

[Investment should be left to the private sector, not the government](#) [1]

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Regarding the UK Chancellor's last week's autumn statement, if anyone had any doubts, one thing was made clear ? the UK, much like the US, is embracing fully on a Keynesian path to recovery.

The government took the plunge to direct private sector investment decisions. It is calling on pension funds to invest into infrastructure projects and even putting in some money by itself, it is calling on businesses to hire more young people (introducing an age boundary and a waiting list boundary) and offering them money to do so, it is calling on banks to lend more money to businesses by offering guarantees for these loans thereby setting a stage for another asset bubble, it is underwriting mortgages and driving the housing supply and finally it is doing all this in hope of satisfying narrow interests and in hope of ensuring political success.

The government is centrally planning the country's development. And they are doing so through populist policies, higher spending and more borrowing, despite all the warnings from the Office for Budget Responsibility (OBR) on the adverse effect this will have on output. The call for cuts is still strong but so is the call for more spending and more borrowing. The deficit and debt goals are prolonged another 2 years than initially planned. No wonder, since the policies the Chancellor came up with will only widen the national debt and increase the budget deficit. What is the point of calling plan A (or plan A plus) austerity, when it is clear that the UK is using a fiscal stimulus.

It is worrying that the current government would rather resort to populism and cronyism to create a seemingly good picture of the economy than to keep its long-term goals. The bond markets aren't punishing the UK yet, but they will do so soon enough. The policies imposed by the Chancellor resemble all those policies that led the peripheral eurozone nations into severe debt troubles. The UK is nothing like these economies some would say and would be right. But it is only a matter of time before it becomes like them if allowed to continue with a centrally planned investment and 'growth' scheme.

The worst outcome will be in the perception the UK government will create. Once it fails in its policies to restore growth, the Keynesian response will be it was because it crippled the recovery by cuts and that the plea towards austerity didn't boost spending or the aggregate demand. The fiscal austerity aimed to reduce the national debt and budget deficit will be blamed for UK's failure and a lost decade or two. But it will be exactly the opposite. Reckless spending in the Brown period and incompetence and lack of courage to change the public's opinion on the welfare state and continuance with populist policies during the current government will mark the reasons of a lost decade in Britain.

The lessons of the financial crisis in 2008 and the current eurozone sovereign debt crisis haven't been

learnt. The fallacy that a centrally planned economy can lead to prosperity and creating value still persists in the minds of the decision makers. Government steering of private sector investment leads to the creation of artificial demand and it leads to the creation of asset bubbles. The solution to these previously created problems cannot be applying the same policy as before, it must rest on other virtues, it must focus on creating value. And only the private sector can create value. Therefore, the government must do everything to clear the way and remove any burdensome regulation and taxes in order to encourage the private sector to do so. Confidence in the economy is best restored if it's a healthy, private sector led economy, not a government run behemoth. If UK policymakers are unable to see this, they should resign with immediate effect before they poison an entire generation with dogmatic thinking.

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