

Why are government services going down the pan despite ..

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A [commentator on this blog](#) asked yesterday:

What puzzles and depresses me is the claim on the one hand that we are the most highly taxed we've been in a generation, yet all public services seem to be going down the pan for lack of funding. Can anyone explain to me how this can be?

That is, it has to be said, an excellent question. Thankfully, it is not too difficult to provide an explanation.

Given that a ratio is being referred to it follows that two numbers are being compared. In this case, those two numbers are total tax paid and the UK national income or gross domestic product (GDP).

As had been highlighted recently, the UK is currently in recession, meaning that GDP fell during the last two quarters of 2023. If, however, GDP was expressed as a figure per head of population the country was in recession from the spring of 2022 onwards because population grew faster than GDP.

With taxes being fixed there would, in that case, have been an increase in the tax to GDP ratio. That in a nutshell, is exactly what is happening in the UK at present. But let me explore this in a bit more detail.

There should be no particular surprise about this decline in GDP. GDP growth has been desultory since 2010, when David Cameron and George Osborne took office with the stated intention of reducing the scale of government spending within the economy.

There were two fundamental flaws with their plan at the time that they introduced it, and these flaws have remained ever since. To understand this it has to be appreciated that UK GDP is made up of a limited range of variables that are summarised in the following formula:

$$GDP = C + G + I + (X - M)$$

In this formula, C stands for the end consumption of goods and services. G represents government expenditure excluding transfer payments such as pensions, which are reflected in consumption. I represents net investment in the economy and X minus M represents exports minus imports, or our net balance of trade.

The UK government has since 2010 sought to reduce its overall level of expenditure. As is obvious from the above equation, GDP must have been reduced as a result.

Since government spending does, inevitably, become someone else's income, because contrary to the impression most politicians present it is not money poured into a black hole, consumption (C) is also reduced by cuts in government spending.

Governments since 2010 have also sought to reduce the level of benefits and other payments made by it, reducing the capacity for consumption as a consequence.

It has also reduced its overall level of investment in the economy, which is clearly reflected in the state of our infrastructure. The private sector has not made good that deficiency because reducing government and consumer spending has not provided it with the incentive to do so.

And then we did, of course, decide to leave the European Union, meaning our general trade position has deteriorated significantly, therefore reducing our export growth potential.

These government created facts, when considered together, were bound to deliver a period when GDP growth was going to be very low. And, like night follows day, that is what has happened.

Then we need to add into the overall consideration some other relevant factors.

One is the fact that economy was already suffering in 2010 as a consequence of the after-effects of the 2008 global financial crisis. The economy required an economic stimulus at that time because it was suffering under-employment and under-investment in the wake of an economic shock, and the government delivered austerity instead. That was the wrong policy at that moment that then virtually removed all prospect of growth for the decade thereafter.

Just to add to the complications, after that decade of austerity we got Covid, and that just made matters worse, compounded by the fact that the government's reaction to that shock has been to reimpose austerity, wholly inappropriately once more.

What all this means is that in the ratio of tax revenue to GDP that is the subject of the query raised, GDP has been crushed as a consequence of government policy.

At the same time, and unsurprisingly, the demand for government services has grown. That is because a poor population has higher relative health demands than a rich one. A

poorer population also requires more government support than a rich one and a poorer population suffers higher levels of unemployment and underemployment than a rich one. A poorer population

has also got less to spend to stimulate further growth within the economy, and therefore does not encourage additional tax payments.

The consequences of all these facts are not within the governments control: the payments that have to be made as a result of all of them are what are described as the automatic multipliers within government expenditure, meaning that they can rise as a proportion of national income whether or not government wishes that to happen. Unless it is exceptionally callous (which is a position the government has been moving towards but has still not quite reached) a government that at least tries to meet some of these needs will see its non-discretionary spending grow, albeit that the projects that it really wants to deliver to make people feel good about the country are bound to suffer as a result.

The next problem is that if, at the same time as these events occur we have successive governments that wish to balance their books then those governments will seek to raise taxes whether or not that is an appropriate thing to do given the needs of the economy at large. So, taxes rise, even if that then means consumption and investment are reduced even more as a result.

As a consequence of poor economic thinking by government that fails to understand any of this, what we get is a downward economic spiral. Growth becomes stagnant at best, but taxation demands increase to match increased government expenditure the demand for which arises directly as a result of failed government economic policy.

In other words, over almost fifteen years the government has deliberately failed to deliver growth but has created an environment where demand for government services is inevitably inflated. This is the outcome of neoliberal thinking.

Add into this the excessive costs of outsourcing, PFI, corrupt government, and the cost of wholly unnecessary exorbitant interest costs, and things just get worse.

So, why are we the most highly taxed we have been in a generation, yet all public services seem to be going down the pan for lack of funding? That's because successive governments have since 2010 done their utmost to undermine UK GDP in a way that was bound to increase demand for essential public services that then reduced the capacity to deliver other government services to the quality desired because those same governments insisted that the overall size of the government in proportion to shrinking GDP must be constrained. Mixed with an obsessive desire to balance the books this resulted in increased taxation. And until someone is willing to run deficits to break the resulting downward cycle nothing is going to change.

There is a final thought to add. What all this means is that to get out of this mess politicians have to change their behaviour, but what they're saying is that it's a pre-condition of change that the private sector delivers growth first, which makes any recovery look to be impossible since that is not going to happen whilst government policy continues to crush GDP. That summarises the mess we're in.