The Times, p. 29 "Analysis"

How Labour could avoid trap set by the Treasury

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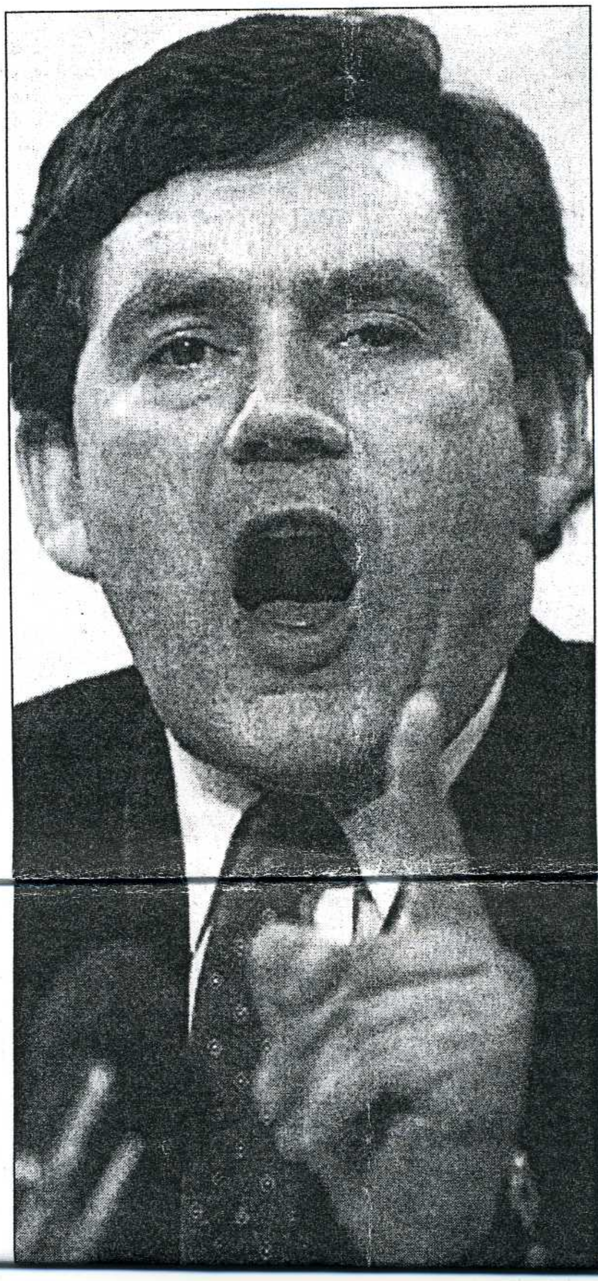
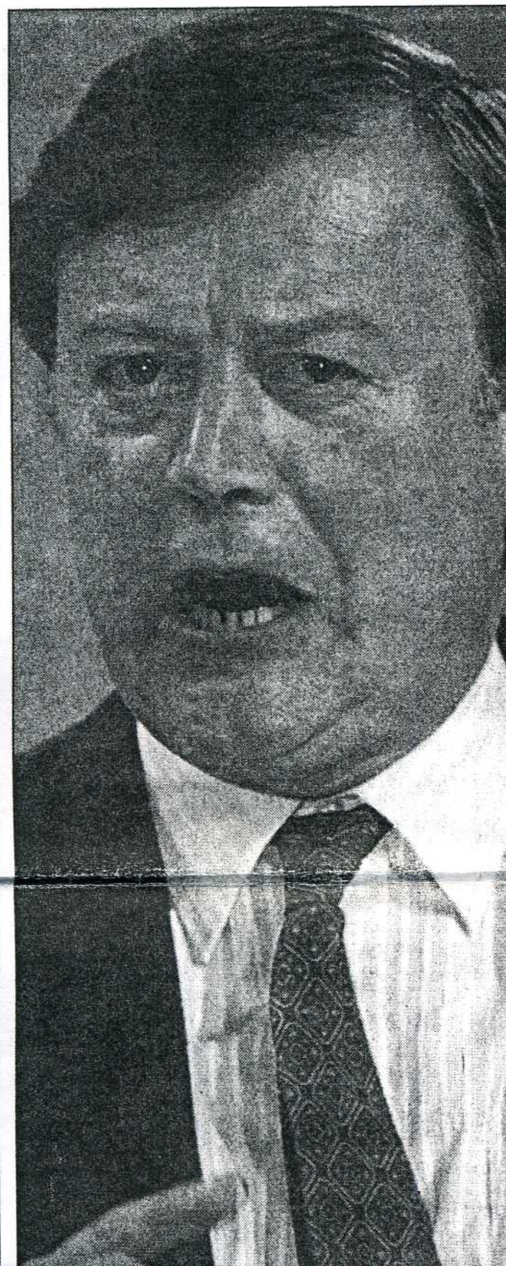
suggests a response to the question 'where is the money coming from?'





The Labour Party has, in recent years, frequently proposed to relieve some of Britain's serious economic and social difficulties by increasing public spending on infrastructure, health, education, and welfare. These proposals are invariably countered by the Treasury with the question "where is the money coming from?", followed by the argument that, unless Labour raises taxes, its proposals will result in larger budget deficits, higher government borrowing and inflation.

Since the last general election, Labour has replied that the growth of income and employment generated by the rise in public expenditure will, by itself, contain the budget deficit.

The Treasury argument is clearly based on the familiar monetarist doctrine advocating the containment of the budget deficit in all phases of the economic cycle. Therefore, the mere fact that Labour, instead of questioning that doctrine, decides to argue that its proposals will not result in a larger budget deficit amounts to tacit acceptance of it. The same compromise was made by the party at the last general election, when it proposed to finance higher public expenditure by raising taxes.

