



Left Foot Forward

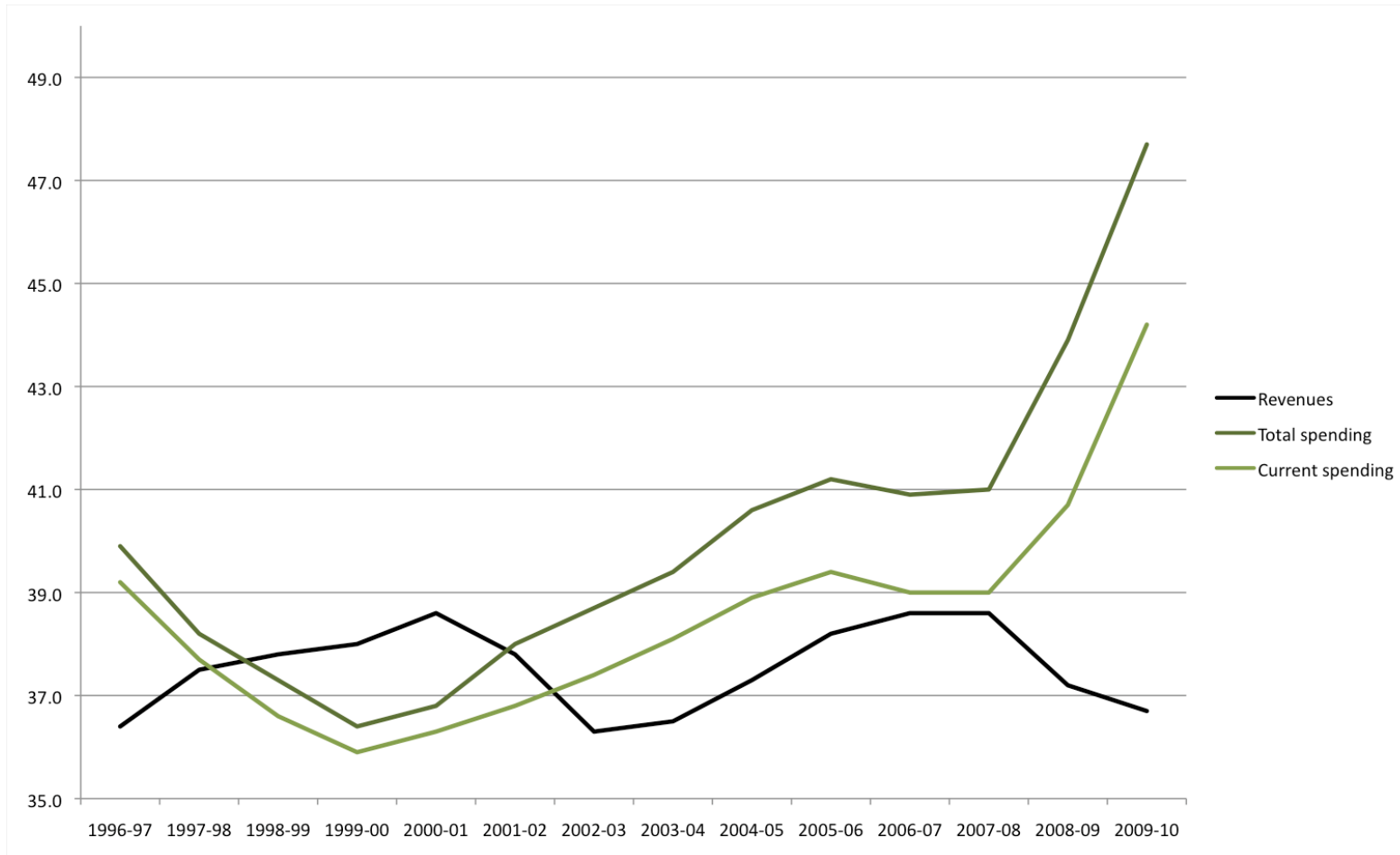
“Going for growth”

