

BUDGET DEFICIT

In our economic strategy in Britain, one central objective is the reduction in the Government's financial deficit - or as we call it the public sector borrowing requirement. We believe that government spending should be financed largely from its revenues. government should not resort to substantial and persistent borrowing either from foreigners or from its own people.

This is a sound principle of finance. Too much borrowing has been the undoing of many an enterprise and many a government.

Yet we continue to hear the siren calls, mainly from the Left, but sometimes also from the Right, that urge us to spend more and tax less. We are told that, as a consequence of the increased demand created, investment and savings, output and employment will all increase. Some inflationists make quite extravagant claims for the virtue of deficit finance.

I do not believe in such sophistry. Throughout history clever men, not all of them rascals, have tried to show that the commonsense principles of prudent finance do not really apply to this government or that institution, or certain families. Not so. They always do. And especially to governments.

Ultimately the taxpayers must finance government. If we reduce taxes this year the deficit is increased and we must borrow to finance it. The new government debt will have to be serviced and eventually repaid. Taxes must then be raised in all subsequent years to pay the interest and the principal.

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I cannot believe that a policy which implies increases in future tax rates can be a recipe for expanded savings and investment and higher employment and growth. Would any sensible businessman invest more if he thought that future tax rates on his profits would be increased to offset this year's tax levels? Would anyone be induced to save more by the inevitably higher taxes on interest income? Would any firm take on more workers if it expected its pay roll taxes to be increased?

No. Sustainable prosperity is not built on promises of higher taxes. Deficit finance is a dangerous delusion.

Furthermore in the real world large and persistent deficits have not produced any cornucopia of full employment and rapid growth. On the contrary. Those countries with substantial deficits experienced serious problems of unemployment and adjustment. Persistent large deficits produce stagnation not growth.

Most countries with burgeoning borrowings have avoided future increases in overt taxes. Instead they have resorted to hidden taxation by inflationary finance. They have used the printing press and borrowed from the banking system. The real value of the debt has been whittled away by cuts in the value of the currency.

It is with some justification that people the world over believe that persistent large deficits are virtually certain to be inflated away. No government can quell these fears of incipient inflation unless it pursues a policy of financial prudence.

Our policy of prudent finance is consistent with our aim - which is to eliminate not merely inflation itself, but also the very fear of inflation. Then our policy is credible. Then people know we are committed to a sound sterling.