In asking "where is the money coming from?" the Treasury is, in effect, setting a trap, very similar to the trap set by the question "when did you stop beating your wife?". That Labour allows itself to be caught in this trap is probably explained by its futile policy fact that Labour, instead of questioning that doctrine, decides to argue that its proposals will not result in a larger budget deficit amounts to tacit acceptance of it. The same compromise was made by the party at the last general election, when it proposed to finance higher public expenditure by raising taxes.

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Be that as it may, this policy has enabled the Treasury to divert debate from the fundamental question of whether it is desirable to restrict the budget deficit in a recession, to the peripheral statistical question of the projected impact on the budget balance of a rise in public expenditure.

No wonder the electorate finds it hard to see much difference between the economic philosophy of the modernised Labour Party and that of the monetarist Conservative Party.

Labour could defend its proposals far more convincingly if it were only prepared to abandon its policy of currying favour with the City and to place some faith in the intelligence and common sense of the electorate by questioning the desirability of containing the budget deficit in a period of widespread unemployment. This it can do by arguing, in common with the overwhelming majority of economists, that as long as the growth in income and expenditure, generated by the policy of raising public expenditure, is matched by a parallel increase in the flow of real goods and services, there need be no upward demand pressure on prices, even if the policy did not contain the budget deficit.

It follows from the above that the only rational and meaningful question to ask advocates of raising public expenditure is: "Where is the additional supply of goods and services coming from?" and not "where is the money coming from?" The answer to the first question is "from the employment of idle labour and equipment resources which is certain to follow the rise in public expenditure during recessions".

It is also clear that the deeper the recession, the larger the volume of idle productive resources, the greater is not only the scope but also the need for raising public expenditure and generating non-inflationary growth. To avoid a serious deterioration in the balance of payments, however, such expansionary fiscal policy should be implemented, either in concert with the other leading industrial countries suffering from mass unemployment, or on an international basis through such schemes as the one proposed by Jacques Delors for the European Community.

The only effect of a failure to contain the budget deficit will be an increase in government borrowing, resulting in a more pronounced growth in the national debt and in the interest payments on it. Such growth in government borrowing would not discourage business investment, provided the authorities permit sufficient growth in the supply of money to prevent a significant rise in interest rates. On the contrary, private investment is likely to be stimulated by the growth in demand generated by public expenditure.

Nor would the rise in interest payments on national debt impose a burden on future generations, since the larger interest payments will be made out of higher national income brought about by the expansionary fiscal measures in periods of recession. Moreover, the growth in public expenditure on projects such as those mentioned above, and in business investment, will ensure that future generations will enjoy better health, education, a training, will work with more effici infrastructure and industrial plant a equipment, and will live in a l divided and disillusioned, as well a less poverty- and crime-ridden soci than has been the case in recent yea

Of many historical examples t can be cited in support of th propositions, perhaps the most rec is the experience of the United Sta during Ronald Reagan's presider (1981-88). Over that period, the Fede budget deficit and public-sector b rowing more than doubled; the pub debt almost trebled; and the supply money rose by more than 90 per ce to permit a fall in interest rat Nevertheless, the rate of inflation w almost halved and gross private inve ment rose by 30 per cent in real term compared with 12 per cent in t preceding eight years.

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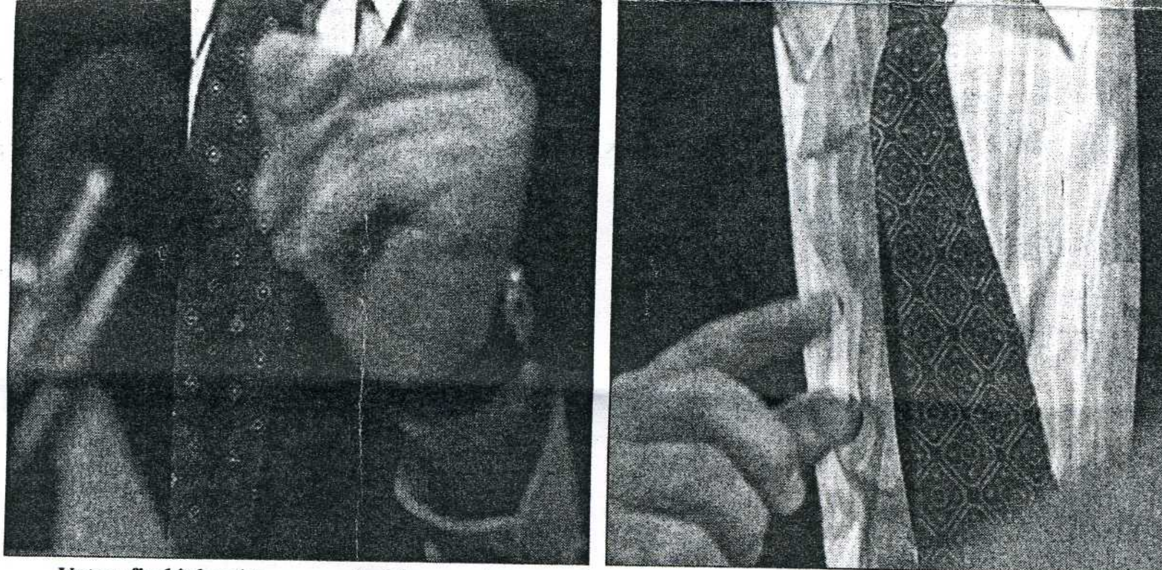

Voters find it hard to see much difference between the policies of Gordon Brown, left, and Kenneth Clarke

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