# Osborne should make cuts from low-growth areas, and recycle the money into high-impact spending to boost the economy while sticking to the deficit reduction plan

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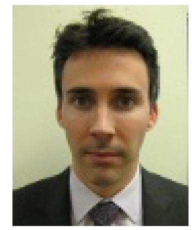
**Ian Mulheirn** *discusses the Social Market Foundation's plan to boost growth while sticking to the deficit cutting plan.*



So now it seems everyone is calling for a fiscal growth strategy. Conservative backbenchers are pushing tax breaks for entrepreneurs; Ed Balls wants a reversal of last year's VAT cut; and the Lib Dems are agitating for the acceleration of the £10,000 personal allowance manifesto pledge.

It's welcome to see people across the political spectrum starting to take the growth agenda more seriously. But it's not for nothing that the Chancellor points out the perils of a loss of deficit-cutting credibility if he goes borrowing more. You can make a good case for a discretionary fiscal stimulus, but you must also acknowledge that the risks involved for UK government debt are unknowable and the consequences potentially catastrophic.

That's why the SMF has published a plan to boost growth while sticking to the government's deficit reduction plan. How is that possible? Well, not all government spending and tax measures have an equal impact on economic output. Low growth measures, like tax breaks to encourage rich people to save, cost government money and drain the economy of demand at a time when those with the capacity to do so should be encouraged to sustain their consumption. Infrastructure spending, on the other hand, has a strong positive impact on output.

The government has to find an additional £15bn of annual spending cuts or tax rises by 2016. And with an election looming, the longer it waits to distribute the pain, the more its deficit cutting credibility will fall into doubt. That's why the Chancellor should make the cuts now from low-growth areas, and recycle the money into high-impact spending for the next four years.

This would result in a £50bn boost that would have an impact twice as great as the VAT cut plan, and three times as large as an unfunded version of the Lib Dem personal allowance plan. But more than that, it would do so without adding a penny to the deficit, while all the other proposals would add billions.

If I were a holder of UK government debt, or an unemployed person, I know which plan I'd want the chancellor to go with.

*You can read the full SMF report* ***Osborne's Choice: combining fiscal credibility and growth*** *here.*

*This post first appeared on the Market Square blog*

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