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# Policy ruses put Britain's economic credibility on the line

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It is rare to have a moment of epiphany in economic commentary. Few developments disprove your previous beliefs entirely and such is the economic uncertainty that it is easy and comforting to hold on to views far too long. At 11:30 last Friday, I had such a moment.

A Treasury press release entitled "Changes to cash management operations" showed my faith in the credibility of the UK government's economic strategy to be misplaced. I no longer believe that this government is serious about economic or fiscal policy. Nor does it appear the institutional checks and balances work to protect the public.

How can such profound consequences flow from such an innocuous-sounding announcement? The cash management ministers have in mind is to reduce the government deficit now by raiding the surplus accumulating at the Bank of England under its quantitative easing programme. Lower borrowing now comes with the sure knowledge that a future chancellor will have to borrow more to cover the losses that will build up as QE is unwound and bonds bought above their par value lose money on redemption. This is no contingent liability. It is also large, with an initial cash grab of £37bn, more than 2 per cent of national income.

If future borrowing was likely to be cheaper than current borrowing, this would be sensible, but the likelihood is that QE will be unwound when economic prospects are better and government bond yields higher than their current historic lows. If we assume that QE breaks even in a profit and loss the Treasury is proposing expensive borrowing in the future instead of cheap borrowing now. It is bad cash management and will harm Britain.

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George Osborne likes to warn that the UK will become Greece if his austerity policies are not followed. But the chancellor should remember it was exactly the policy of hiding known liabilities that got Greece into its current mess. He is pushing Britain down Greece's doomed path.

The cynic in me has come to expect little more from politicians such as Mr Osborne for whom tactics are everything. To protect the public against such wheezes, Britain has some institutionalised checks and balances. How are they responding?

The first line of defence is our independent statistics office. Only last week Andrew Dilnot, chairman of the UK Statistical Authority, repeated his predecessor's mantra that good statistics are as important as sound money and clean water.

The UK's most important fiscal statistic is public sector net borrowing excluding financial interventions, a variant of which defines the government's target for deficit reduction. The statistics office



describes the measure as "intended to show the underlying state of the public sector finances without temporary distortions caused by financial interventions". Given this clear statement of principle, I asked Treasury officials whether Mr Osborne's gambit would have no effect on the official measures of the public finances because it is nothing more than a financial intervention, temporarily shifting cash from one bit of the public sector to another.

Wrong, the officials assured me – the independent statisticians appear to have guided them to understand that borrowing and debt figures would be flattered by the move.

What about the independent Bank of England? Sir Mervyn King confirmed yesterday that the interest rate setters viewed the Treasury's actions as equivalent to £37bn of monetary policy easing in the first year. So the Monetary Policy Committee appears to have acquiesced in an easing it had not initiated, after misleading the public that it had kept monetary policy unchanged when it took its monthly decision last Thursday. Allowing the Treasury to initiate monetary policy suggests the MPC has lost the plot; it certainly does not know how to communicate changes in monetary policy any more.

So far, the reaction to Mr Osborne's ruse has been indulgent eyebrow-raising. People appear to feel that ripping off future taxpayers, polluting statistics and undermining independent monetary policy is benign. Unless the policy is reversed or some independent authorities put a spanner in the works, Britain's economic credibility has died. Financial markets and credit rating agencies have not noticed yet. They should and I fear they will.

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