

Tullett Prebon Research, a blog by Dr Tim Morgan

The Treasury loses its trousers as the public finances slump

by Tim Morgan on August 21, 2012

This is the season for summer holidays, and anyone returning to his or her desk this week might be wondering quite how much has changed in the interim. ‘Not a lot’, it has to be said, certainly where the British economic and fiscal situation is concerned.

Britain is edging ever closer to **a vortex in which government borrowing escalates whilst economic output spirals downwards**. We’ve warned about this, *ad infinitum*, in our research reports.

Certainly, today’s figures for the public finances are as grim as any that have gone before. Because of the lumpy timing of tax payments, July is usually a good month for the taxman, such that government finances were in surplus (by £2.8 billion) this time last year. The latest figures, however, reveal a sharp (£3.4 billion) deterioration, to a deficit of £0.6 billion.

“A recession is where you have to tighten your belt”, Sir Adam Thomson famously said, whereas “depression is where you have no belt to tighten. When you’ve lost your trousers, you’re in the airline business”. It must feel like that at the Treasury right now, where officials might also be inclined to wonder about the qualifications of those occupying the flight-deck.

Thus far in this fiscal year, government borrowing (of £16.9 billion) has been lower than it was a year ago (£35.6 billion), but this £18.7 billion ‘improvement’ is the result of an accounting wheeze.

In April – which, conveniently, put the transaction into the current fiscal year – the government took over the £28 billion assets of the Royal Mail Pension Plan, adding the liabilities (of about £38 billion) to the Ponzi scheme that is the unfunded commitment to public sector pensions (This, for the uninitiated, makes up the lion’s share of the quasi-debt, totalling about £1 trillion that is kept off the books). In real terms, then, total public borrowing thus far in 2012-13 is £44.9 billion, a year-on-year *increase* of £11.1 billion in the space of just four months.

Labour, of course, thinks it can pin the blame for the slump on public spending “cuts”. In fact, public spending has been £7.3 billion (3.5%) *higher* in the first four months of the current fiscal year than it was at the same point in 2011-12. Government revenue, on the other hand, has increased, albeit only very modestly.

So taxpayers are handing over more cash – in a shrinking economy – whilst government is spending rather more. *Plus ça change*, then – ‘earn less, spend more’. Chloe Smith, Economic Secretary to the Treasury, says that this is a matter of “sticking to the government’s plan”.

The fact is that no-one – government or opposition – has anything remotely approximating to a workable plan, probably because no-one dares tell the voters the truth.