Where is this "austerity" you speak of? [1]

Written by **Dr Eamonn Butler** [2] | Wednesday 1 May 2013

"What austerity?" asks the super-sound UK economic commentator Liam Halligan in the Telegraph [3]. GDP is down to be sure (6.2% below its pre-crisis peak), and we members of the public are indeed tightening our belts. Not so government. It's belt-tightening amounts to just 2.7% "cuts" over six years. That's after previous Chancellor/PM Gordon Brown expanded government spending by half, from 35% to 50% of GDP. Some "austerity" from our politicians!

The present government aimed to reduce its annual deficit to zero by 2015. In the wake of disappointing growth figures, that has now been expanded to 2018. Will it even be achieved? Most of the "cuts" were end-loaded, so the real complaints haven't even started yet.

Meanwhile, annual borrowing continues to add to the national debt. Even if that 2018 balanced-budget target is achieved, says Halligan, it still means that the national debt in 2017/18, at around £1.7 trillion, will be three times that in 2008. And the interest payments on that expanded debt all have to be met. It is money we could have used on something more useful, had we not been so profligate in the boom years.

Only virtual money-printing on a record scale has saved the government. How nice it is to have the monopoly on money, so you can just mint it to pay off your debts. But then your money loses its value, and lenders stop bailing you out again because they know they will be conned.

Investment, meanwhile, the one thing that might pull the UK out of its doldrums, has dried up. Private sector investment was just 1.2% of GDP in 2012, down from 5.8% in 2007. Businesses are sitting on cash, or paying off their debts, rather than risking money on an uncertain future.

As for the government, its "cuts" have fallen mostly on capital expenditure, nearly halved from £47bn in 2008/09 to just £27bn in 2014/15. That is the easy way to reduce your overspending ? you don't have to fire anyone, or raise taxes too much, you just let the potholes get a bit bigger. But it does not tackle government's bloated spending appetite, nor lay down capital for tomorrow.

And now the IMF are joining the pleas to go steady on "austerity". As I said: "What austerity?"

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