



Pointmaker

A DISTORTED DEBATE

THE NEED FOR CLARITY ON DEBT, DEFICIT AND COALITION AIMS

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SUMMARY

- The Coalition came into office in 2010 with the stated aim that it would eliminate the current structural deficit within five years and stem the increase in public debt as a proportion of GDP.
- The Coalition is not achieving these aims. Though it correctly asserts that the deficit has fallen by around a quarter since 2010, the cyclically-adjusted current deficit (the part it said it wanted to eliminate within five years), had only fallen by 13.2% by the end of 2011/12. The great majority of the reduction in the deficit has come from cuts to investment spending and tax increases.
- In addition, the official national debt is forecast to rise by £605 billion, from 52.5% of GDP in 2009/10 to 76.3% of GDP in 2014/15. Recent growth and borrowing figures now suggest it is unlikely to be on a downward path until the next Parliament.
- However, new polling for this report shows that 47% of people think public debt will *fall* by around £600 billion by the end of this Parliament. *Exactly the reverse is true.*
- This polling evidence also suggests that the difference between “deficit” and “debt” is still widely misunderstood.
- Public confusion has not been helped, either by politicians or leading journalists, who have both at times suggested the Coalition is reducing the national debt.
- Separate polling questions also show there is confusion over what the Coalition has achieved so far. Only 39% of the public correctly identify that the deficit has fallen since 2010, compared with 28% who believe this to be untrue.
- This creates two problems for the Coalition:
 - it will be vulnerable at the next General Election when opposition parties could argue that the huge increase in debt is primarily the result of economic incompetence;
 - ignorance of the scale of the fiscal predicament makes it difficult to win public support for the policies necessary to deal with the crisis.

INTRODUCTION

As always, a dominant factor at the next General Election will be the perception of economic competence. Given that the Coalition was formed on the basis of reducing the structural deficit and halting the increase in debt as a proportion of GDP, the state of the public finances is likely to be particularly important.¹

New polling for this report suggests, however, that public understanding of the Coalition's economic ambitions are at best confused and at worst hardly known at all.² Just 10% of the British public is aware that official public debt over this Parliament is forecast to increase by around £600 billion between 2009/10 and 2014/15. This will be an open goal which opposition parties will surely target in both the EU elections in 2014 and the General Election in 2015.

¹ The original [Coalition Agreement](#) stated that: "We will significantly accelerate the reduction of the structural deficit over the course of a Parliament, with the main burden of deficit reduction borne by reduced spending rather than increased taxes."

² Polling data for this report was undertaken by ComRes, who interviewed 2,006 British adults in an online survey conducted on 18 and 19 July 2012. Selected tables can be found in the Appendix while the full results are available at www.cps.org.uk

This problem goes beyond party politics. If the public is largely unaware of how bad the country's fiscal situation is, why should people be prepared to accept the case for the tough policies which are necessary to deal effectively with the deficit? Further, why should they listen to the philosophical argument that government spending is too high, and that the size of the state is too large, if they believe that all will be well in just a few years under current policies?

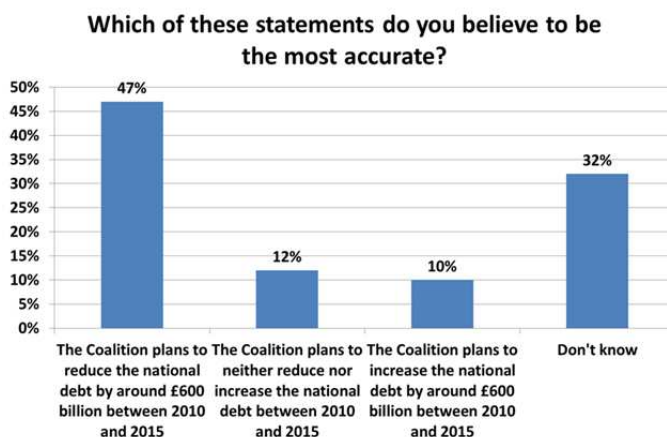
LITTLE KNOWLEDGE OF COALITION INTENTIONS

In the survey conducted for this paper, we asked members of the public whether, in terms of the national debt between 2010 and 2015, the Coalition is planning to:

- reduce it by around £600 billion;
- increase it by around £600 billion; or
- neither reduce or increase it.

