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George Osborne to tell IMF criticism of deficit plans misplaced

By Chris Giles, Economics Editor

George Osborne goes back into battle with the International Monetary Fund this week, telling the fund it was wrong to criticise his deficit reduction plan.

A year after the IMF singled out Britain's tight fiscal policy for criticism, a buoyant chancellor will use a speech in Washington on Friday to outline his view that getting deficits and debt under control is a prerequisite for recovery and growth.

The spring meetings of the IMF and World Bank come at an opportune moment for the chancellor who is basking in the glow of a successful Budget and an unexpectedly strong economy.

He will use the opportunity to outline a right-of-centre view of growth in a modern economy based on sound public finances, liberalised markets and tax reform.

His upbeat tone will contrast with the bruising encounters in Washington a year ago when the IMF's chief economist said his deficit reduction plans were so dangerous they were "playing with fire".

At the time, the fund expected the UK economy to grow by only 0.7 per cent in 2013 and 1.5 per cent this year. The IMF has already had to tear up these predictions and upgrade the UK's estimated growth more than any other comparable economy.

Its latest view from January is that the economy grew 1.7 per cent and will expand 2.4 per cent in 2014, a prediction that still sits below the forecasts of the Office for Budget Responsibility and the Bank of England.

The IMF is therefore likely to revise its estimates higher again, vindicating the chancellor in the eyes of his aides.

Mr Osborne's advisers are keen that the IMF should recognise that it made a mistake in stating last year that "recovery is weak owing to lacklustre demand [and] consideration should be given to greater near-term flexibility in the fiscal adjustment path".

The fund is unlikely to admit to a large error in its World Economic Outlook, published on Tuesday, but will welcome the rapid recovery in the UK economy. But officials from Washington will find it more difficult to skate over their view in the annual IMF health check of the UK economy due next month.

Last year as the economy was already showing signs of life, the IMF pulled its punches in public, but stuck to its view that Mr Osborne was making a historic mistake in private briefings.

The Treasury's view is that some IMF officials, including its chief economist, Olivier Blanchard, singled out Britain's deficit reduction plan as a proxy for putting pressure on the Republican right in the US to accept a budget deal with fewer spending cuts and tax increases.

While the chancellor is likely to be polite in public about the IMF's retreat from its critical stance over UK economic policy, his aim is to ensure Conservative politicians are heard over growth and the distribution of gains from the recovery.

His task is not made easier by research published on Monday at the Royal Economic Society's annual conference which casts doubt on the claim that high levels of public debt are disastrous for an economy's ability to grow.

Using data from 105 countries and two centuries of history, Dr Markus Eberhardt of Nottingham University and Andrea Presbitero of the IMF show there is no conclusive link between high debt and low growth.

"The bottom line, as our research shows, is that we still don't have convincing proof that austerity works – and it's dangerous for policy makers to pretend otherwise," they said.

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