Government 'economic fairytale' unravels

In the first 6 months of the financial year, from April 2014, government borrowing was **£58 billion**. In September alone it was £11.8 billion. Total government debt in September was **£100 billion higher than a year earlier**, at £1.45 trillion. By the standard of its own aims this shows the failure of the government's austerity programme. What the economist Ha-Joon Chang calls the 'economic fairytale' of the coalition government is beginning to unravel. Events are catching up with them both on the political and economic level.

When it introduced its first budget in June 2010 the Office of Budget Regulation forecast for 2014-15 was

- Current account deficit of £16.9 billion
- Public Sector Net Debt of £1,284 billion
- Public Sector Net Borrowing of £37 billion.

Yet the 2014 March Budget forecast showed

- Current Account deficit of £67.6 billion
- Public Sector Net Debt of £1,395 billion
- Public Sector Net Borrowing of £95.5 billion

Since March the situation has deteriorated with the PSND already £56 billion over the forecast with only 6 months of the year gone.

The growth in the economy of which Osborne has boasted was, as the OBR said in its Autumn Statement last year, the product of "lower savings rather than higher income". In other words consumers are taking on more debt. According to James Meadway (New Economics Institute) unsecured lending is back up to £162 billion and rising at around £1 billion a month.

We are told that 'national income' is now higher than the 2008 peak. However, that ignores the fact that the population is 3.5 million higher. In per capita terms income is still 3.4% less than it was 6 years ago. Meanwhile, the wages and productivity conundrum eats away at the propaganda of the government. The 'jobs-rich' recovery is producing an increase in 'under-employment' as people have to take part-time and precarious employment, such as zero hours contracts (See "Zero Hours contracts: promoting a climate of fear in the workplace") to avoid having to live on low benefits and be subject to harassment by the DWP and other government agencies. Chang estimates that the numbers of people doing fewer hours than they wish owing to the absence of full-time work has increased from 1.9% in 2006 to around 8% today. Despite the big increase in so-called 'self-employment' there has been a collapse in earnings of around 22% amongst them since 2008. Even a magazine like the Economist and newspaper like the Financial Times (both supporters of 'flexible labour') are discussing the drag that low pay has on the economy.

The story the Tories promoted was that the economic crisis in the UK was the result of Labour's profligacy with public sector spending, and the austerity programme was the

necessary medicine for 'getting the debt down'. This nonsense left out the global crash in 2008, whilst it was private sector debt which was the major problem. The crash produced a **big decline in government revenues**. This was the cause of the current account deficit. (See “The autumn statement coalition con – the £400 billion extra debt 'success' story”)
The table below shows the comparison between the 2010 Budget Forecast at what has taken place. As you can see over 4 years there will be an estimated £185 billion less in receipts collected in than the 2010 Budget forecast suggested. £100 billion of this is in lower income tax than expected.

Financial Year		**2012-13**	**2013-14**	**2014-15**	**2015-16**	**Estimated Cumulative Difference**
Current account deficit	*Budget June 2010 Forecast*	£-65.1 b	£-40.2 b	£-16.9 b	£0.4	
	Budget March 2014	£-91.9 b	£-83.7 b	£-67.6 b	£-48.4 b	
	Difference	**+ £26.8 b**	**+ £43.5 b**	**+ £50.7 b**	**+ £48.0 b**	**+ £169.0 b**
Public Sector Net Debt	*Budget June 2010 Forecast*	£1,162 b	£1,235 b	£1,284 b	£1,316	
	Budget March 2014	£1,185 b	£1,258 b	£1,395 b	£1,439 b	
	Difference	**+£23 b**	**+£23 b**	**+£111 b**	**+£123 b**	
PSND as % of GDP	*Budget June 2010 Forecast*	69.8%	70.3%	69.4%	67.4%	
	Budget March 2014	74.2%	74.5%	77.3%	78.7%	
	Difference	**+ 4.1%**	**+ 5.2%**	**+ 8.9%**	**+ 12.6%**	
Public Sector Net Borrowing	*Budget June 2010 Forecast*	£89.0 b	£60.0 b	£37.0 b	£20.5 b	
	Budget March 2014	£114.8 b	£107.8 b	£95.5 b	£75.2 b	
	Difference	**+£25.7 b**	**+£47.7 b**	**+ £58.0 b**	**+£54.7 b**	**+ £185.1 b**
Income Tax	*Budget June 2010 Forecast*	£167.6 b	£181.4 b	£195.2 b	£208.5 b	
	Budget March 2014	£152.3 b	£155.6 b	£166.5 b	£176.8 b	
	Difference	**-£15.3 b**	**-£25.8 b**	**-£27.7 b**	**-£31.7 b**	**- £100.5 b**
Current Receipts	*Budget June 2010 Forecast*	£621.9 b	£661.9 b	£700.1 b	£737.0 b	
	Budget March 2014	£593.3 b	£618.8 b	£648.1 b	£675.4 b	
	Difference	**-£28.6 b**	**-£43.1 b**	**-£52.0 b**	**-£61.6 b**	**- £185.3 b**
Corporation Tax Receipts	*Budget June 2010 Forecast*	£50.8 b	£54.1 b	£56.9 b	£59.4 b	
	Budget March	£40.4 b	£40.1 b	£41.4 b	£42.0 b	
	Difference	**- £10.4 b**	**- £14.0 b**	**- £15.5 b**	**- £17.4 b**	**- £57.3 b**