

## Does the deficit matter?

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I have received numerous notes, and many comments on the blog about John McDonnell's [decision on Friday](#) to back George Osborne's fiscal charter and to say he will cut the deficit.

So, does this matter? First, let's deal with facts. Fact one is that [I do not think George Osborne has a hope of clearing the deficit by 2020](#). Even if we live through relatively uninterrupted 'growth' of the sort we have witnessed for a year or so that is not going to happen. It would require record business borrowing, record personal borrowing and near record improvements in overseas financial flows. I hope the first two don't happen (if they do we will have a crash) and the last is implausible. In that case George Osborne's Fiscal Charter that promises budget surpluses is something he will deeply regret when in 2020 he goes before an electorate having delivered ten years of deficits.

Second, let's talk economically. Deficits do not matter here either: the markets remain keen to buy all the UK gilts they are offered right now. We know that if that changes then QE (or, better, PQE) can be used to pay for the deficit instead. This is what is happened from 2009 to 2012 when there was no net government borrowing at all: every penny of it for most of those years was paid for by the Bank of England in an act that will never be reversed. In that case, a deficit is no threat.

So, why the obsession with the deficit? This is short term politics: George Osborne has spun a line that denies both the above facts and he has (undeniably) sold it well. The UK public believe, almost alone in the world now, that deficits are in some way a threat to well being. Actually they are not.

As I have already noted today, government deficits are both the foundation of private wealth and money itself. To suggest otherwise is factually incorrect. So in that case what else needs to be said in the context of this weekend's discussion?

First, that I really do not think this issue will have the significance it has now in 2020. That's slightly counter-intuitive given I suggest Osborne will have run ten years of deficits by then but reflects the fact that I believe events will have overtaken the deficit

as the issue of concern.

We will have had another recession by 2020. The idea that we will have growth over this period when China is clearly in trouble, as are the emerging markets, and with some parts of the EU remaining deeply vulnerable (including Germany if VW collapses, as is plausible), is almost absurd.

The UK housing crisis will get much worse. The Bank of England is suggesting our banks may be vulnerable to a buy-to-let melt down and if the MPC increase rates they might just trigger that. The same increase in interest rates (if it happens) will also trigger increased home repossession before an ignominious reversal and a resumption of QE.

The NHS, social care, and many other services, including potentially the police and court services, will be on the brink of collapse by 2020 if current plans are implemented.

Net take home pay will fall despite the so-called living wage. Benefit cuts will ensure that for many. Loss of benefits exceeding £1,200 a year to swathes of working households will cause unprecedented stress in 2016, and massive resentment.

We cannot know as yet how the migrant crisis will develop.

The EU referendum poll could deliver Brexit as an anti-Cameron referendum and the fallout will be almost unmanageable for the Conservatives (an observation that I suspect will be true whatever the result).

And these are just the predictable issues.

Will the deficit narrative survive all this as the number one public priority? I doubt it. So it could easily be argued that simply sidelining it by refusing to give it the attention the Conservatives crave for it makes sense now.

But only in part. Just as I keep on stressing PQE is a strategy for a downturn downgrading the deficit issue only makes sense in three circumstances.

The first circumstance is to say in normal times it can be an issue, and to then say we are nowhere near normal times. Mention unemployment, under-employment, China, the housing crisis, the continuing failure of George Osborne to balance the books, the Bank of England's failure to deliver inflation: mention what you will, but say these are not normal times and so deficit debate is not the priority now and it's time instead to talk other things.

The second obvious comment is to note that austerity has never worked. So it has to be said that if you want to balance the books in good times the only way to do it is take the action needed to deliver those good times and only policies to invest now to put people to work, to reduce under-employment, to increase real wage rates, to increase

taxes paid as a result and to reduce benefit claims not by cuts but because of increased incomes can deliver that good time prosperity. In other words, say the austerity narrative is a complete failure in its own terms and always will be.

And third, it only makes sense to talk about the deficit in the context of it being the wrong issue and that we need to be talking about the bigger ones all noted above which are going to blow it out of the water and make the monetisation of public spending an inevitable discussion in due course.

Now maybe the public agenda is not ready for these three points to be made as yet. John McDonnell's decision to kick it into touch at this moment knowing circumstances will overtake it anyway may make complete sense in that case.

But my point is that unless a discussion on what needs to really be done to manage any one of the likely circumstances that are going to evolve between now and 2020 takes place we are in trouble. So I will be looking at those issues, PQE, the tax gap and other issues on this blog even if right now they aren't likely to be the headline news. As I have argued, that is what I think the job of responsible opposition in the sense of opposing the prevailing hegemonic narrative is. And that is what I am engaged in.

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[PS Can I remind readers of this that makes clear where I stand with Labour?](#)