

Uh-oh, we're in trouble - the recession's come along and burst Brown's bubble

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Today I have published a paper with the Centre for Policy Studies that sets out how the Labour Government has wrecked our country's finances. How Labour have wrecked our personal finances. And how they have left us all seriously exposed to the coming recession. David Cameron often tells us that we're all in it together. Indeed we are. It's extremely deep and very, very Brown.

Public Debt

Speaking on 28th October 2008, Gordon Brown said:

"Britain is in fact better positioned to deal with these problems because we have low national debt."

Oh really? As we stand on the precipice, about to tumble into a deep recession, after the bank bailout, public debt will stand at 50% of our country's total annual output, or GDP. The last time it was this high, was 1977-78. There is nothing low about our national debt. The Government spent and borrowed recklessly during the growth years, leaving nothing aside to cover the lean years. And the public debt situation is going to get worse yet as the economy deteriorates. Much worse.

Contrast with the last recession in the 1990s. Back then, public debt was 26% at the start of the recession, eventually peaking to 43%. Back then, there was room for tax cuts and public spending increases to cushion the impact. This time the cupboard is bare. The UK public finances are in a big mess. So the room for the debt funded tax cuts which are a normal feature of managing recessions looks very limited. As a result the recession is likely to be harder and longer than necessary.

Private Debt

More worrying yet is the private household debt situation. Ten years ago when Labour came to power, mortgages and all other household debt stood at around £500 Billion – equal to 60% of the UK's GDP. Today it has near trebled to £1,408 Billion – equal to 100% of the UK's GDP. Households are in debt to the tune of £58,000 on average. Our private finances are as broken as the public finances. Households are even worse placed than the Government to withstand the expected shocks to come over the next year. Our personal finances are in deep trouble.

Earnings stagnating

Debt may be manageable if there are funds available to pay the interest bill. Yet earnings have been stagnating for the last five years. So while personal and private debt rose, the wherewithal to service this debt did not keep pace. Government figures show that average weekly earnings rose from £445 in 2001/2 to £463 in 2006/7. That's a rise of just £18 in five years. A compound annual growth rate of just 0.7%. Disposable income has grown at an even more sluggish 0.6% a year.

People were lulled into filling the earnings expectation gap with all too easily available credit. It was too easily available because the Government recklessly failed to regulate the banks. The result was imprudent – even reckless – lending presided over by an imprudent and reckless Government.

Given we are now going to suffer what looks set to be a deep recession, earnings are not going to be rising any time soon. That's not just a problem for paying the mortgage. It means tax revenues will fall too, so impacting on the Government's finances.

Toxic shock

In all, the combination of excessive public debt, excessive personal debt and stagnating earnings is toxic. High public debt means the ability to restart the economy by cutting taxes is limited. High personal debt and weak earnings (at a time of falling house prices and rising unemployment) risks a sharper, recession deepening, loss of confidence and consumer slowdown than might otherwise have been the case.

As a result, the UK is in far more serious trouble with the bursting of the bubble than should have been the case. Far from being a prudent manager of the economy, Gordon Brown's economic management has been a complete and utter disaster for us all.

What should we do about it?

Labour's solution to the recession is to sink us even deeper into the mire with even more borrowing. It's not likely to be an option for long. Those who have looked at the 1970s will know that excessive public borrowing, pump priming and ballooning deficit budgets in recession leads to runs on sterling, higher interest rates and slower recovery. Not good.

I'd really like to hear comments on what readers think we should do. I believe we have to bite the bullet. That we can't have it all ways and we're going to have to live within our means. Here are some key steps to think about:

- **Plan to balance the budget:** Deficit budgets in recession are not easy to avoid. Yet it is possible to set out a clear plan to balance the budget in order to give confidence to the Gilts market. We need their money, so we need to give them confidence we will pay it back;
- **Rein in public spending:** No pump priming (it doesn't work), defer capital projects where possible, scrap regional assemblies, the ID card project, five a day co-ordinators

and all other unessential or ridiculous items. Slow the planned increase in public expenditure in other areas for the next few years;

- **Localise public services:** I understand that the Centre for Policy Studies will next week be publishing an explosive paper which shows how layers of bureaucrats and regulations can be stripped away simply by transferring control of public services to the local level. Saving public money and giving it back to the taxpayer can only be a good thing in these times.
- **Allow companies to defer paying business taxes where possible:** Especially National Insurance, so it's targeted on helping keep people in work. The longer the confidence music keeps playing and the longer people keep their jobs, the more chance of escape from a really serious recession; and
- **Cut income tax** with the savings made from reining in public spending to the greatest extent possible in order to restart the economy.

Longer term, we should restructure our economy to make it stronger. Some ideas on what to do are set out [here](#).