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Is Moody's downgrade such a bad thing? [1]

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Moody's downgrade of UK government bonds from AAA to AA1 status isn't necessarily a bad thing. Sure, it is likely raise long-term (15 to 20-year) borrowing costs slightly, and that will affect the government's finances, though it won't affect ordinary households much, as they generally borrow on much shorter terms. But is it a dire comment on the UK government's economic policy?

Hardly. Moody's said a year ago that it was putting the UK on watch, so it has taken some time for the slippage actually to occur. America has already been downgraded, as have all the other G7 countries except Germany (which should be) and good ol' conservative Canada. In the great scheme of things, the UK doesn't look in too bad shape.

And those advocating that the Chancellor of the Exchequer, George Osborne, should do a U-turn and give the economy a bit of fiscal stimulus cannot take comfort from Moody's position ? which is that the UK needs not to spend more, but to get its debt under firmer control. Indeed, it is telling the Chancellor to stick to his plan of getting the books back into balance, and indeed to speed up the process if he can.

It is not altogether good news for those of us advocating tax cuts, especially tax cuts on business, as a way of reducing the risks faced by entrepreneurs at the moment and thereby stimulating hiring and investment and growth. With Moody's watching UK debt so hawkishly, there is little room to add more, even if it might stimulate growth a year or two into the future. Still, as we will argue in a paper next week, there remains plenty of scope to reduce some taxes, like capital gains tax, where the rates are so high that the Treasury is actually losing money. A cut in CGT in the Budget would cost nothing, because investment would be liberated and businesses would not have to spend so much effort working out how to keep their money out of the Chancellor's hands.

And for those of us who want to see more of a growth agenda, with deregulation that would again reduce the risks of taking on employees, it must be good news. We will see what the Budget brings.

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