

The economy debate without the economics

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Last night at the University of Birmingham the three leaders got to grips with the economy. The debate was long on rhetoric and short on detailed economics. The first question should have got to the heart of the problem – how were the parties going to ‘fill the hole’. The debate so far has been centred on the contribution of tax rises and spending cuts of around £6bn. Given the depth of the hole that needs to be filled, this amounts to little more than a shovel-full. The UK government will spend over £700bn this year with running costs of over £160bn.

Much more needs to be done and spending cuts will have to be severe or tax rises unprecedented (perhaps equivalent to around 6p on income tax). The question that we wanted to know the answer to was where was the extra £50bn that remains unidentified in the party manifestos going to come from? The conservatives and labour have both ring fenced the NHS. So what is left? Defence cuts would be unpopular when we are fighting a war in Afghanistan. Education is the life blood of the country and is already a lean operation.

The common perception of the difference between the two main parties is how quickly they plan to introduce spending cuts. By 2032 all three parties will have reached the 40% debt level. The cut now or cut later debate at least comes close to an ideological difference. Which will be the most beneficial for jobs and growth? Gordon Brown last night came out fighting when he said ‘Let us not make the mistakes of the 1930s, 1980s and 1990s – Don’t withdraw the support... until the recovery is assured’. David Cameron came back with ‘The risk to the recovery is not cutting waste, the risk... is putting up national insurance’. The fact is that no matter which party wins there will have to be increases in taxation and/or draconian spending cuts that none of the parties will admit to. To do so would be political suicide.

Labour’s plan for a increase in national insurance is a jobs tax but it is simple to administer and will hit the richest hardest (a progressive tax). Conservative plans to cut waste still means taking money out of the system at a potentially crucial time. Likewise, the liberals plan to save £4.4bn by implementing anti-avoidance measures – that is a lot of avoidance to detect from individuals and companies that are very good at it. The liberal plan to narrow the tax base may be politically palatable but is questionable economics whilst increasing the top rate of capital gains tax to 50% from 18% hits incentives and growth.

Putting economics aside, it comes down to a question of trust. Gordon Brown was once considered the saviour of the financial world. Will voters trust the young Mr Cameron and Mr Clegg to step into his considerable shoes and continue the salvage operation or are the risks too great when jobs and livelihoods are at stake. The dreaded double-dip is a very real possibility.

Who can be trusted to avoid pop economics and grasp the nettle and implement sound economic policy over the next five years? Last night’s debate at the University of Birmingham left this question unanswered.

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