

[A dismal decade](#) [1]

Written by [Whig](#) [2] | Monday 4 February 2013

One should 'Never make predictions, especially about the future'. However, it seems pretty certain to me that the next medium-term picture for the UK economy is bleak. There's nothing particularly novel here, but it's worth summarising the position.

From the fiscal perspective, the present government has made appalling progress with deficit-cutting: borrowing has increased, spending is still increasing and whilst growth-destroying taxes have risen [the size of the state has not decreased](#) [3]. Apparently only 6% of the public realise that this is the case. Any hope of the UK being able to balance its budget let alone amortize any of its vast debt by running surpluses is years in the future. In the best-case scenario, an outright Conservative electoral victory in 2015 might bring the time and the will needed to eliminate the deficit but this is unlikely even if that is the result.

Unfortunately, the present government has portrayed the present situation as one of austerity when it is not - what 'pain' is being felt is from the reallocation of spending from one Department to another and to increased interest payments. It might be that a sensible left-wing government actually finds it easier to cut the deficit, like New Zealand's Labour, as they avoid accusations of being Tory 'toffs' or some such nonsense. However, the present Labour Party seem committed to fiscal recklessness, not to mention the dire prospects such a government would have for deregulation and supply-side reform. All the while, the Lib Dems claim credit for 'restraining' the Conservatives from cutting government, as if this were positive. Essentially, the UK's fiscal position seems unlikely to improve any time soon and government will continue to spend around 45-50% of GDP, a position seriously deleterious for growth.

On the monetary front, we seem committed to a [policy of inflationism and dis-saving](#) [4] and the incoming Bank of England Governor sounds even more committed to loose monetary policy than the present. Inflating the national debt away may take the burden from politicians in having to make real spending reductions, but it has serious impacts on saving and capital formation and thus future economic growth and risks the formation of new asset bubbles.

Contrary to popular belief, the Thatcher-Major governments of the 1980s did not really reduce the size of the state but instead - in general - restrained its growth compared to the size of the economy. This economic growth was predicated on supply-side reform, particularly in privatisation and increased labour flexibility. The present government has tinkered but has not really delivered any substantial supply-side reform. What happened to the Great Reform Bill? Where is the slashing of Red Tape that we were promised? The 'bonfire of the quangos' was a flash in the pan and Big Government has continued whilst Big Society died.

Whilst I don't think a major economic or fiscal collapse is likely, it is not beyond the bounds of possibility. The Coalition government are not seriously pursuing any of the reforms necessary to bring about economic growth: a proper programme of major fiscal consolidation combined with sweeping supply side reform and underpinned by sound money. Labour's policies score even worse. In brief, the next ten years and beyond seem to offer the UK prospect of mild (or perhaps more serious?) stagflation.

Source URL: <http://www.adamsmith.org/blog/economics/a-dismal-decade>

Links:

[1] <http://www.adamsmith.org/blog/economics/a-dismal-decade>

[2] <http://www.adamsmith.org/authors/whig>

[3] <http://www.telegraph.co.uk/finance/comment/9819045/It-doesnt-look-as-if-Osborne-can-deliver-the-necessary-cut-in-public-spending.html>

[4] <http://www.iea.org.uk/blog/has-the-bank-of-england-abandoned-inflation-targeting>

[5] http://disqus.com/?ref_noscript

[6] <http://disqus.com>