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The real Budget question on borrowing is not "could we?" but "should we?"

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Rishi Sunak is reportedly being pressured to "loosen" the Conservatives' already loosened fiscal rules in his scheduled March 11th budget. Not long ago, an overall budget surplus by the mid-2020s was the aim, with George Osborne and Phillip Hammond insistent that falling debt-to-GDP was the prudent path given high debt levels, future recession risks, and demographic realities.

Yet fiscal rules come and fiscal rules go. At any given moment treated as sacrosanct, the past 15 years shows fiscal targets only last as long as the politics dictates. So, when deficit reduction ceased to be the overwhelming pre-election priority, the rules changed and suddenly borrowing for investment up to three per cent of GDP was allowed, meaning debt-to-GDP would barely fall this Parliament. Now, Number Ten seemingly wants further relaxation, even contemplating debt-to-GDP rising.

Reaction from economists and ex-Treasury officials has centred on whether Britain could shoulder much higher permanent debt levels without fiscal crisis. Important as this debate is (and the long-term answer is uncertain and unknowable), it ignores more immediate questions: for what purpose is the extra borrowing being proposed? And is more borrowing actually appropriate for this aim?

None of us know why, exactly, further borrowing is being contemplated. Most analysts think that manifesto promises on public service spending and investment can, just about, be delivered within the current framework. This suggests Number Ten wants to "spend more" somewhere.

But given the Conservatives have no clear stated narrative about what they consider wrong with the economy (beyond pledges to "level up," return to historic 2.8 per cent GDP growth rates, or "unleash the country's potential" in response), it's anyone's guess what's driving this new thinking.

This lack of a clear economic policy is worrying. Having a clear economic aim, be it growth, or reducing debt, or even reducing inequality, is what anchors decision-making. A pursuit of a goal imposes discipline to think clearly about trade-offs. The major concern in regard this proposed relaxation is not necessarily that it shows Boris Johnson's priorities are wrong, but that it exhibits an unwillingness to actually prioritise at all. The fear is that the Prime Minister's team is falling for any old spending or tax cut demand, without a limiting principle. "You can't say everything is your priority," Sajid Javid reportedly said before resigning.

In fairness, one reason that no clear economic narrative has emanated from this Government is precisely because they haven't delivered a budget yet. For good or ill, modern budgets *are* the primary platform governments have to tell an economic story and outline a policy response. With Brexit done and a secure majority, the Prime Minister and Sunak now have the chance to try to synthesise the disparate stated ambitions for prosperity, regional rebalancing and more money for public services.

Our Editor asked me to offer thoughts on "what they should do." My honest answer is that, having won a majority and with limited time of healthy political capital, my priority would not be delivering more cash for public services than promised in the manifesto, nor additional infrastructure splurges, nor even broad tax cuts to "put money back in people's pockets".

No, my major concern would be the sustained weak productivity growth performance post-crash. This makes every other government challenge more difficult, producing lower wages, less money for public services, and lower returns on saving.

The past decade shows this is now a deep-set structural problem, requiring coordinated policy change. In tackling it, I'd try to work through the difficult and thorny politics of meaningful tax and supply-side reform (land-use planning, immigration, welfare, public sector productivity, infrastructure, and education), recognising the uncertainty of success but mindful of the potentially massive rewards.

Prioritising long-term growth above all else means potentially tolerating more borrowing. But only if it helps to deliver the primary goal. So, no additional cash for the welfare state without productivity-enhancing public service reform as a chaser. No deficit-worsening tax cuts except to grease the wheels for actual pro-growth tax reform (by ensuring the inevitable pain of losers is bearable). And no additional infrastructure spending unless the spending is targeted at the most pro-growth projects with social returns exceeding private alternatives. And I'd apply these principles broadly: no new subsidies for housing, for example, without further meaningful planning reform.

If that sounds an austere, transactional type of politics, then that's the point. Reform without relaxing resource constraints is difficult. But showering money without reform is a wasted opportunity. Ask Tony Blair. What's uncertain as yet is whether Johnson and Dominic Cummings share these views that growth is the most important challenge and that most public spending alone does little to improve it. My hunch is they are more positive about the prospects of state-led growth. My hope is they haven't swallowed dangerously seductive economic arguments about how more spending will drive it.

Many conservatives argue, for example, that now is a "good time to invest" because borrowing is cheap. But extra public service spending is mostly consumption and transfers. It is not "investment." If Boris wants more funds for the NHS, social care, or the police, then he should raise taxes or find offsetting spending cuts to fund them.

There's no "get out of jail free" card here. The options are higher taxes or less spending for future generations or adding to a tax burden that's already the highest in two generations today, weakening growth further. More public service spending might be a political imperative for the Prime Minister, but it comes with a clear growth trade-off.

Nor is more government infrastructure spending *necessarily* good for growth, even with low interest rates. Yes, projects that solve market failures or have high social returns can improve growth prospects and be self-financing. Paying for them upfront via borrowing avoids damaging spikes in tax rates.

But in an economy with a tight labour market, government projects take funds, workers, and machines out of the private sector, where they often do more good. In fact, if private projects generate higher returns than government projects then more government infrastructure spending may harm growth. In these instances, business tax cuts financed through borrowing to encourage private investment would be far better for economic health than just throwing more money at government transport projects.

Advice of “if you are to borrow, at least do it wisely,” might sound inane. But in the absence of a clearly stated economic goal, the real question is not “could we could borrow more in today’s environment?” but “should we?” My answer would be “maybe, provided the spending or tax cuts significantly improved our growth potential.” But then growth would be my overriding priority. What is Number Ten’s?

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