While 32% simply said they didn't know, 47% of the public (or around 68% of those who thought they knew) thought that the Coalition is planning to *reduce* the national debt by around £600 billion between 2010 and the end of this Parliament in 2015. A further 12% thought the Coalition intended neither to increase nor reduce the debt. Just 10% correctly identified that the national debt is forecast to increase by around £600 billion (see Chart 1).

Chart 1



This lack of understanding should be worrying for the Coalition: it is not its intention to reduce debt over the course of this Parliament – in money terms, or as a proportion of GDP. Conservative supporters appear the most misinformed: 61% of those who voted Conservative in the last general election and 66% who intend to vote for them mistakenly think that they plan to reduce the national debt. Furthermore, the belief that the Coalition plans to reduce debt is strongest amongst the older age groups – those most likely to vote at elections.

The Coalition will therefore be open to the charge that it has presided over huge increases in debt. If many of those currently in support of the Conservative and Liberal Democrat parties, who believe that they intended to reduced debt, are suddenly told that this is not, in fact, the case – what is this likely to mean for the electoral chances of those parties?

POPULAR UNDERSTANDING OF THE ROOTS OF THE ECONOMIC CRISIS

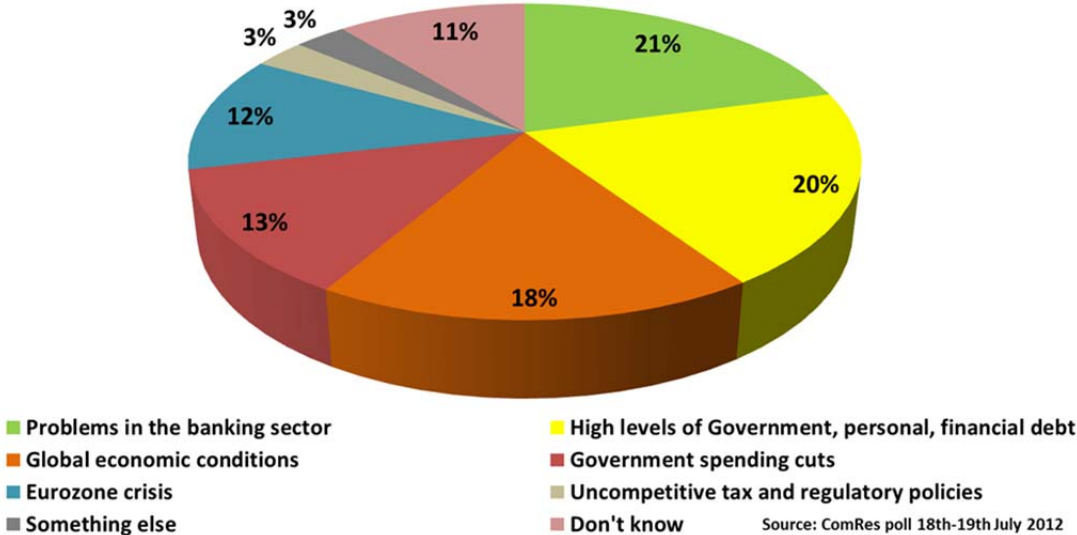
Though these polling results suggest that the public appears confused between the deficit and the debt, polling undertaken for this publication suggests that they don't attribute government spending cuts as the main cause of our current slow economic growth (see Chart 2). While 13% of those interviewed believe government spending cuts are the main cause of our current poor growth, 21% say problems in the banking sector are the most significant factor, and 20% suggest high levels of government, personal and financial debt are primarily to blame. 18% think global economic conditions are the key driver.

WHAT DID THE COALITION REALLY SAY IT WOULD DO?

It is clear nonetheless that there is a widespread confusion between “deficit” and “debt”. This confusion feeds into a misunderstanding about what the fiscal plans of the Coalition are.

Chart 2

Which of the following, if any, do you think is the MAIN reason for the UK's poor economic growth performance since 2010?