Will Straw, Editor

Outline

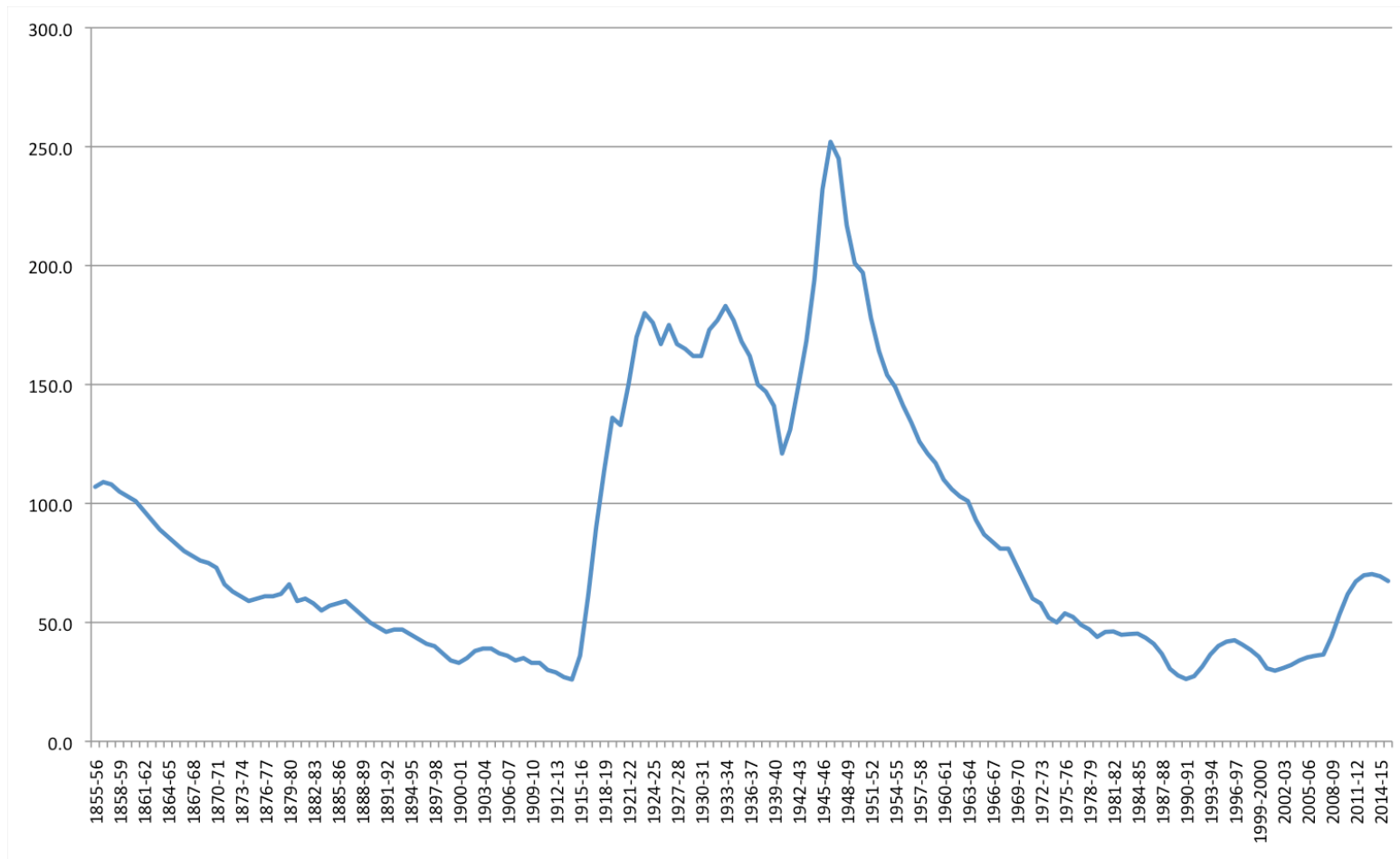
- The truth about deficits, debt, and bond markets
- The debate about deficit reduction
- A responsible deficit reduction plan
- Macro and micro policies to “go for growth”

