Don't believe the austerity hype [1]

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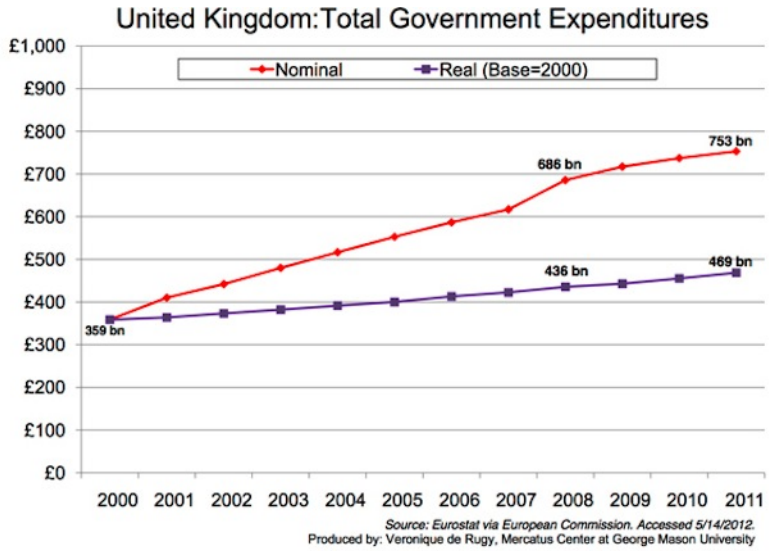

UK Chancellor of the Exchequer George Osborne has been warned by the International Monetary Fund that he risks further damaging the economy unless he slows the pace of austerity and faces up to Britain's 'growth challenge.

Er?what austerity? This graph, compiled by Veronique de Rugy of the Mercatus Centre, shows that UK public expenditure has been growing at a pretty solid pace, even in real, inflation-adjusted terms. If you or I were in debt as deep as the government's, we would aim to cut our spending and reduce it. But the government continues to increase its spending, and continues to borrow and add to its debt to finance it. Indeed, the Treasury expects that UK government debt will increase three times, from around £581bn in 2008 when the present crisis hit, to £1,500bn in 2015/16 which is as far ahead as the Treasury forecasts.

Public expenditure is, of course, notoriously difficult to cut. It involves making politically difficult and unpopular decisions. And indeed, during difficult times there are more people drawing unemployment and other social benefits, which are a very large part of the UK government budget. George Osborne's hope was that he could finesse things by hoping that the growth of people's incomes would outpace the growth of public expenditure, so that the relative burden of public spending would diminish, and less borrowing would be required. But given the general economic malaise in Western economies, and the disarray in the euro area in particular, our customers are not buying much more, even at the cheaper prices made possible by the downward slide in the value of the pound.

There is little sign of this changing in the near future. The only way to boost our earnings further is with a growth agenda of deregulation and tax cuts on business (such as a National Insurance holiday for small businesses), which would stimulate employment and investment. In the long term, however, we still need some mechanism to prevent governments simply borrowing to spend ? such that they get the benefit while in office, but future government or future generations get the bill to pay. And it needs to be a mechanism that, unlike the eurozone's borrowing rules (or former Chancellor Gordon Brown's), does not fall at the first hurdle when the going gets tough.

Whether governments are ever capable of such self-restraint, however, remains a moot point. So let us start right now by looking at the things that are preventing businesses, particularly small businesses, from hiring and investing and expanding ? and get government and bureaucracy out of their hair.

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