

Cameron pitches an age of austerity

Print

Published: June 7 2010 21:26 | Last updated: June 7 2010 21:26

David Cameron will do such things; what they are he knows not, but they shall be the terrors of the earth. There were echoes of King Lear [in the prime minister's speech](#) on Monday, but it was in fact a softening-up exercise for the real pain to come. More detail will come on Tuesday from George Osborne, chancellor of the exchequer. The [new coalition government](#) has made the first step on a long road to build a national consensus behind cuts in public expenditure.

The fiscal deficit for this year will be about 11 per cent of output. [Public spending](#) is now running at about 48 per cent of GDP. Both are unsustainably high, and Britain must forge a credible plan to reduce them. Labour's last Budget implied real reductions in departmental budgets of 11.9 per cent over the current parliament. Mr Cameron's government wants to raise taxes less than the old one and it intends to close the deficit faster. Therefore, it will need to make deeper cuts to expenditure.

If the government is to make such steep reductions in spending, it cannot avoid visibly damaging frontline services. The cuts will be more savage than anything contemplated by even the Thatcher government. Lessons about this scale of consolidation can only come from abroad, for example from [Canada's experience between 1994 and 1999](#).

The UK Treasury attributes part of Canada's success to popular concern about public borrowing, provoked by years of high deficits, as well as the government's decision to consult and speak frankly about its state-slicing mission.

But Britons are unprepared. Whereas polls found that 80 per cent of Canadians were concerned by the scale of their fiscal deficit in the early 1990s, there is no such nervousness about the issue in the UK. The meagre [£6bn of spending cuts](#) announced for 2010-11, which the government packaged as cutting waste, won the support of only a slender majority of voters. So the UK government must explain the gruesome measures to come – and make the case for persevering with them.

The best way to hold down spending is not to squeeze every budget, but to cut functions of government that are not prized. During the election, the role of the state was given a brief airing by the Conservatives, but the topic was quickly ditched. Voters were denied a choice about the shape of the state. The public should now be consulted on the way forward.

If spending cuts are to differ radically between departments, ministers must also be heard. The Cabinet must be a forum where ministers can scrutinise other departments and defend their fiefs. Mr Cameron must make sure all his colleagues dip their hands in the blood.

Managing a tight timetable will be tough. In Canada, once Jean Chrétien's government had announced its intention to close the deficit, the first budget appeared nine months later – and that in a smaller economy where central government controls less than a third of the public budget. In the UK, the share of public spending controlled from Whitehall is 70 per cent: the British Treasury faces a trickier task than its counterpart in Ottawa.

The Budget on June 22 comes much too early for the government to say anything useful. It should not try to. Even the ambition of releasing a spending review by the end of October will be a rush. It must take into account government reports on higher education funding and the future of Britain's armed forces – neither of which is complete. The review should also set out plans for the whole five-year parliament, not the usual three-year horizon. Britain cannot afford to be in the position in a few years' time, where a battered government has to propose fresh spending reductions.

The autumn spending review should also plan for a variety of scenarios. The UK needs strategies to respond to a world with little or no growth. At the moment Britain's main export market, [Europe](#), is vulnerable. Unlike Canada in the 1990s, Britain will not have a booming neighbouring economy that was available to offset a severe contractionary policy.

The government should consider soothing investors' nerves by pre-announcing the fiscal stimulus that it could deploy if the economy were to stagnate. Alongside plans for closing the structural deficit, Mr Osborne would be wise to unveil temporary measures with which he could alleviate the deflationary forces that severe tightening is likely to unleash. Pushing through the coming squeeze requires smart salesmanship today and Churchillian resolve tomorrow. Over to you, Mr Cameron.

[Copyright](#) The Financial Times Limited 2010. Print a single copy of this article for personal use. [Contact us](#) if you wish to print more to distribute to others.