The truth about the deficit



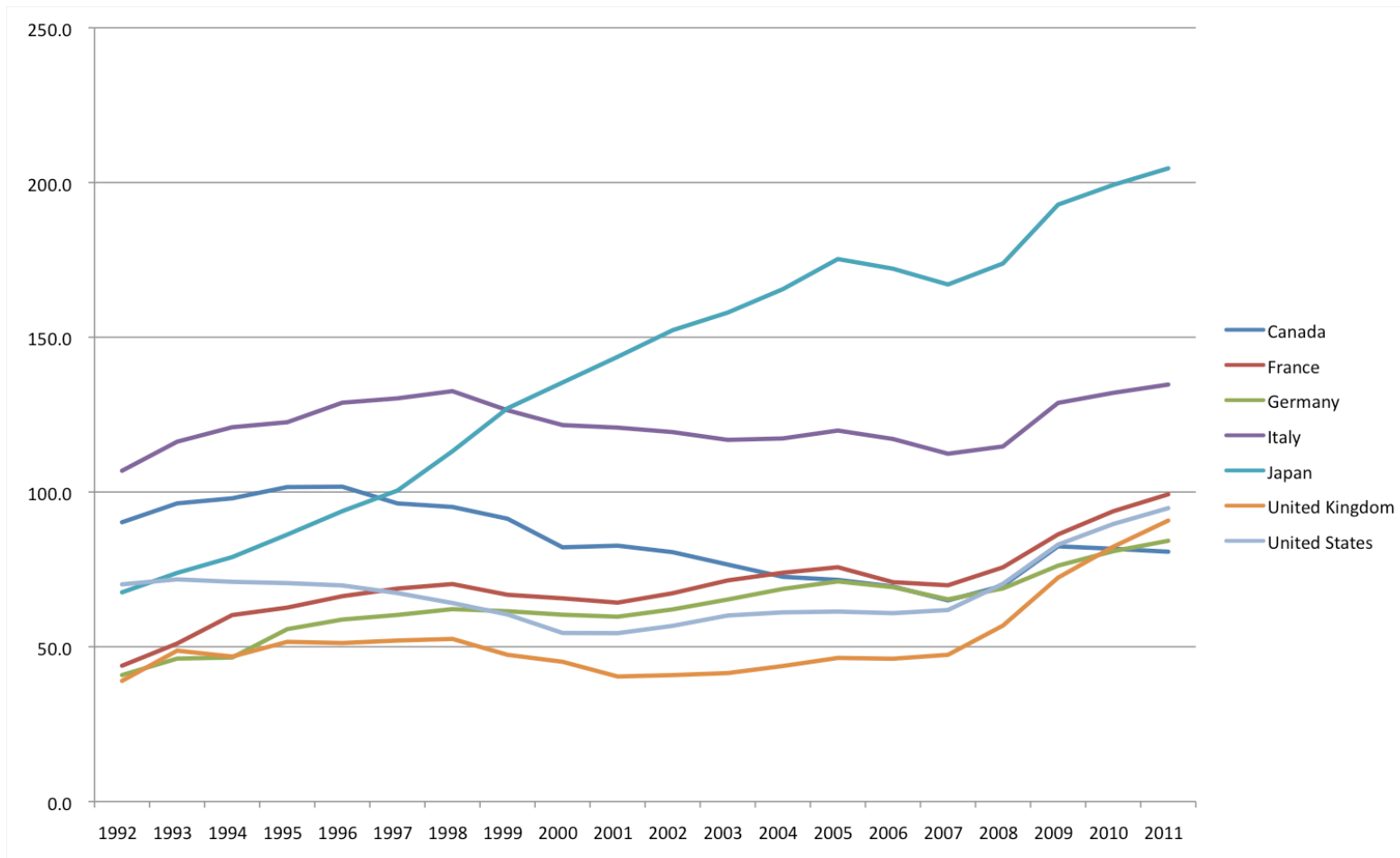
Source: HM Treasury

The truth about British debt



Source: IFS Fiscal Facts. Scale changes in 1975-76.

The truth about G7 debt



Source: OECD

The truth about 10-year gilts



Summary on deficit and debt

- Britain ran a slight cyclically-adjusted structural deficit in 2005-07.
- But Tories were happy with spending plans.
- The deficit was caused by the financial crash (bank bailouts, welfare payments, falling revenues).
- Britain is well placed to absorb the rise in debt.
- The Bond markets love our debt

Deficit reduction



Source: HM Treasury. Dotted line is Labour's plans.



Deficit reduction

by 2013-14	Coalition	Labour	Will Straw
Spending cuts	£63bn	£39bn	£28.5bn
Tax rise	£27bn	£18bn	£28.5bn
Total	£90bn	£57bn	£57bn
Impact on GDP using OBR multipliers (£bn)	£46.6bn	£28.8bn	£25.8bn
Impact on GDP (%)	2.7%	1.7%	1.5%

Deficit reduction

- Tax (£28.5bn)
 - Labour's £18bn plan
 - No Coalition tax cuts
 - Keep Insurance Premium Tax and Basic rate limit freeze (£1.25bn)
 - Plus mansion tax (£2bn), full CGT rise (£2bn) and double bank levy (£5bn)

Deficit reduction

- Spending (£28.5bn)
 - No welfare cuts aside from reducing eligibility of child benefit to 16 (£1bn)
 - 3-year public sector pay freeze (£8bn)
 - Remainder (£19.5bn) from Resource DEL which is £336.6bn in 2010-11 (excl DfID)
 - Total saving is 8.1% from each non-DfID department (including Health)
 - This compares with the Coalition's 23.3% cuts from unprotected departments

Going for growth

- Macroeconomic stability is key
 - Responsible deficit reduction
 - New fiscal rules
 - Wider role for monetary policy
- Microeconomic drivers
 - Greater competition
 - More entrepreneurialism
 - Sectoral industrial policy
 - Focus on the innovation system
 - Consider a US-style investment stimulus if things get dire