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Yesterday's problem [1]

Written by **Jan Boucek** [2] | Sunday 21 March 2010

This past week?s UK employment statistics underscored the fundamental economic issue facing the nation: a bloated and still expanding public sector that is smothering and shrinking the private sector. Not only is a thriving private sector essential to curing the medium term problem of the government?s budget deficit but it?s even more critical to the longer term pension funding problem.

The political and chattering classes are now mired in pre-election shuffling of the proverbial deckchairs without credibly fixing the hole below the waterline. It?s a depressing wrangle over yesterday?s problem, even as tomorrow?s are about to overtake events.

Friends of the ASI know what needs to be done and nowhere are the details better collected than in Eamonn Butler?s ?The Alternative Manifesto.? Aggressive cuts in income and corporate tax rates, simplification of the tax code, a reversal of mindless regulation, an economically-biased immigration policy and ruthless zero-based government budgeting are what?s needed to grow the private sector.

Failure to get on with it now exposes the UK to the shock of the unexpected and risks missing opportunities of the future.

From booming Asia comes the beginnings of rising inflation. Australia, Malaysia and Vietnam have already raised interest rates while China and India have boosted reserve requirements. Economists expect more dramatic tightening in response to accelerating inflation throughout the region by yearend and weak sterling makes the UK especially vulnerable to imported inflation.

Meanwhile, the eurozone is grappling with its own demons, most immediately the problem of Greek, Spanish, Italian and Portuguese government finances. Fortunately, the UK is out of the euro but it?s still exposed to collateral damage. Already, the usual suspects are eyeing London?s financial centre as the whipping boy for their self-inflicted woes but Gordon Brown?s ultimately inept stewardship of the British economy has left the UK with little credibility to stave off regulatory threats from the continent.

Beyond looming problems, though, the shackled private sector may miss out on some terrific opportunities.

Britain?s well-established petroleum industry should be leading the exciting development of shale gas but the industry?s experience could easily go abroad to friendlier tax and regulatory regimes. Similarly, the government?s disastrous management of public-private partnerships (PPPs) could drive Britain?s otherwise excellent infrastructure engineering firms to where PPPs are better run like Canada, Australia or even France. Elsewhere, Britain could better exploit its potential in arts, media & entertainment, tourism, software development, biotechnology, agriculture and aerospace to name just some if only the private sector could see a just reward for the required investment of time and money.

Sadly, old-fashioned fixations on higher taxes and ?tough choices? on spending to cure yesterday?s problem don?t bode well for coping with new problems and opportunities in the future.

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