In reality, the Coalition bound itself to two fiscal rules in May 2010:

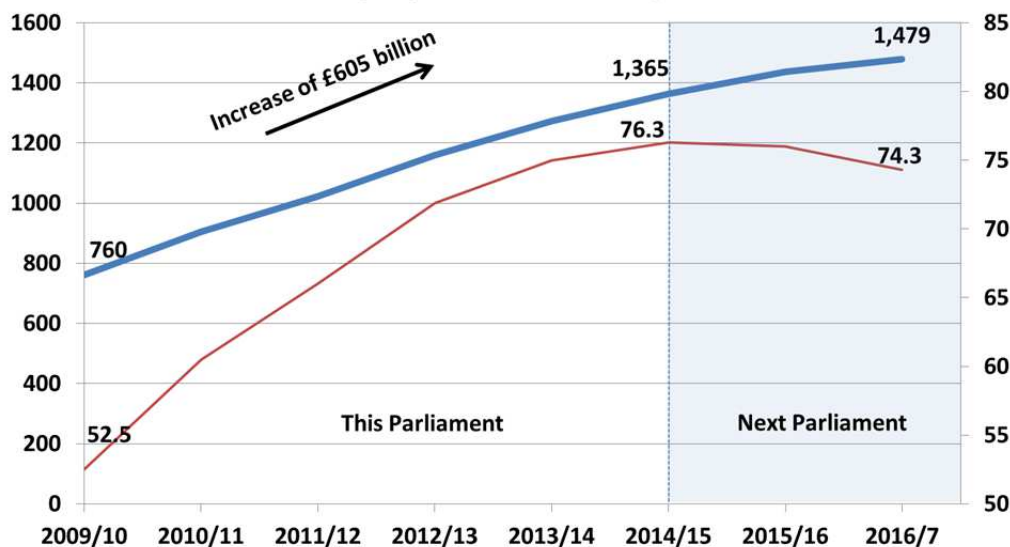
1. To eliminate the structural component of the current deficit within five years.
2. For debt as a proportion of GDP to be falling by the end of this Parliament.

Back in 2010, the first rule was interpreted to mean that the Coalition planned to eliminate the structural current deficit by 2015. Since then, it has become a 'rolling' target – meaning that the government must always plan to eliminate the structural component of the current deficit within five years. Thus, the target date has since shifted to 2016-17. Importantly, because it is a current target, it does *not* include investment spending.

The second mandate, however, is a hard rule. Debt as a proportion of GDP should be falling by the end of the Parliament. But this rule too is now unlikely to be met. The last Budget suggested it would just be met as the peak debt to GDP ratio would occur months before the general election. Since then, the IMF and others have downgraded UK growth prospects further, while the GDP figures for Q2 showed a 0.7% contraction of the economy.

Chart 3

Public sector net debt (£ billions and as proportion of GDP)



The important thing to note here is that it was never the Coalition intention to cut official public debt: in fact in Budget 2012 it was forecast to increase from £760 billion in 2009/10 to £1,365 billion by 2014/15 (see Chart 3). While the Coalition aimed to reduce the flow of new debt, the stock continues to rise.³

MUDDLE OVER DEBT AND DEFICIT

Why is the public so ignorant of the true nature of the Coalition's economic goals?

One reason may be the frequency with which leading politicians and commentators also seem to confuse "debt" and "deficit". The BBC is the most important medium for news on the economy (our survey found that around 76% of the public use it to find out news about the UK economy). Yet the BBC has been guilty of mistaking deficit and debt on occasion, and of implying that the Coalition's aim is to reduce the latter.

³ Note that all public finance data in this paper are correct as of mid-July 2012 and come from HM Treasury Public Finances Databank.

Take the mistake made on Budget day 2012. On 21 March during the TV coverage, the sidebar said that the deficit will be 7.6% this year and peak at 76% of GDP. This, of course, was confusing debt and deficit. The deficit was due to be around 7.6% this year whilst the debt was set to peak at just over 76% of GDP later in the Parliament. Again, on 25 July, prior to the announcement of the official GDP estimates, the BBC website article explained:⁴

*"The UK government has a £123bn programme to reduce spending over the next seven years and **slash national debt**, which currently stands at £1.04 trillion, or 66% of GDP"*

Or take the blog from the BBC's chief political commentator Nick Robinson, who wrote:⁵

*"Politically, it is another sign – following the revelation last year that the government is way off course to meet its borrowing targets – that George Osborne is currently failing in his own terms – i.e. **in his efforts to cut the debt** and the deficit ahead of all other economic goals."*

