

# The Guardian

## You wanted the job, George Osborne

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Irwin Stelzer May 17, 2010

Despite the horrific shape of the nation's finances, George Osborne wanted to succeed Alistair Darling as chancellor of the exchequer. And so he has. But he paid a heavy price: he will have to work with Vince Cable, a man who knows right from wrong with unnerving certainty.

If the coalition holds, Osborne will have to inflict a good deal of pain in the early years, in the hope of reaping the electoral gain when the five-year fixed term of this parliament comes to an end.

Not too long ago, I suggested to David Cameron that he use his first week at No 10 to pore over the books with his new chancellor, pronounce the nation's finances in far worse shape than they'd been led to believe, and call in the IMF (London being an easy stopover en route to Athens). He assumed I was joking, and I let it go at that.

Now, his chancellor professes to have done the poring and – shock, horror! – found fiscal skeletons in the cupboard: unannounced commitments by Labour to spend and spend. He might add that some additional skeletons were deposited by his boss, who has promised to increase spending on the bloated NHS in real terms in each of the five years of this parliament. And to step up foreign aid, some of which will go to China. And to protect the incomes of public-sector workers making less than £100,000 per year. And to raise the income tax threshold to £10,000, at a cost of £16bn in lost revenue (a good idea in flush times, which these definitely are not). There's more, but you get the idea – austerity this ain't.

Those moves limit Osborne's freedom of manoeuvre, as he must fund those and other promises set out in the coalition deal before attacking the deficit. He plans to begin doing this with a derisory cut of £6bn – the equivalent of baling out the ocean with a teaspoon.

An even more important limitation on the new chancellor's freedom of action is the market, most particularly the market for sovereign debt. To say this market

has been made skittish by problems in euroland is to understate the matter considerably. The so-called bond vigilantes – investors who discipline borrowers by dumping their IOUs – are in control, as well they should be: it's their money that is at risk.

Rating agencies have already warned they are maintaining Britain's triple-A rating only until they see what the new government is prepared to do about the deficit, now running at about £170bn and a Grecian 12% of GDP. Lay Britain's numbers alongside those of Greece, and you'll have trouble telling one from the other. Of course, because Gordon Brown kept the UK out of euroland, Osborne will have flexibility: he can allow sterling to depreciate, perhaps murmuring objections to the slide in order to burnish his credentials as a small-c conservative chancellor. But devaluation is no free lunch. Let it go too far and trigger a recovery-stifling rise in interest rates. As would a rating downgrade.

In his first budget Osborne will have to take an axe, not a scalpel, to spending. Not immediately, but as part of a credible plan to bring the deficit down over the next few years, with emphasis on the word "credible". He has the advantage of a coalition-created durable majority, an opposition in disarray, and private sector voters' realisation that public sector workers are earning more than they do. Should their unions carry out their strike threats, probable now that it is not a Labour government they would be injuring, the public is more likely to back an iron chancellor than relatively overpaid, overpensioned public sector workers.

But that alone won't put Britain on the path to economic growth. Nor will the new Office for Budget Responsibility, even if it proves as effective a constraint on deficit spending as Osborne claims. In the long run, Britain's future will depend on more than fiscal probity. The government will have to remove regulatory and tax barriers to new-business formation and small-business growth, and make a day's work pay more than a day on the couch watching television – release the animal spirits of its entrepreneurs and restore workers' incentives to show up on the job.

That will be no easy chore. Future growth will depend in no small part on the financial services sector, to which Vince Cable is hostile and which Britain's European partners are set on crippling. But Osborne wanted this job, has had time to prepare for it, and might, just might, be up to it. If not, the IMF surely is.