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Not such a capital idea [1]

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It is natural for politicians to want to offer solutions to problems. We should be wary of their ability to deliver on often unrealistic promises. One that George Osborne should avoid making is his rumoured plan to increase government infrastructure spending [3] following new criticisms of his economic plan.

Where investment is necessary, it is not for lack of government action that it does not occur, but through the twin burdens of taxation and regulation. High levels of taxation prohibit people from directing money towards infrastructure projects they value themselves. It is through the private sector that capital is more efficiently directed than by bureaucrats. Capital infrastructure projects are notoriously prone to overspend, delays and other uncertainty. They rarely live up to expectations and initial claims about their benefits are kicked into the political long grass. HS1 was a prime example of this, as a 30-year concession was sold at a loss of £3.6 billion. We need to see governments get out of the way of job creators to ensure prosperity, rather than taking risks on our behalf.

Another obsession that these calls hint at is the fetishization of GDP figures. Government spending, infrastructure projects included, comprise a part of this. It is inevitable that GDP would increase if government were to spend more. However, such a figure fails to tell us how rich we really are. It is unlikely that growth will return to 2006 levels any time soon. As we now know, these incomes were built on a bubble. Iceland learnt this lesson quickly, and is reaping the benefits. After refusing to offer its banks handouts, and putting fiscal controls in place, Iceland is predicted to grow by 2.4% this year (as opposed to a predicted Eurozone contraction of 0.3%).

It was reckless spending by governments that resulted in soaring national debt, and to repeat this would damage our economic credibility. While interest rates may be low now, we can expect them to increase if we avert from a path (albeit a slow one) of deficit reduction. To allow that to happen would put the economy on a more treacherous course. If Osborne wants to deliver growth, he should not take a u-turn, but renew commitment to deregulation and deficit reduction.

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