Yet both in absolute terms and as a proportion of GDP, the debt will of course continue to rise throughout this Parliament.⁶

There have been many other examples, particularly on broadcast media. Yet the BBC is not alone. In fairness, almost all newspapers or newspaper websites have been guilty of this misrepresentation of the Coalition position at some stage. Headline writers are often most guilty. In reaction to the Autumn Statement in

2011 for example, James Kirkup's blog post on the *Telegraph* website was titled: "Autumn Statement 2011: **clearing the debt** will mean an extra two years of spending cuts".⁷ A Max Hastings column for the *Daily Mail* a month later had said:⁸

*"Privately, few members of the Cabinet claim that their programme for economic recovery goes much beyond **cutting debt**."*

If only. Official public debt is forecast to increase by 80% in nominal terms and 59% in real terms across this Parliament. This did not stop Johann Hari exclaiming:⁹

*"The Great Crash of 1929 was followed by a US President, Herbert Hoover, who did everything Cameron demands. He cut spending and **paid off the debt**."*

Tony Parsons in the *Daily Mirror* has said that:¹⁰

*"The obsession with **cutting national debt** while ignoring growth is a recipe for national catastrophe"*.

Nigel Nelson of the *People* made a similar error:¹¹

*"My instinct is that Labour is right to say that David "Scissorhands" Cameron is cutting too far and too fast in **his rush to pay off the national debt**."*

While Aditya Chakraborty's Comment Is Free piece for the *Guardian* pronounced that:¹²

*"David Cameron came to office with **the primary goal of paying down debt**."*

⁴ [GDP data will confirm whether UK is in recession -](#) originally sourced from the BBC, but the article has since been amended. Note that in this and following quotations, the emphasis has been added by the authors.

⁵ BBC, [Credit rating warning: George Osborne v Ed Balls](#)

⁶ Similarly, on 22 August 2012, Paddy O'Connell said on BBC Radio 2 that: "The problem is debt, so why is the Government formed to cut it, borrowing more?"

⁷ [Autumn Statement 2011: clearing the debt will mean an extra two years of spending cuts](#)

⁸ [We're lucky to have him as PM. but at times this sounded like a Labour leaders speech. Cameron needs to raise his game](#)

⁹ [The biggest lie in British politics](#)

¹⁰ [Shame the British economy is down the toilet](#)

¹¹ ['Scissorhands' David Cameron still paying off Napoleonic debts to defeat France](#)

¹² [It's time to cancel unpayable old debts](#)

Leading politicians make the same mistakes: all three party leaders, and many in the Cabinet, have over the past few years made misleading statements about the path of debt under the Coalition. For example, the Chancellor told the Conservative Party Conference last year that:

*"We should never take our eyes off the prize: A British economy freed from its debts".*¹³

Similarly, the Prime Minister told James Chapman that bringing down debt was more difficult than he thought:¹⁴

"Yes, getting debt under control is proving harder than anyone envisaged. High levels of public and private debt are proving to be a drag on growth, which in turn makes it more difficult to deal with those debts," the Prime Minister said. But this also undermines further the case for adding to the national burden of debt with even more borrowing."

These sorts of mistakes were being made before the last election. During the famous exchange between Gordon Brown and Gillian Duffy, the then PM stated that a Labour Government would cut the debt by half over the next four years.¹⁵ In reality, Gordon Brown's final Budget in March 2010 showed that the Labour Party expected the debt to double by 2014/15.

More recently, Ed Miliband used a credit card analogy at IPPR to suggest:¹⁶

"Everyone knows you can't pay off a credit card bill if you lose your job, or see your

income fall. If that happens your plan to pay down the debt simply will not work."

It is not the credit card analogy that is problematic here, but the fact that the Coalition intends to reduce the amount it adds to its total credit card debt each year, as opposed to trying to pay off its existing debt.

In fairness, the Coalition has not been averse to using the nation's credit card analogy themselves. In April 2011, the Chancellor declared that:

"We are asking the British people to reduce the record budget deficit and pay off the national credit card."

This is factually incorrect. Other Conservative ministers are also guilty. For example, the Minister for Communities and Local Government Eric Pickles has said:¹⁷

"Ed Miliband and Ed Balls fail to realise that when you're up to your neck in debt, it's time to pay it off."

