

Will Osborne's undoubted successes remain clouded by his obsession with cutting the deficit?



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Osborne inherited an economy that had been sent into its worst recession since the 1930s CREDIT: DANIEL LEAL-OLIVAS/AFP

I hadn't expected to be assessing George Osborne's legacy quite so soon. But, to put it mildly, the past week has been full of surprises. To give him his due, Mr Osborne began with a pretty awful inheritance. The economy had been sent into the worst recession since the 1930s by the financial crash and subsequent global meltdown.

Although the previous Labour government had announced plans to reduce the deficit, when Mr Osborne took over as chancellor in 2010, it was running at over 10pc of GDP. Moreover, there was no sign of economic recovery on the horizon.

During his six years in office, the deficit has come down to 4pc of GDP, the economy has recovered and 2.4m jobs have been created. All in all, that is a pretty robust achievement.

Over and above this, Mr Osborne made serious strides in [reducing corporation tax](#). Moreover, when a shortage of funds precluded large immediate reductions, he made some impact by pre-announcing future reductions. He even continued with this policy in his last few days as chancellor after the Brexit vote suggested the corporate sector might need some reassurance.



Philip Hammond has succeeded George Osborne as the new Chancellor

But there was no equivalent achievement on personal taxation. Admittedly, he took many low earners out of tax altogether, but this was paid for by increased taxes on people with higher incomes. And although he reduced the top 50p rate of tax to 45p, Mr Osborne continued with this 45p rate which, for a Conservative chancellor, should be an abomination.

More importantly, he did nothing to hold out hope for much lower personal taxation across the board, and nothing to simplify the tax system, nor to facilitate the long-overdue fusing of income tax and national insurance. If a chancellor is serious about doing the latter, he has to have a long-term plan for personal tax, and not just for the deficit.

Overall, despite his achievements on the deficit and corporate tax, I doubt whether history will [deliver a particularly favourable judgement on Mr Osborne](#). All chancellors face a mixture of duties, temptations and distractions. The role naturally involves quite a bit of theatre and is inherently deeply political. Yet the great chancellors have concentrated on the detailed slog and the agenda for reform. The records of four successful Conservative chancellors – Howe, Lawson, Lamont and Clarke – provide a guide and a yardstick.

The greatest defect of Mr Osborne's chancellorship was his excessive involvement in politics and his devotion to issues concerning the management of the government and his own future. The Osborne-Cameron partnership in many ways echoed the Brown-Blair duo – although accompanied by much better personal relations. In essence, both these prime ministers allowed their chancellors excessive scope to shape the whole domestic policy

agenda – as though there wasn't enough to be getting on with in the financial and economic arenas.

The second major defect was rather different. While Mr Osborne was obsessing about turning the budget to surplus, many of the economic, as opposed to financial, aspects of the job received inadequate attention.

During Mr Osborne's chancellorship, the current account of the balance of payments deteriorated to reach a deficit of over 5pc of GDP last year. In the last quarter, it was running at almost 7pc. This is the largest deficit of any developed country and represents a continuing serious deterioration in our net asset position. The reasons for this appalling result are many, but the rise of exchange rates since the low point reached after the financial crisis in 2009 is one of the most important.

Accordingly, the Osborne economic recovery, like so many others before it, was disproportionately based upon domestic demand, which threatened its sustainability. But he had no strategy for addressing this issue, nor for altering the structure of economic policy to bring about a more favourable balance. Ironically, the fall of the pound which has been precipitated by the very thing that he opposed, namely Brexit, offers the best chance of going some way to achieving this.

Admittedly, Mr Osborne tried to address some structural economic issues, but more in gesture than in substance. It remains to be seen whether the most concrete of the things that he championed, [namely HS2](#), comes to yield significant returns. But his phrase "the march of the makers", designed to herald a rebalancing towards manufacturing, sounds like a hollow gesture. And it remains to be seen what the "Northern Powerhouse" amounts to.



Osborne was a strong advocate for HS2

This relates to his third serious failing. Obsessed as he has been with managing down the public sector financial deficit, Mr Osborne was loath to use public funds to back major infrastructure projects (except HS2), even though the cost of government borrowing was at an all-time low.

Instead, more recently his strategy appears to have been to try to attract foreign capital, especially from China, to fulfil this role. Foreign capital can be of enormous value – when it brings in real investment, management, skills and expertise. But when it simply amounts to an inflow of money, this is something that we can easily do without. The result is a stronger exchange rate than we need, and a higher cost of financing than we need to pay, to the benefit only of foreign investors. We can fund our own infrastructure investment, via government-backed bond issues, thank you very much.

Yet I do not endorse the criticism of Mr Osborne's record most frequently voiced on the Right, namely that he failed to bring the Government's deficit down fast enough. Going much faster would have held the recovery back, if not killed it stone dead. But I do believe that he failed to cut day-to-day (current) government spending enough.

This has [an important lesson for the new chancellor](#). The main point of moving further down this path is not to reduce the deficit faster but rather to provide the funds for public investment and tax reductions. This is the route to higher economic growth in the medium term – and that is the key to achieving sustainable public finances.

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