

UNITED KINGDOM'S BUDGET DEFICIT IN 2010s AND GOVERNMENT'S FINANCIAL POLICIES: ANALYSIS AND IMPLICATIONS

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Abstract

This article delves into the intricate nature of the United Kingdom's (UK) budget deficits throughout the 2010s and explores the government's responses to address this fiscal challenge. The article also sheds light on the fiscal policies adopted by the coalition government, formed due to the need for a collective approach to tackle the deficit. These policies encompassed tax increases, reductions in public benefits and investments, and aimed to balance the structural current account deficit by 2015–16. The government's approach aligns with Keynesian macroeconomic doctrine, advocating for government intervention in the economic landscape. However, the article raises questions about the efficacy of these policies in entirely mitigating the deficit. The article claims that while the deficit persisted as a concern, the government achieved a significant reduction during this period, showcasing both challenges and accomplishments in addressing the UK's budget deficit.

Keywords: *Budget Deficit, Budget Policies, Keynesian Policies, United Kingdom.*

DOI: 10.58934/jgeb.v4i15.199

1. INTRODUCTION

The United Kingdom (UK) encountered a substantial and fluctuating budget deficit during the 2010s, with figures ranging from £20 billion to over £100 billion. Addressing this significant fiscal challenge posed a formidable task for the governing authorities. This article delves into the intricacies of the budget deficits witnessed in the UK during the 2010s and subsequently examines the government's responses to mitigate this deficit. Additionally, a comparison of these fiscal policies with established macroeconomic tools will be presented.

According to the Oxford Dictionary of Economics budget deficit is “The excess of a government’s total expenditure over its income. This has to be met by borrowing, which increases government debt. Budget deficits can be calculated for any level of government—central, local, state in federal countries such as Germany or the United States—or for general government, which is all these levels combined” (Black, Hashimzade, & Myles, 2017). Hence, it is pertinent to observe that budget deficits, characterized as the variances between government fiscal disbursements and earnings over a specified period, typically spanning a year, carry significant import within both advanced and developing economies. These deficits are universally acknowledged as consequential economic and financial matters, subject to fluctuations in their extents. These fiscal shortfalls function as conspicuous markers of the disequilibrium prevailing between governmental disbursements and incoming revenue streams, necessitating thorough scrutiny within the encompassing frameworks of both revenue generation and expenditure allotment.

2. COMPARISON of BUDGET DEFICITS in CERTAIN COUNTRIES

As per ukpublicspending.org (2023), the UK's budget deficit experienced significant fluctuations during this era. The financial crisis of 2008 and the subsequent recession were pivotal factors contributing to these deficits. In 2005, the UK's budget deficit was below £20 billion; however, by 2010, it reached £103 billion. In the ensuing years, the deficit gradually declined, reaching £1.9 billion in 2018. This period was marked by economic challenges, as evidenced by a contraction of the UK GDP by 0.5% in the final quarter of 2010, contributing to concerns of potential stagflation (The Guardian, 2011).

Odabas and Bahtiyar posit that the origin of this fiscal predicament can be traced back to the year 2008. In the latter part of said year, the onset of the real estate crisis within the United States, coupled with the ensuing vicissitudes in the financial markets of the United Kingdom, unveiled a precarious scenario. This confluence of events precipitated a grave crisis that extended its ramifications across both tangible economic sectors and intangible financial domains, thereby evoking a pronounced sense of vulnerability (Odabas & Bahtiyar, 2010). The global financial crises of 2007/09 brought great budget deficit problems in many countries. . In the resulting global recession, budget deficits rose as economic activity (and thereby tax receipts fell) and as governments boosted their expenditure to provide income support and business rescue packages (Sawyer, 2020) .

In the recent period, an excessive deficit procedure has been initiated for France, Greece, Ireland, Spain, and the United Kingdom in the EU. The ratio of the budget deficit of these five countries to GDP in the year 2008 is as follows: -3.4, -5.0, -7.1, -3.8, -5.4, respectively. The European Commission has requested Ireland to bring its budget deficit under control by 2013, for France and Spain by 2012, for Greece by 2010, and for the United Kingdom until 2013-2014. The Commission has stated that these rules are not legally binding for the UK due to its non-participation in the monetary union, but it is expected to strive to comply with these rules (EC, 2009). The countries mentioned above, namely the United Kingdom, Ireland, Spain, and Greece, are not only characterized by high budget deficits but also have the highest public debt levels among the member countries (Odabas & Bahtiyar).

3. FISCAL POLICIES OF THE COALITION GOVERNMENT IN FIGHTING WITH BUDGET DEFICIT

An article in Sunday Times in March 2010 headed “Economists warn that a failure to act could trigger a loss of confidence that could push up interest rates and threaten the recovery”. “Leading economists say the government lacks a credible plan to cut Britain’s budget deficit and that action to reduce the country’s borrowing should start immediately after the election.” (thetimes.co.uk, 2010). George Osborne (2010) argued that “There is a recognition that the scale of the deficit and the rapid increase in the national debt cannot safely be ignored, and that public expenditure will have to be cut.” He argued that notions that expansion fiscal policy would reduce unemployment missed the importance of expectations and confidence (Sawyer, 2020).