This is something that the Coalition is not doing.

The Deputy Prime Minister Nick Clegg has also erred. On Wednesday 9th May 2012, he said:¹⁸

"I actually think we've got a moral duty to the next generation, and to our children and grandchildren, to wipe the slate clean for them. We've set out a plan, it lasts about six or seven years, to wipe the slate clean for them. To rid people of that sort of dead weight of debt."

¹³ [Conservative Party Conference 2011: George Osborne speech in full](#)

¹⁴ [Cameron warns that cutting the debt is harder than he expected](#)

¹⁵ [Gordon Brown and Gillian Duffy](#)

¹⁶ [Autumn Statement: the moment when the country will see the economic gamble has failed](#)

¹⁷ [Eric Pickles: We will let councils make their own decisions](#)

¹⁸ [How Nick Clegg got it wrong on debt](#)

Either the Deputy Prime Minister will fail in his “moral duty”, or there is a secret debt reduction plan. And to “wipe the slate clean” of debt within six or seven years would (on a static basis) be equivalent to the Government not spending anything for the last two years of the period, and using all government revenues (assuming they remain the same!) to pay off the debt.

Clegg was rightly castigated for his mistake. *The Guardian* ran a political blog by Polly Curtis exposing the false claim.¹⁹ But in many instances articles on the *Guardian* website were guilty of similar mistakes. For example, Zoe Williams clearly confused debt and deficit in her article of May 2011 when she claimed:²⁰

“Our deficit was nothing like Canada’s either. Theirs had been rising steadily since 1974, and had got to 70% of GDP. Ours was 30% before the financial crash, a figure that is manageable, almost respectable.”

WHAT HAS THE COALITION ACHIEVED?

The fact that the polling evidence suggests that the public is largely unaware of what the Coalition is trying to achieve in terms of the public finances begs two questions:

¹⁹ [How Nick Clegg got it wrong on debt](#)

²⁰ [Cuts? I smell a rat. Let’s start denying this deficit properly](#)

- How successful has the Coalition been in achieving what *it actually did* set out to do?
- And is the public giving it credit for any progress?

The Coalition has made great play of the claim that it has reduced the overall deficit by a quarter since 2009/10. And it is true that overall public sector net borrowing between 2009/10 and 2011/12 has fallen from 11.2% to 8.3% of GDP – a 25.9% reduction (see Chart 4).

But we should remember that the target was not to reduce or eliminate the overall deficit, *but to eliminate the current structural deficit*. Here, it has been less successful. The structural current deficit has fallen from 5.3% of GDP in 2009/10 to 4.6% of GDP in 2011/12 – a 13.2% reduction (see Chart 5). Even on the optimistic forecasts in Budget 2012, the structural current deficit will only now be eliminated in 2016/17.

What does this mean in practice? Given that current government expenditure has continued to rise in real terms (from £648.9 billion to £664.8 billion in 2012/13 prices between 2009/10 and 2011/12), it means that any overall real terms spending cuts have come from cutting capital budgets. It also means that any closure of the current deficit so far has come through tax rises. You don’t need to be Keynesian to think these would be more damaging to growth than front-loading current expenditure cuts.

Chart 4

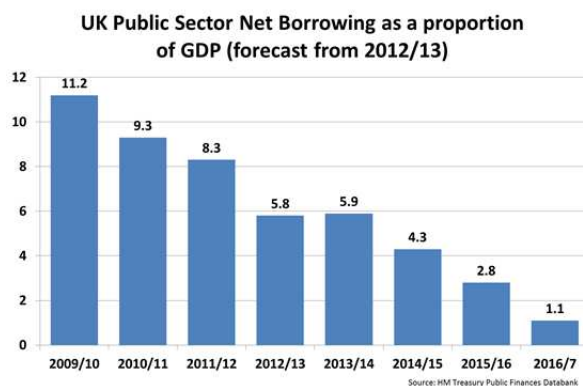
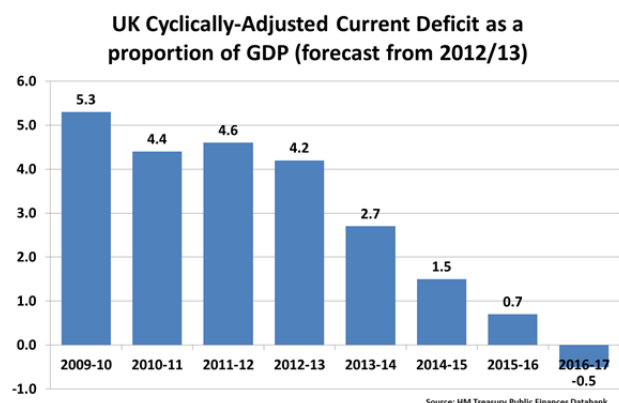


