

**Recent history suggests careful cuts, tax rises and shared Cabinet responsibility are winning combination to curb public debt**

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As the Chancellor prepares to deliver his pre-budget report, a new History & Policy paper published today suggests three lessons from the recent past to help guide today's policymakers. In [How \(not\) to cut government spending and reduce public sector debt](#), Dr Glen O'Hara of Oxford Brookes University advises politicians of all parties to:

1. avoid immediately 'slashing' spending: instead, make considered cuts by postponing or abandoning programmes, continue to invest in public services and do not waste time on token 'administrative' savings;
2. accept and be honest about the need for taxes to rise; and
3. force the Cabinet take collective responsibility for the whole package of policies to tackle public debt, rather than allowing Ministers to try to cut their own deals.

Dr O'Hara said:

"Four myths, based on poor understanding of the past, have taken hold of the policy debate on public debt: that public debt is at an unprecedented and unsustainable level, that spending must be slashed right away, that public finances are 'out of control' and the money borrowed has been wasted, and that politicians have to display an exaggerated 'toughness' to guide the country through the crisis."

"Recent history suggests that holding the Cabinet together, eschewing technical or immediate solutions, raising taxes, and accepting that gross government spending will eventually continue to rise, will be essential elements if the expansion of state borrowing is successfully to be reversed. Simply shouting about 'cuts', still less implementing 'savage' reductions, will not do."

Dr O'Hara's analysis is based on a study of government policies and their effects during three periods of economic crisis since 1945: The Wilson government's efforts to right the balance of payments in 1968-70, The Callaghan government's attempts to pay back its borrowing from the International Monetary Fund (IMF) in 1976-8, and the response of John Major's government the 1990-2 recession. All three governments adopted a mix of selective tax rises and spending cuts and a 'mood' of shared endeavour and compromise within the Cabinet, and all three achieved significant results.

In 1968-60 taxes rose overall by £923m in contemporary prices. The 1968 budget increased Labour's selective Employment Tax on service industries and introduced a 'special charge' on investment income as well as various indirect tax rises. Harold Wilson forced his cabinet collectively to discuss cuts to cherished social policy aims and defence expenditure, postponing the raising of the school leaving age to 16, re-imposing prescription charges and pulling out of Britain's 'East of Suez' defence role. By 1970 the government had built up an enormous surplus and far overshot its ambitions to reduce public debt.

The first crisis package of 1976 cut £1bn from public spending over the following year, added two percentage points to employers' National insurance contributions to reduce borrowing by a further £1bn in 1977-78, and increased marginal rates of income tax to as much as 83 per cent for the highest earners. James Callaghan similarly forced his Cabinet to talk out their differences and take collective responsibility for these compromises. In the end, the government only had to claim half the credits the IMF extended to it.

In 1993, VAT was imposed on fuel and power, income tax allowances were frozen, National Insurance payments increased and Mortgage Interest Relief was cut. The Major government adopted a joint spending and taxation Budget in the autumn, rather than separate announcements in spring and autumn, forcing the Cabinet to look at the whole picture. The Public sector Borrowing Requirement (PSBR) was reduced by £6bn by 1995-6.

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Notes to editors:

1. Dr Glen O'Hara's History & Policy paper, '[How \(not\) to cut government spending and reduce public sector debt](#)', is published today and is available at [www.historyandpolicy.org](http://www.historyandpolicy.org).
2. Glen O'Hara is Senior Lecturer in Modern History at Oxford Brookes University. He is the author of *From Dreams to Disillusionment: British Economic and Social Planning in the 1960s* (Palgrave MacMillan: 2007).
3. [History & Policy](#) is an independent initiative working for better public policy through an understanding of history. The initiative was founded by historians at the Universities of Cambridge and London and is based in the [Centre for Contemporary British History](#), at the [Institute of Historical Research](#), University of London. History & Policy's current work is funded with charitable grants from [Arcadia](#) and [The Esmée Fairbairn Foundation](#).
4. To keep up to date with the latest History & Policy news, you can [sign up](#) for our monthly newsletter online or [follow us on Twitter](#).
5. History & Policy has a network of over 200 historians willing to engage with policymakers and media. To request an interview with Dr O'Hara or another historian, please contact:

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