The government's plan of credit easing to small businesses shows they acknowledge that we need to grow our way out of debt, not just get a grip on spending.

The Social Market Foundation's, **Ian Mulheirn** *casts a critical eye over the Conservative's Conference announcement of a new programme of credit easing to small businesses. While this policy may well help to encourage growth, it will also mean greater levels of borrowing for the government, borrowing that might be put to better use elsewhere.*

David Cameron had a near miss on telling us all to pay off our credit cards yesterday, especially since the Chancellor's newly announced growth policy would rely on SMEs maxing-out theirs.

The Government is right to be wary of taking on more debt in a sovereign debt crisis. Temporary tax cuts or slowing the cuts to current spending could be disastrous given the state of sovereign debt markets. But that doesn't mean that the only way out of the hole we're in is austerity irrespective of growth. Far from it. The ongoing Greek tragedy – so often cited by Plan A fundamentalists as evidence of the alternative to austerity – is as much a crisis caused by the inability of Greece to grow in the face of such draconian cuts (and uncompetitiveness) as it is by the size of its national debt. Unlike households, economies have to grow their way out of their debts just as much as they have to get a grip on spending.

That fact calls, not for austerity, but for judicious use of the limited borrowing headroom the Government has. And here's where things got interesting this week in Manchester.

It was encouraging to hear that the Chancellor will set out plans to get credit flowing to SMEs through credit easing. We've yet to find out exactly how it'll be done, but let's be clear: to do this will involve HM Government – yes, the same one that keeps going on about the evils of borrowing – issuing more government bonds and *getting deeper into debt*. It can get away with this politically because financial transactions like this don't appear on the headline debt-to-GDP ratio. But it is nevertheless an important symbolic departure from the Government's previous position that 'further borrowing is not the way out of a debt crisis'.

Of course, a major unknown in this is whether there's actually much demand for credit out there among SMEs. After all, why should they start borrowing to invest if the rest of us are too busy paying off our credit cards to buy their products? If it's going to work then, the new credit plan will have to spray cash around a bit.

And there's the problem. If the scheme is to have any real impact on the economy, the Treasury will have to take on a fair amount of credit risk from banks issuing SME loans. So despite being a monetary intervention, this is not the most fiscally credible stimulus plan the Treasury could embark upon. Any significant amount of risk taken on by HM Treasury is just as likely – arguably more likely – to scare the bond market as a slug of honest borrowing to capitalize an infrastructure bank that could be directed to invest in badly needed chargeable infrastructure like roads, energy and information infrastructure. The latter approach is – and would be seen by investors as being – a more fiscally credible growth plan than any effective credit easing strategy. Arcane accounting rules can protect you from political opponents, but they don't fool the bond market.