

Conservative Stimulus Curb Would Hurt UK: Brown

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British Prime Minister Gordon Brown said ending Britain's monetary and fiscal stimulus programs now would prolong the recession, sharpening an attack on the Conservative opposition's plans for the economy

"The right time to do this is when we're absolutely sure of recovery," Brown said in a Bloomberg Television interview in London. "You've got to be pretty sure, given the uncertainty of events around the world, that your recovery isn't going to be derailed."

The prime minister was responding to Conservative leader David Cameron's demand that the Treasury concentrate on efforts to curb its deficit and the Bank of England end its money-printing program "sometime soon."

Trailing in opinion polls, Brown is attempting to suggest that Cameron's plans are out of step with the consensus among economists and would damage the U.K. He also confirmed plans to sell 16 billion pounds (\$25 billion) of government assets including the Channel Tunnel rail link and Tote Bookmakers, a program the opposition said the Treasury may mismanage.

"As every family knows, if you sell something it can help in the short term but does not help you live within your spending in the long term," Cameron said on a visit to Bedford north of London today. "This is the prime minister who sold our gold reserves and if he sold them later would have got four times the quantity."

With an election due by June 2010, Brown's support has tumbled as the Treasury extended 1.4 trillion pounds (\$2.2 trillion) to protect banks and consumers from the sharpest slump since World War II.

"Brown thinks people trust him on the economy where Cameron is untested," Matthew Watson, professor of political economy at the University of Warwick, said in an interview. He added that Cameron's plan to scale back support for the economy gives "Brown the opportunity to back him into a corner" and "set the terms" of the economic debate.

Britain's economy shrank 5.5 percent from a year ago in the second quarter, depressing tax revenues and pushing up unemployment. The Treasury expects its deficit to touch 175 billion pounds this year, about 12 percent of national income and the most in the Group of 20 nations.

Former Bank of England officials David Blanchflower and Shamik Dhar last week criticized Cameron's suggestion that the central bank end its asset purchases. Today, economists from Goldman Sachs Group Inc. and HSBC Insurance gave support to Brown's view.

"The fiscal costs of this crisis are not as severe as people keep talking about," Jim O'Neill, chief economist at Goldman Sachs, said at a panel discussion with Brown today. "We need to get growth back and then we can have a more sensible look at what the fiscal position is."

Dennis Turner , an economist at HSBC Insurance said, “We are certainly not out of the woods yet. Access to credit, possible public spending cuts and inflation all have the capacity to turn the initial recovery into a false dawn.”

The Treasury has authorized the central bank to buy 175 billion pounds of securities with newly created money, aiming to rebuild bank balance sheets and stimulate the economy . While Cameron says the biggest threat to the U.K. economy is the Treasury’s deficit, Brown wants to keep in place a fiscal stimulus until the economic recovery is assured.

“If we withdrew the stimulus now, stopped the quantitative easing, we would be back to where we were,” Brown said in a panel discussion. “That would imperil the recovery. There is a major political division about how you get out of this recession.”

The latest poll, an ICM Ltd. poll published yesterday, showed the Conservatives had the support of 45 percent of voters compared with 26 percent for Labour.

Bank of England Governor Mervyn King will use new forecasts next month to appraise the asset purchase plan, which prompted a split on the committee in August when King favored spending even more. Former Deputy Governor John Gieve said in an Oct. 6 interview that officials may consider an expansion in November because they will be wary of a “false dawn” for the economy.

Asked whether his comments suggest he’s pushing for the central bank to extend its quantitative easing program next month, Brown said the decision is up to King and the Monetary Policy Committee.

Brown said that he will be careful “as we withdraw the public sector stimulus to the economy that we don’t allow the economy to fall back into recession,” and “that’s a decision that requires careful handling.”

He also reiterated the government’s commitment to halve the budget deficit within four years, with asset sales totaling 16 billion pounds and another 14 billion pounds of tax increases.

He said that Tote Bookmakers, the student loan book, the Dartford Crossing over the River Thames, the government’s stake in the Channel Tunnel and in Urenco Group, the uranium enricher, will raise about 3 billion pounds.

“The problem is most of the family silver has been sold and we’re dealing with the dregs here,” Vince Cable , a Liberal Democrat lawmaker who speaks on finance, said on Sky News. “I suspect that these numbers are greatly inflated compared to what they will actually realize.”

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