Back to the stone age at the Trades Union Congress [1]

Written by **Dr Eamonn Butler** [2] | Monday 10 September 2012

It's like that moment when the clocks go back, and suddenly the evenings are dark. After a glorious summer of sports and jubilees, suddenly the annual Trades Union Congress meeting is upon us and gloom spreads around.

Austerity isn't working seems to be the slogan this year. Apparently we need more government spending to boost the economy by hiring a lot more public-sector workers and raising their pay. They will then go out and build things, supply essential services, encourage business by buying stuff, and help the government by paying more taxes.

Sounds a bit like inviting in a burglar in the hope that he might spend some of the swag in your shop. Unfortunately, the money to hire more public-sector workers, and to pay them better, has to come from somewhere. The government could borrow the money, but its problem is that it is already borrowing far too much. There comes a time when your creditors reckon you are so deep in debt that you will never be able to repay everyone, so they had better stop lending to you and indeed start getting their cash back. Then you are sunk, of course, like Greece, having to offer 20%+ in the hope that a few reckless or over-optimistic folk might be daft enough to keep propping you up with loans.

So yet more borrowing does not seem a particularly safe source of money to boost public-sector employment and wages. Nor is inflation. We have had too much of that too. A rising cost of living means that people's savings and pensions do not buy as much. And rising prices also confuse businesspeople about what is actually profitable: they cannot see the 'signal' of where the real demand is from the 'noise' of prices rising all around. That gave us the financial crisis: when everything seems to be booming, people make some pretty crass bets.

Or the government could raise the money for public-sector expansion from higher taxes. Don't get me started. A sure-fire way to kill off hard work and enterprise is to slap a high tax on it. We tried that in the 1970s and we got the brain drain. Not many of us who drained out actually came back.

But why should we boost public-sector employment and wages anyway? The fact is that productivity in the public sector is dire. It has flatlined at a time when, for decades now, it has soared in the private sector. Shouldn't we be putting our money into things that are highly productive, rather than things that are not?

And it is fine to talk about downtrodden cleaners and nurses on low pay, but the fact is that the average public employee is, for a similar job, better paid, has a much better pension, takes more days off, and has better fringe-benefits and holiday entitlements, than the average private-sector worker. Private-sector workers have also been more likely to have lost their jobs over the last five years, or to have had to take cuts in hours. So why should a private-sector cleaner be expected pay higher taxes to boost the wages of public-sector cleaners?

Austerity isn't working? What austerity? Government spending is pretty well what it was five years ago in real terms. The government is reducing its borrowing a bit ? that is, it is not over-spending, beyond its means, quite as much as it did before. But it is still borrowing £2.50 on every £10 it spends, and still adding

to a national debt that is already at record levels.

Adam Smith once wrote that what is right for a family cannot be wrong for a great nation. One reason the economy is sluggish is that businesses and families are actually trying to cut their debt. Once bitten, twice shy. So people aren't spending as much. When people become more comfortable with the level of their household debts, they they will start spending again and growth will resume. It's just a phase we have to go through, like the hangover after a bender, before we can recover. A hair of the dog is no solution, it provides only a temporary relief but actually adds to the problem and makes recovery even harder and longer.

blog comments powered by Disqus [4]

Source URL: http://www.adamsmith.org/blog/tax-spending/back-to-the-stone-age-at-the-trades-union-congress

Links:
[1] http://www.adamsmith.org/blog/tax-spending/back-to-the-stone-age-at-the-trades-union-congress
[2] http://www.adamsmith.org/authors/dr-eamonn-butler
[3] http://disqus.com/?ref_noscript
[4] http://disqus.com