Chart 5



In terms of spending cuts, public sector current expenditure is now just 0.2% of GDP lower than it was two years ago. But by 2014/15 the total planned contraction forecast suggests this spending should be 3.4% of GDP lower than it was in 2009/10. Therefore, just 5.9% of the planned current spending contraction has so far been implemented. In comparison, 76% of the net investment consolidation and 64% of the tax rises as a proportion of national income for this Parliament seem to have been achieved (see Chart 6).

Chart 7 also shows how the continued downgraded growth forecasts have meant that the Coalition is now unlikely to meet its

secondary target for net debt to be falling as a proportion of GDP by 2014/15.

Both the fiscal mandates that the Coalition set itself are therefore unlikely to be achieved. The risk in the future is that the fiscal situation will only get worse: few of the cuts that are intended have yet been made, while recent growth and borrowing figures have been worse than forecast in the 2012 Budget.

With EU and General Elections looming, will the Coalition show the political courage to carry these out?

Chart 6
Fiscal consolidation undertaken so far (compared to total consolidation planned as a % of GDP in 2014/15)

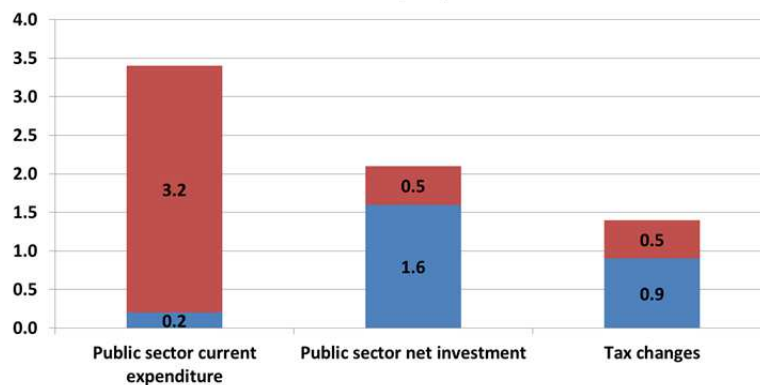
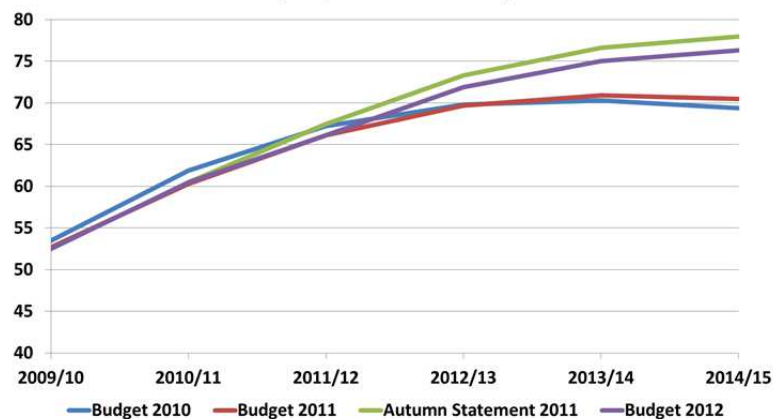


Chart 7
The path of public sector net debt (as a proportion of GDP)



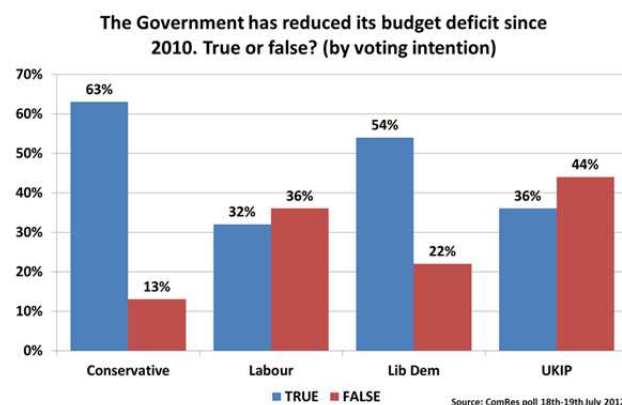
WHAT DO PEOPLE THINK THE COALITION HAS ACHIEVED?

