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The chancellor shouldn’t turn on the spending taps just yet

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Better late than never, as they say.

New data shows that the Conservative government has finally hit its original target to eliminate the £100bn day-to-day budget deficit they inherited in 2010.

Sure, they got there three years later than planned. Former chancellor George Osbornecommitted to eliminating this borrowing (which excludes investment spending) by 2015. But as US politicians start borrowing for fun once more, the UK’s achievement of sustained deficit reduction over eight years should not be taken for granted.

Job done? Some of the backslapping from Osborne’s acolytes on Twitter has suggested so. Many prominent Brexiteers are also keen to use EU exit to abandon “austerity economics”.

But the chancellor Philip Hammond should resist calls from colleagues to use better-than-expected receipts to turn on the spending taps. The UK’s long-term public finance projections are still awful. A prudent approach would instead prioritise getting the debt-to-GDP ratio firmly on a downward path given its current high level, known economic risks, and the headwinds of an aging population.

Overall, government borrowing (including investment spending) is now around two per cent of GDP.

This would be a perfectly manageable level in a normal world of sustained growth and modest accumulated debt. The problem is the financial crisis and its aftermath saw public debt balloon from 35.4 per cent of GDP in 2008 to 86.5 per cent today – far higher than the 35 per cent average since 1975.

Such high debt levels make the UK finances vulnerable to unforeseen events and slower-than-expected growth. They also create a worrying baseline given future spending pressures. The Office for Budget Responsibility projects that public debt will shoot up to 178 per cent of GDP in the next 40 years on unchanged policies, as demands on the state pension, social care, and healthcare rise.

That our current financial position may be a little better than we expected must be put in that context. Extra revenues allowing a slightly faster debt-to-GDP ratio fall would be a small down payment on this challenge.

Indeed, the Treasury's own analysis suggests that overall surpluses, including investment spending, are necessary to get debt levels back to historic norms given likely shocks to the economy. If we balance the books a few years earlier than forecast last November (still much later than predicted in 2010), then all the better.

Of course, we should not get carried away here. Even two months ago, the Treasury did not expect this improvement in outlook. The underlying public finances are constantly being assessed and reassessed.

With Brexit on the horizon, major changes in the economy could occur, for good or ill, and these will have highly uncertain implications for the public purse. Assuming recent trends are a permanent structural improvement in the public finances therefore seems foolish.

Indeed, using this improvement to justify immediate higher spending would be asymmetric.

One of the reasons why it took so long to achieve the target was because David Cameron's government ignored negative revisions to the "structural deficit", sticking instead to his original spending plans. To make up for it, he promised extra cuts further and further into the future.

If the current government were to relax spending straight away on the basis of some good data, we risk never actually getting to the balanced budget we really need.

None of this denies that there are legitimate demands for more spending. All sides agree that the NHS needs cash, for example. But the whole point of eliminating a structural deficit is to get regular spending funded by tax revenues, and limit borrowing to downturns.

If more health spending is considered critical, politicians should make the case for higher taxes to pay for it. Or, given that the tax burden is at its highest level for three decades, they should outline cuts to other budgets to finance it.

There is no macroeconomic case, at this stage in the economic cycle, to go back to using government borrowing to finance day-to-day government activity.

If the public finances show huge dramatic improvements, allowing us to deliver overall balance with limited additional restraint, the case to reassess would be stronger. But experts believe that revisions in the April statement will show an improvement in borrowing of between £7.5-£10bn compared to November's forecasts – still less than a quarter of the £40bn deficit likely to remain.

Through hard choices and political commitment, the UK has done most of the work in repairing the recession-induced damage to the public finances.

Rather than letting up now, the chancellor should ensure that the government finishes the job, and leads the way in addressing the longer-term fiscal challenges facing all western polities.

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