

Letter: First priority must be to restore robust growth

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From Lord Skidelsky and others.

Sir, In their letter to The Sunday Times of February 14, Professor Tim Besley and 19 co-signatories called for an accelerated programme of fiscal consolidation. We believe they are wrong.

They argue that the UK entered the recession with a large structural deficit and that “as a result the UK’s deficit is now the largest in our peacetime history”. What they fail to point out is that the current deficit reflects the deepest and longest global recession since the war, with extraordinary public sector fiscal and financial support needed to prevent the UK economy falling off a cliff. They omit to say that the contraction in UK output since September 2008 has been more than 6 per cent, that unemployment has risen by almost 2 percentage points and that the economy is not yet on a secure recovery path.

There is no disagreement that fiscal consolidation will be necessary to put UK public finances back on a sustainable basis. But the timing of the measures should depend on the strength of the recovery. The Treasury has committed itself to more than halving the budget deficit by 2013-14, with most of the consolidation taking place when recovery is firmly established. In urging a faster pace of deficit reduction to reassure the financial markets, the signatories of the Sunday Times letter implicitly accept as binding the views of the same financial markets whose mistakes precipitated the crisis in the first place!

They seek to frighten us with the present level of the deficit but mention neither the automatic reduction that will be achieved as and when growth is resumed nor the effects of growth on investor confidence. How do the letter’s signatories imagine foreign creditors will react if implementing fierce spending cuts tips the economy back into recession? To ask – as they do – for independent appraisal of fiscal policy forecasts is sensible. But for the good of the British people – and for fiscal sustainability – the first priority must be to restore robust economic growth. The wealth of the nation lies in what its citizens can produce.

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