So, while the Coalition is right to say that it has reduced the deficit by a quarter, it has been less successful in cutting the current structural deficit it sought to eliminate. Charts 8 and 9 below suggest, however, that its preferred message that it has cut the deficit by a quarter is not resonating with the public. Though more people state correctly that the Coalition has reduced the budget deficit since 2010 (39%) than state otherwise (28% disagree), there are a huge number of don't knows (33%).

Those people least likely to think the deficit has fallen are the older age groups, the lowest social class, and those who say they will vote for the Labour Party or UKIP (though it is impossible to know the extent to which the intention to vote for these parties stems from a misguided belief about the deficit, or whether their view on deficit reduction is biased by political allegiance).

Conservative and Liberal Democrat voters are more positive about the progress made. 63% of those intending to vote Conservative and 54% of those intending to vote Liberal Democrat said that the Coalition had reduced the budget deficit since 2010. 47% of Conservative voters, however, also mistakenly believe that the national debt has been reduced since 2010.

Chart 8

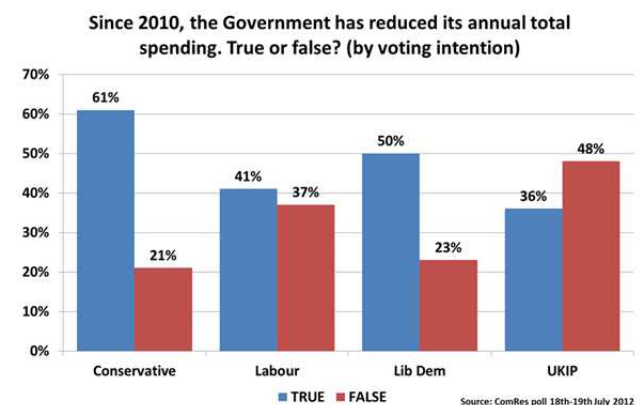


CONCLUSION

Most people today seem unclear about both what the Coalition is trying to achieve with the public finances; and what it has actually achieved so far. There is still widespread confusion between debt and deficit. There must be a danger for the Coalition parties that this could easily be exploited during public debate in the build-up to the next election, particularly because it is Labour and UKIP supporters who are least likely to believe that progress has been made in reducing spending and reducing the deficit.

Above all, the Coalition needs to be much clearer in explaining what it is seeking to achieve with the public finances, so as to give the public a clear means by which to judge its success.

Chart 9



APPENDIX

SELECTED TABLES FROM THE COMRES SURVEY

Which of the following, if any, do you think is the MAIN reason for the UK's poor economic growth performance since 2010 (by voting intention)?

	Problems in the banking sector	High levels of government, personal and financial debt	Global economic conditions	Government spending cuts	The Eurozone crisis	Uncompetitive tax and regulatory policies	Something else	Don't know
Total	21	20	18	13	12	3	3	11
Conservative	19	25	24	2	20	1	3	6
Labour	24	13	14	30	7	3	1	7
Lib Dem	19	18	26	3	20	5	2	8
UKIP	20	25	17	10	12	4	8	4

Which of these statements do you believe to be the most accurate by voting intention)?

	The Coalition Government is planning to REDUCE the national debt by around £600 billion between 2010 and the end of this Parliament in 2015	The Coalition Government is planning NEITHER TO REDUCE NOR INCREASE the national debt between 2010 and the end of this Parliament in 2015	The Coalition Government is planning to INCREASE the national debt by around £600 billion between 2010 and the end of this Parliament in 2015	Don't know
Total	47%	12%	10%	32%
Conservative	66%	8%	6%	19%
Labour	46%	14%	13%	28%
Lib Dem	50%	14%	11%	25%
UKIP	50%	15%	14%	20%

For full polling results, and methodology, please visit www.cps.org.uk



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