



The UK has still not sorted out its finances – Theresa May dodges fiscal bullet

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Speaking two years ago at the Conservative Party manifesto launch, British Prime Minister David Cameron made a pledge to restore the United Kingdom's entrepreneurial spirit. "In Britain, we've always shown we have the ingredients, the will to overturn what's inevitable", he said, "and with a strengthening economy behind us – this buccaneering, world-beating, can-do country – we can do it all over again." Britain, Cameron exuberated, "is on the brink of something special" and his party will form a new transformative government.

Cameron's agenda – before it was derailed by Brexit – involved deep spending cuts. His was also the tenure that saw sweeping public sector containment and reform that involved changes in benefit indexation (saving the exchequer £4 billion), Ian Duncan Smith's reform of Universal Credit, and admittedly, the not altogether thought-through NHS reorganization. The deficit as percentage of GDP was slashed from above 10.1% in 2009/10 to below 4% by 2016 (according to the ONS data), while the level of public spending fell from 46% in 2010 to just over 40% per cent of national income.

By contrast, present occupant of the Number Ten effuses tranquility. In place of more reforms and 'sound money' Theresa May offers emollience and security from rapid innovations. Accordingly, the manifesto that the Tories ran on contained promises of more government spending and social stability. Its wording was unequivocal: "We do not believe in untrammelled free markets. We reject the cult of selfish individualism. We abhor social division, injustice, unfairness and inequality. We see rigid dogma and ideology not just as needless but as dangerous."

After all the tumult and 'buccaneering' reforms, the government finally offers the Brits a respite. Spending on NHS will increase and personal allowance will continue to rise. These moves, however, will not be complemented with either commensurate spending cuts elsewhere or public sector reforms.

May's statism has yielded some electoral fruit, but the Tories' latest misfortunes that caused polls to narrow eventually resulted Conservatives not getting a majority. Much of May's success has been ensured by her appeal to the 'just about managing' class. Her small-'c' conservative and patriotic brand of politics struck a chord with constituencies who have hitherto sympathized with either Labour or UKIP. May didn't need to worry about her core base. Jeremy Corbyn's proto-communist inclinations and Tim Farron's vacuous 'social liberalism' made sure the Tories' core support had nowhere else to go.

But here is the rub. Providing people the time to adjust to globalization, while respecting their sensibilities on social norms, may be comparably easy (as well as sensible) things for government to deliver. Instigating a budgetary bonanza is not so much.

If May's target of eliminating the deficit by 2025 stands – as she promises – than the government has to plug a fiscal hole of almost £40 billion during that time. Whether tweaks in National Insurance contributions or changes in other taxes will give her enough wiggle room is a moot point.

Politically, fiscal consolidation is an arduous task. To give an example, the Prime Minister pledged to make it mandatory for older people to pay for their care until their assets are depleted to £100 billion. Yielding to political pressure, she then reconsidered her proposal, promising to institute a cap on how much the elderly will have to pay (right now it is £23,250). Even if the cap is increased to £75,000, this will still lose the coffers a great deal compared to the initial idea. As Ryan Bourne from Cato Institute explains, the original proposal was one of the few that, if implemented, would have removed a substantial burden from the taxpayer.

Meanwhile, the pressures are mounting. As the Institute for Fiscal Studies acknowledges in its recent report, both the pension system and NHS will in the medium-term start straining the UK's fiscal position. Thus, pensioner benefits are forecast to rise by 0.9-1.8% of national income (£18-37 billion in today's terms) between now and 2067. Spending on health is projected to increase by 5.3% of GDP, or £109 billion. Government debt still stands at 89%. Should any significant downturn in the global economy occur, the UK is out of ammunition (especially considering zero-bound interest rates).

May has therefore chucked the Thatcherite policies of maintaining fiscal discipline. She is a Reaganite now. The penchant for budgetary laxity, prevalent amongst the right-wing governments in the US, has now spread to Britain. The issue of overcomplicated tax system – that even Donald Trump's Republicans got around to fixing – also remains an enduring problem.

Theresa May has managed to overcome the electoral hurdles her party has faced for some time. Whether the Tories will be able to use this advantage to solve Britain's long-standing fiscal dilemmas is not so clear.