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Today's Budget is Osborne's last chance to do something to restore growth

By: Dalibor Rohac – March 20, 2013

THE 2010 general election opened a window of opportunity for reforms to revive the British economy. The initial signs were encouraging. There was a shared understanding of the gravity of Britain's fiscal situation, a determination to act, and George Osborne's pledge to cut three pounds in public spending for each pound in tax increases was a realistic plan to close the deficit without harming growth.

Just hours before Osborne unveils his new Budget, it's safe to say that the coalition has missed this chance. Encouraging employment figures aside, this is far from the robust recovery Brits were hoping for. Osborne has also failed to deliver on his promise to consolidate the UK's finances. Instead, he has helped turn "austerity" into a bad word.

First, the problem with his cuts is that there aren't enough of them. According to the Office for Budget Responsibility, total government spending will increase from £690.9bn in 2011-2012 to £731bn in 2014-2015 and then to £755.1bn in 2016-2017. Although these are nominal figures, it's hardly the savage contraction depicted by some critics of the government. The deficit is also rising. In 2011-12, the government borrowed £121.6bn, or 8 per cent of GDP. Once one-off factors have been removed, the underlying deficit is up this year.

Secondly, Osborne's austerity has so far been reliant on tax hikes. Although the tax free income tax threshold is rising, the level at which people pay the 40 per cent rate is due to drop to those on annual incomes above £41,450 from April. "Sin taxes" on cigarettes and alcohol have continued to go up. And importantly, the early increase in the standard VAT rate, from 17.5 per cent to 20 per cent in January 2011, slowed down the recovery of retail sales. It is also perceived – rightly or wrongly – as disproportionately hitting poorer parts of the population, reinforcing the image of the Tories as an "anti-poor" party.

Osborne seemingly forgot that a pro-growth consolidation programme also requires strengthening of the incentives to work, invest and innovate. Besides tax cuts, this can be achieved by improvements to the regulatory environment. Between 1998 and 2010, the overall cost of regulation in the UK was estimated at £176bn by Open Europe.

True, the bulk of the burden (roughly £124bn) is imposed on the UK by European institutions. But in spite of a few instances of political posturing, we have seen little effort by the government to push for economic deregulation at the European level. Still, other hurdles to economic growth are purely self-inflicted. Think of overly restrictive visa rules and the dysfunctions of the UK Border Agency, which are conspiring to keep skilled immigrants out of the country.

The closer the country gets to the 2015 election, the smaller the likelihood of sensible policies. Today's Budget might be Osborne's last chance to do something – anything – to restore economic growth. Will he use it? I am not holding my breath.