Group Economics

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Let the unpopularity contest begin…

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When Labour leader Ed Milliband failed to mention the deficit in his recent party conference speech, political commentators and the media went into overdrive, with criticism and derision being meted out in equal measure. In truth, though, it is far from unusual for the word deficit to be omitted from the speeches and rhetoric of political leaders. In Northern Ireland, in particular, public discussion about the public finances has seldom taken place at all; until recently anyway.

Indeed, whilst we have enjoyed a steady stream of good news about the recovery in the economy, one key headline has been conspicuous by its absence is 'a recovery in the public finances'.

Globally, government debt levels in the west, consumer debt levels in some emerging economies, and slowing growth are leading to alarm bells being sounded. The latest annual Geneva Report suggests that the global economy could be heading for another crisis as a result. The influential report predicts that interest rates would have to stay low for a "very, very long" time to enable households, companies and governments to service their debts and avoid another crash. It should be remembered that a slowdown in economic growth feeds through into lower growth rates in government revenues. With government debt levels already high, the scope for borrowing is more limited. This leaves cutting more public expenditure and/or raising taxes as the two policy levers that will be pulled.

Contrary to popular belief, the world has actually not even started the deleveraging process. Five years of a global economic recovery has not led to a reduction in global debt to GDP ratios. They are still growing. And it is debt levels in the Eurozone periphery and China that the Geneva Report's authors are most concerned about.

Meanwhile, the UK may be on course to be the fastest growing G7 economy this year, but concerns over its public finances are mounting, as opposed to receding. Despite posting more net employment growth over the last four years than the rest of the EU combined, government revenues have not grown in line with this. Back in March, the Office for Budget Responsibility (OBR), forecast the UK to borrow 12% less this year than last. However, so far this year, the UK Chancellor has had to borrow some 6% more. While UK public spending remains under control, tax receipts have risen by a mere 2% so far this year. This is less than half of the 5% growth rate anticipated back at the time of Budget 2014 in March. Income tax is the largest single source of government revenue, accounting for 25% of all government revenue raised. However, income tax receipts, which were expected to increase by 6.5% this year, have instead fallen by almost 1%. The 2% per annum wage growth predicted in March has also failed to materialise, with average weekly earnings growing at less than half this rate. This highlights that the government coffers are suffering from the cost of living crisis too.

The upshot of the preceding analysis is that the lack of recovery in the public finances will require additional austerity on top of that which had already been announced. It is worth remembering that back in March UK public expenditure was set to fall in both nominal and real terms up to 2018/19. The reality is that the UK will experience a second full term of austerity up to 2020. Indeed, last month the recently retired head of the UK Civil Service, Sir Bob Kerslake, warned "that under any government, we face up to a further five years of austerity in public sector spending". The reality is whether it's David Cameron or Ed Miliband in 10 Downing Street, the medicine will largely be the same. The current Chancellor has ruled in favour of more public expenditure cuts, rather than tax rises, to balance the government's books. Meanwhile Ed Balls, the Shadow Chancellor, has pledged that Labour will balance the books too. According to Mr Balls 'there will be no new spending paid for by additional borrowing'.

All of the above provides a sobering context within which Northern Ireland's public expenditure outlook will be framed going forward. Like the UK, Northern Ireland will share the same five years of austerity. However, in addition, Northern Ireland has to deal with its own public expenditure pressures largely, but not exclusively, linked to not having adopted UK welfare reforms.

Northern Ireland has endured the narrative of austerity, but it has not yet really experienced the reality of the public expenditure cuts that have been delivered in England or indeed the Republic of Ireland. This is about to change. Over the last four years, there has not been a lot of detail on Northern Ireland's public expenditure cuts. Over the past number of weeks, however, there has been a Mexican-wave of areas being flagged as being under threat, with significant cuts due to be made by the end of the financial year. Up until this point, Northern Ireland has been dealing with an ever increasing budget, or since 2010 one that has been broadly flat. Going forward, the Northern Ireland Executive and the local electorate will be chartering new waters where significant annual public expenditure cuts are the norm. It is important that everyone realises that difficult and unpopular decisions are unavoidable in Northern Ireland, as well as elsewhere. Politics will increasingly become something of an unpopularity contest.

Richard Ramsey,
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