Tullett Prebon Research, a blog by Dr Tim Morgan

Cable gets the point

by Tim Morgan on September 25, 2012

Over the last couple of years, as the British economy has lurched back into recession in the absence of radical reform, I have all too often had to lament the lack of real economic understanding amongst policymakers of all persuasions.

Labour, for instance, keeps insisting that the government should borrow more (which, in case they haven't noticed, it already is), and shouldn't make big spending cuts (which, for the record, it hasn't).
So it is highly encouraging to see that business secretary Vince Cable, at least, is giving clear signals that he is developing a viable approach.

This is all the more striking because of the contrast between Cable's clear thinking and his party leader's ever more bizarre antics. Having demonstrated kindergarten-scale pique over some perfectly reasonable electoral reform plans (to which previously he was committed), Nick Clegg is now trying to counter his plummeting popularity ratings with a blatantly populist lurch into bashing the rich, conveniently forgetting that there are simply too few wealthy people for such policies to make much of a dent in the deficit. Clegg's latest wheeze – drawing on pension funds to bolster Britain's still-overpriced housing market – smacks of all the desperation of a failing lightweight.

Cable's plan has to be read between the lines, but its fundamentals are clear enough for all that. First, he recognises a need to improve credit conditions (which is the opposite of what would happen if Labour were to succeed in spooking the bond markets with an overt retreat from fiscal discipline). Second, he recognises that government can use its solid credit rating to underwrite private sector investment in critical areas (presumably, infrastructure and house-building).

Most important of all, Cable seems to recognise that government spending needs to be switched from current to capital expenditure. Advocating such a switch surely implies recognising a need to make savings in the benefits bill, and – if Cable has the political courage to say so – a freeze in benefit rates could make sense, since last year's rate increases (of +5.2%) were so far ahead of wages (+2.4%).

As readers will know, I would go further still, putting £10bn annually into building council houses, thereby boosting a pivotal economic sector whilst simultaneously beginning to chip away at Britain's shocking, 1.8-million-strong waiting housing list. With property still overvalued, circumventing developers and channelling investment directly into the building industry instead would surely make sense.
Cable might not (yet, anyway) go all the way on the desirability of building council houses in such large numbers, but at least he is articulating the need to switch from current to capital spending, which is a very positive sign.

Moreover, it is evident that the business secretary is amongst the comparatively few policymakers who recognise both the scale and the urgency of the economic challenge. This, in itself, is both commendable and encouraging.