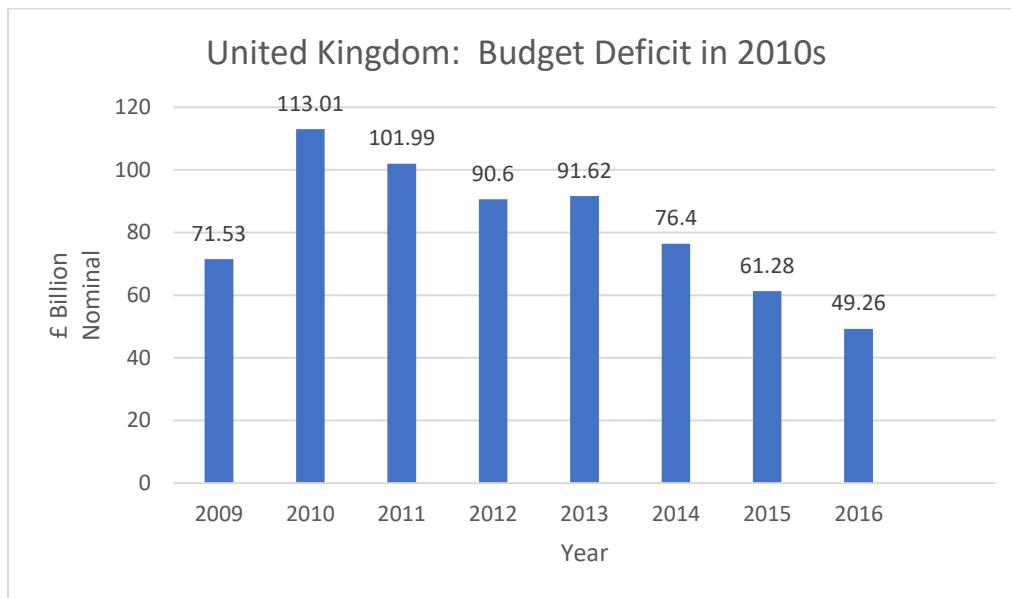
Reducing the budget deficit was the main target and the central economic challenge of the new Parliament. For a new government it was very difficult to come over easily for this kind of great problem. Moreover, Conservatives had to make a coalition with the liberals due to insufficient seats they won in the parliament.

Conservatives somehow followed the budget policy of Labours “golden rule” which required borrowing only to pay for investment. In terms of a borrowing rule, the 2010 Coalition Government had a forward looking rolling target for the cyclically-adjusted current budget to be balanced in the fifth year of the forecast period. This was later shortened to the third year of the forecast period (Keep, 2023).

The government predicted that the economy would grow by 1.2% in 2010, rising to 2.9% in 2013. Also it is explained that the country was set to miss the previous government's "golden rule" in the current cycle by £ 485 bn. The Chancellor said he expected consumer price inflation (as measured by the Consumer Price Index) to reach 2.7% in 2010, above the target of 2%. Moreover, unemployment forecast would go up to 8.1% in 2010, falling over each of the next four years.

Against these and other economic problems, the government introduced significant fiscal policies against the budget deficit. Of course they were mainly on tax rise, and decrease on several public benefits and investments. Osborne, the Chancellor aimed to balance the structural current account deficit by 2015–16. The balance of tax rises to spending cuts in his budget was 23% to 77%. Income tax personal allowances for people under 65 years old will be raised by £1000 from April 2011, taking about 880,000 people out of the tax system and reducing income tax on the low-paid by £ 200 p.a. The main rate of VAT will increase from 17.5% to 20% on 4 January 2011. This had been widely predicted before the Budget. No taxes will be imposed on items that are currently zero-rated (e.g. food, children's clothes). A new bank levy was announced, to raise £2 billion p.a. Corporation Tax will fall progressively in 1% increments for each of the next four years, from 28% to 24%. The small companies' tax rate will be cut from 21% to 20%. Capital gains tax increases from 18% to 28% from the following day, for higher rate taxpayers only. There were no changes to duties on fuel (petrol and diesel), alcohol, and tobacco. Osborne cancelled the increase that Labour had planned on cider (“June 2010 United Kingdom budget”, Wikipedia).

Figure 1: Budget deficit in 2010s



Source: Author's compilation

Within the framework of these policy implementations, one may assert that the governmental approach predominantly aligns with the tenets of Keynesian macroeconomic doctrine. Classical economic thought postulated that market equilibrium would naturally be attained through the mechanisms of the invisible hand, precluding any necessity for external economic intervention. Such interventionist actions by the government were purportedly poised to detrimentally impact fiscal indicators. In contrast, the Keynesian perspective on macroeconomic policy refuted this assertion, advocating for a more nuanced role for the government as an intermediary in the economic landscape. Consequently, during this temporal phase, the governmental administration predominantly favoured the application of Keynesian fiscal policies.

4. CONCLUSION

From a certain point, the efficacy of these policies implemented by the government could be questioned due to the inability to entirely mitigate the deficit. As evidenced by the figure of £49 billion in 2016, the deficit remained a prevailing concern. Conversely, a divergent assessment emerges when considering that the deficit underwent a reduction surpassing 50% within this timeframe, thus underscoring a measure of governmental accomplishment.

