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How to Keep Proving the Economic Pessimists Wrong

di George Osborne

The pessimists used to argue that Britain and America couldn't escape the financial crisis without massive fiscal stimulus and even higher deficits. Instead, the U.K. has been growing faster than any other major advanced economy, and recent jobs creation in the U.S. is impressive. A partnership of activist central banks and fiscal consolidation—planned or otherwise—has restored confidence, secured growth and cut unemployment.

Now the same pessimists say our two countries are condemned to secular stagnation and that our best days lie in the past. Their prescription is, again, more spending and more borrowing. I believe they were wrong in the recovery, and they are wrong now.

By applying a consistent and long-term economic plan, we can ensure that our best days lie ahead. If we reduce our high debt so we can weather new shocks, and take the difficult decisions to make our economies more productive, we can provide rising living standards for our citizens. We can also ensure that the open, democratic values we promote around the world are credibly backed by economic strength, rather than weakness. That economic strength is even more important in a world where our partners in Europe are struggling to achieve growth, and many emerging economies look uncertain.

Any long-term economic plan needs to include three elements: an activist monetary policy, responsible and credible fiscal policy, and an ambitious program to support enterprise, innovation and openness.

First, an activist monetary policy must do whatever it takes to sustain sufficient demand in the economy. The past few years have shown that expansionary monetary policy works. So political systems should give their central banks the space and the independence to do their job. Contrast strong performance in the U.S. and U.K., where central banks are now confronting decisions about the exit from extraordinary stimulus, with the eurozone, where inflation is low and unemployment stubbornly high.

Second, any long-term plan needs a credible commitment to sustainable fiscal policy.

Some have argued that fiscal consolidation is incompatible with economic recovery. But again recent experience has shown the reverse. In the U.S., spending cuts—intentional or imposed by the budget sequestration process—have not choked off the recovery in the way that some feared.

In the U.K., faced four years ago with a record budget deficit of over 10%, we set out a clear deficit-reduction plan and steadily implemented it. The challenging spending totals I set out for the British government have been consistently achieved year after year.

Far from returning Britain to recession, as my critics warned, since 2010 our fiscal consolidation has been accompanied by a 27% increase in business investment, the third-fastest GDP growth of the G-7, and the fastest employment growth of all major advanced economies.

Now we must finish the job we have started. We must get debt falling as a share of GDP, and keep it falling. On Monday, in the U.K., our coalition government is publishing a new Charter for Budget Responsibility that will enshrine our commitment to balancing the current budget and getting debt falling over the next couple of years.

There are those who say we should wait until the end of the decade to do that—and, by implication, borrow much more. This approach would destroy confidence and put jobs at risk.

Getting debt falling is just the start—if we don't significantly reduce our debt levels, that would leave us vulnerable to the next crisis and crowd out private investment. It would be a dereliction of our duty to future generations. Imagine the situation that the U.K. and the U.S. would be in now if we had entered the great recession with public debt ratios of 80% of GDP. We would still be in crisis instead of recovery. That means running an overall budget surplus in the good years. That is the only reliable way to reduce high levels of public debt when inflation is low—as Sweden and Canada have shown with their balanced-budget rules.

New HM Treasury analysis shows that limiting U.K. ambitions to current budget balance would mean a national debt bigger by half a trillion pounds in 20 years' time—nearly £30,000 ($47,000) for every taxpaying household in Britain. The lesson is clear: You can't build a better future on a mountain of debt. You have to fix the roof when the sun is shining.

The third element of a credible plan is an ambitious program of supply-side reform. Without it, the other two arrows can't hit their target. But while reform is endlessly promised in Western democracies, it is rarely delivered, because it involves confronting entrenched interests.

We've been prepared to do that in the U.K. Our student-finance reforms were opposed, but they raised participation of low-income students and mean that our universities remain the world leaders. Our support for genetic research is powering bioscience. We're restarting our civil nuclear program and pushing ahead on shale gas. Instead of trying to ban the Internet's sharing economy, we're open to its disruptive innovation. We've reduced top rates of income tax and cut our corporate tax rate to 20%, the most competitive in the G-20. And we are extending opportunity with new charter-like academy schools, reduced taxes on the low-paid, and an overhaul of benefits. None of this is politically easy; all of it has been opposed; but it is economically essential if we're to secure a better future for our citizens.

Active monetary, responsible fiscal and radical supply-side policies—all three of these elements working together create an economic plan stronger than the sum of its parts. If the U.S. and the U.K. continue to stay the course, then our best days will lie ahead.