

Off The Cuff

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Talking to a Tory

LAST WEEK I had the uncomfortable experience of discussing the UK's Pre-Budget Report with a friend of mine who is both a double-dyed Tory, and an independent financial adviser. Of course, he knows a great deal more than me about the tax regime and the nature and effectiveness of financial regulation in Britain; and, this knowledge evidently sustains him in the view that Labour is largely responsible for the parlous state of the country's finances and only the Conservatives can save us by balancing the books.

I was somewhat nonplussed by both his account of current events and his political certainty. There is, of course, no doubt that the stupendous national debt which will probably top a trillion pounds next year has scared Tory and Labour leaders into agreeing, no doubt reluctantly, to big tax increases, to promise huge 'efficiency savings', and massive cuts in public spending. They are making a great deal of fuss about the apparently vast differences between their policies but Cameron and Brown are as one when it comes to the need to bring down the annual deficit from this year's high of £178 billion. George Osborne for the Tories wants to go faster, and Labour's Alistair Darling wants to go slower; however, both men are proposing huge cuts in government spending and big tax hikes designed to cut the deficit.

There is not much new about all of this. We have had a 'national debt' since the foundation of the Bank of England in 1694, a mere six years after the last unruly monarch was chased from these shores; ever since, governments of all stripes have borrowed heavily, particularly heavily in order to see off Napoleon, the Kaiser, Adolf Hitler and Hirohito.

The solution to stemming the growth of the national debt has always been the same: increases in taxes

and duties, and cuts in government expenditure. Nobody has ever really considered paying it off in its entirety and actually *balancing the books*. However, in good times a great deal is paid off, in bad times it rises inexorably. In nominal value, counted out in pound notes, it certainly rises inexorably, but as a proportion of gross domestic product it both rises and falls; at the moment it is rising and will begin to fall again as Britain comes out of recession.

Inevitably, the recession has taken its toll on government finances; as unemployment rises, receipts from income tax and from National Insurance Contributions fall, and benefit payments increase. A lower level of economic activity inevitably has the effect of increasing state expenditure while simultaneously cutting government income. However, during the current recession this effect has been particularly sharp because of the manner in which the cyclical downturn became entangled in the collapse of the financial system.

Of course, recessions are an integral aspect of our kind of economy occurring every eight, nine or ten years regardless of who is in power: as capitalist economies grow, both borrowing and prices rise; inevitably there comes a time when investors begin to doubt whether the high asset prices can be sustained and a 'correction' occurs within the market. When this happens sellers begin to outnumber buyers, asset prices fall, and the value of everything from stocks and shares to houses falls, exposing those who have borrowed too much to bankruptcy and ruin.

This time, however, the recession has been compounded by the collapse of very big banks which has spread panic and instability throughout the global financial system compelling governments to nationalise some failing banks and to inject vast amounts of money into numerous others in order to prevent their headlong descent into insolvency.

The money to save these institutions in Britain has been created by new issues of bonds and other instruments created by the government, which has

had the effect of increasing both the amount of money available for the banks and, simultaneously, the UK's national debt to a nominal sum approaching one trillion pounds. The real size of the debt as a proportion of gross domestic product has risen to levels, which both the Tory and Labour Parties regard as unsustainable. Consequently, both are committed to reducing the level of the debt as fast as they think is practically possible.

Labour wants to delay the onset of major cuts in public spending until we are through the worst of the recession; while the Tories believe that starting to cut the deficit immediately is essential to the process of stimulating a return to growth. It's a moot point. It is not at all clear whether drastic and rapid cuts in public spending would damage or slow the return of the economy to growth. It might. On the other hand, it might not. Neither Labour nor Tory policy makers really know with any degree of certainty.

However, this difference of approach exposes a sharp difference between the parties in their attitude towards spending on public services. Gordon Brown has spent years borrowing money to build new schools and hospitals, pouring billions into public services, assuming that future economic growth would enable him to pay down the loans and reduce interest payments, blithely unaware of the financial collapse to come. On the other hand, the Tories have adopted the moral high ground by insisting that it is Brown's profligacy which has got us all into another fine mess.

The truth is, of course, that there is absolutely no reason for believing that a Conservative government in Britain would have prevented the collapse of the financial system. Right and centre-right governments in Europe and Japan, and the Republican Presidency in the United States, all failed, along with Gordon Brown, to identify the dangers, or to take timely action to avert the crisis. Nor, can we assume that the Tory policy of refusing to bail out the banks with government loans would have steadied the British economy.

It is true that Margaret Thatcher continued the trend, initiated by Labour's Jim Callaghan in the mid-seventies, of reducing the public debt until the debt started growing again under the Tories in 1992. It was Gordon Brown who reversed this process by bringing about steady falls in the years after Labour returned to power in 1997. Although these rises and falls reflect wider economic circumstances and pressures, they also reflect differing approaches to public spending. There is not, of course, a precise correlation with the party in power, but the Tories tend to want to restrict public spending and pay down the debt, while Labour wants to increase the size and scope of the public provision of education, health, and welfare, and is perfectly prepared to borrow in order to do so.

It is evidently the case that both strategies have much to commend them; Labour's requires a growing economy because it borrows in anticipation of future production, whereas the Tory's strategy is founded upon the belief that low taxes and high rewards are essential for economic growth. Consequently, they want high profits and high wages in private industry, and low spending and pay restraint in the public sector. Tories think of public spending as a charge (and often as a dead weight), upon private companies and privately generated profits and incomes.

This tension appears to be a reflection of the inherent need, which modern capitalist economies have for huge public services and vast state infrastructure provision on the one hand, and the need for people to be free to start up new businesses, invent new products and services, secure in the knowledge that they will not be overwhelmed by taxes or government regulation, on the other.

The real tragedy is that in this left-right dingdong, of often-absurd charges and counter charges, the need to re-establish and deepen the roots of social solidarity free of both Labour's authoritarian tendencies, and the Conservative Party's predilection for helping the wealthy to help themselves, will undoubtedly be lost.