

The Deficit Just Keeps Growing

News Article



Osborne still hasn't balanced the books

Another month, another disappointing British public-borrowing figure. In September the government borrowed £11.8bn to bridge the gap between tax revenue and spending – compared to £10.3bn in September 2013. Borrowing has exceeded last year's figure in all six months of the 2014-2015 fiscal year so far. We are already at the £58bn mark, 10% more than last year. In March 2014, official forecasts had expected the annual deficit to fall by 12% in 2014-2015.

What the commentators said

George Osborne came into office as chancellor “wanting to appear as a responsible book-keeper”, said Julian Harris in City AM. But four and a half years on our annual overspend is still “absolutely massive”. The plan as unveiled in 2010 was to reduce the deficit by £37bn by 2014-2015. In March 2014 the target for this year was around £85bn. It now looks as though we'll rack up another £100bn-

plus deficit. That means our annual deficit is still around 6% of GDP, added Allister Heath in The Daily Telegraph. The eurozone's is 2.9%. Just about everyone in Europe “puts the UK...to shame”.

So what's going wrong? “The big culprit,” said Alistair Osborne in The Times, is income tax receipts. While the economy is humming and creating plenty of jobs, “so many of them pay a pittance” and hence produce little taxable income. The higher personal allowance has also lowered receipts, which are up to a mere £100m this year. That's a 0.1% rise, compared to an increase of 5.8% pencilled in by the Office for Budget Responsibility. Nor does it help that “we're not being as austere as we need to be”. Public spending in the first six months was 2.1% ahead of last year, rather than the 1.6% projected.

On the bright side, the tax should improve as average earnings rise. Deutsche Bank noted that “real wages are finally gaining some traction”: the annualised rate of private pay growth has outpaced inflation by around 1% since April. A further clampdown on spending may also help. But to meet the original deficit target, the government would have to cut borrowing by 37% compared to last year in the next six months. That looks like a “fantasy” as Osborne put it. And if our economic growth is hit by the downturn in the eurozone – our biggest trading partner – then that would make things even worse. The Tories' promised tax cuts, concluded Harris, are looking less affordable by the day.

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