administration to being unashamedly pro-growth, saying that policies from here would be geared towards rising productivity and private wages through much-needed supply-side reform.

Instead, though, the PM's approach has been to give succour to the Labour Party's essential critique of the Conservatives since 2010. By insisting she will end it, she endorses their view that austerity, rather than being much needed restraint, is some kind of problem we must throw off. By saying that the Government intends to close the budget deficit by the mid-2020s at the same time, she is also helping redefine "austerity" as simply cuts to public expenditure and not broader deficit reduction. Hence the "solution", widely touted by Labour and its allies, is bigger government and higher taxes.

In the build-up to the Budget, the Government has made its commitment for an additional £20bn for the NHS by 2023 and promised more money for social housing. To finance these while sticking broadly to deficit targets, it is scrambling around for new tax revenue, with a digital companies' tax, further restrictions on pensions tax relief and even a lowering or freezing of the VAT revenue threshold for companies all mooted.

This, at a time when the tax burden is already at its highest in almost 50 years. No longer does private austerity – i.e. tax rises – seem to register as a concern for the Conservatives. The definition of austerity now, gifted to the Labour Party by May, is simply public spending restraint.

The Institute for Fiscal Studies has spelt out the implications of what an end to austerity defined this way would mean. Its green budget said that to fulfil the promises government has made, plus protect previously unprotected departments in real terms and eliminate the deficit, would require an increase in the overall tax burden of as much as £41bn by the mid-2020s.

Whereas once tax rises were austerity, now they are supposedly salvation against it. May's promise amounts to the Conservatives pledging themselves to higher tax rates in the coming years, which would further slow economic growth.

What should they have done instead? In light of all the uncertainty around economic growth and its feed-through to the public finances owing to Brexit, the Government could have sensibly said it was willing to tolerate higher short-term borrowing in the coming years, committing to restraint in the longer term.

Thus far, the public finances have been more robust than expected given the slower-than-expected growth since June 2016, which shows just how uncertain forecasting the relationship between growth and tax revenues alone can be. The case of waiting to see the structural position of the finances after Brexit-related uncertainty had cleared, and adjustments towards the new trading relationship were being made, would have been a strong one.

But recent reports that the public finances are doing better than expected ignore that these revisions merely take us back to the sort of forecasted deficit for this year predicted before the referendum. Then, it was still considered more austerity was needed. As May once famously said, on the big picture, "nothing has changed".

Her desire to point towards sunlit uplands after years of deficit reduction and Brexit-induced slog is understandable. But May's "end of austerity" promise was foolish. More deficit reduction will be needed in the coming decade, as her own Chancellor still acknowledges.

The key question is how it will be delivered. Through her pledges and words, May seems to be saying that the only option is higher spending and higher taxes. In taking that position, she is doing Corbyn's job for him.

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