Northern Ireland Assembly

Research and Library Service
Research Paper

July 2010

Dr. Jodie Carson

Re-balancing Public Finances: Lessons from Past Experiences

NIAR 376-10

In the wake of the global credit crunch and resultant bank bail-outs, public sector debt levels are at historically high levels. In an attempt to re-balance UK public finances, the Chancellor announced a number of emergency austerity measures in the June 2010 Budget. The effect of these upon the economy remains to be seen; the risk remains that they could be 'too much too soon' given the fragility of recovery. This paper considers previous Governments' attempts at re-balancing and summarizes some characteristics of those that were deemed to have been successful.

Paper 147/10 **19 July 2010**

Key Points

- An imminent re-balancing in the UK's public finance situation is vital in enhancing confidence levels and protecting the country's credit rating. A failure to do this could result in a reluctance to lend to the UK on international money markets, making debt less accessible and more expensive for the UK Government.
- The Chancellor's austerity measures are therefore a necessary evil; however, what remains to be seen is whether they were 'too much too soon' given the fragility of the UK economy.
- This paper considers how previous Governments have carried out similar re-balancing of revenues and expenditures (*'fiscal consolidation')* and identifies some common characteristics of those exercises that were deemed to have been 'successful'*.*
- Four case studies are considered: the UK in the 1980s and 1990s; Sweden in the 1990s; Canada in the 1990s; and Finland in the 1990s.
- Some key findings are summarised below:
  - ***Spending Cuts rather than Tax Increases:*** In the case of 'large scale' fiscal consolidations (>4% of GDP) – as is required for the UK – it is more effective to implement spending cuts than tax increases. *It is worth highlighting that the Chancellor's recent proposals are consistent with this 'best practice'.*
  - ***The Importance of Leadership:*** Many of the successful cases of fiscal consolidation were undertaken as part of a broader reform program that enhanced the credibility of government.
  - ***Subsidies/Transfers:*** Cuts in subsidies/transfers tend to play a considerable role in consolidating.
  - ***Complementary Reforms:*** Many of the successful fiscal consolidations have incorporated complementary reforms of, for example, budget processes and the tax system.
  - ***Capital Investment:*** Disproportionate cuts to capital (as opposed to current) expenditure may relieve short term 'pain', however they are likely to leave a legacy impact and impede future economic growth. *The Government's current plans indicate that capital investment will be cut disproportionately as part of the current consolidation exercise.*
  - ***Monetary Policy:*** Real short-term interest rates tended to decline in the successful consolidations, but to increase in the unsuccessful ones.

- *Currency Impacts:* Currency depreciation can improve competitiveness and assist export-led recovery (however, this requires that there is somewhere to export to! As such, it would be dependent upon other regions' recovery)

- Some other considerations, specific to existing conditions within the UK/NI might include:

  - ***Inflation:*** The VAT increase announced by the Chancellor in June 2010 is likely to be the largest contributor to additional revenue. Whilst this is a reliable and robust means of generating extra income, it can also be inflationary (in that it adds to the price of goods). This could be a concern given that inflation already remains stubbornly above the Bank of England target. Further inflationary pressures would be undesirable in that they could result in interest rate increases, creating additional pressure on home- owners/businesses (in that the cost of 'money' including mortgages, loans etc, would be higher). This could represent a considerable threat to economic recovery.

  - ***Scope for reducing local subsidies?*** As highlighted above, cuts in transfers and subsidies tend to have featured in previous successful fiscal consolidations. Whilst many are determined centrally, there are some local subsidies which might be reassessed by the NI Executive to determine the scope for savings; examples include: free access to museums, free public transport for certain groups, council subsidies regarding sports & leisure, etc.

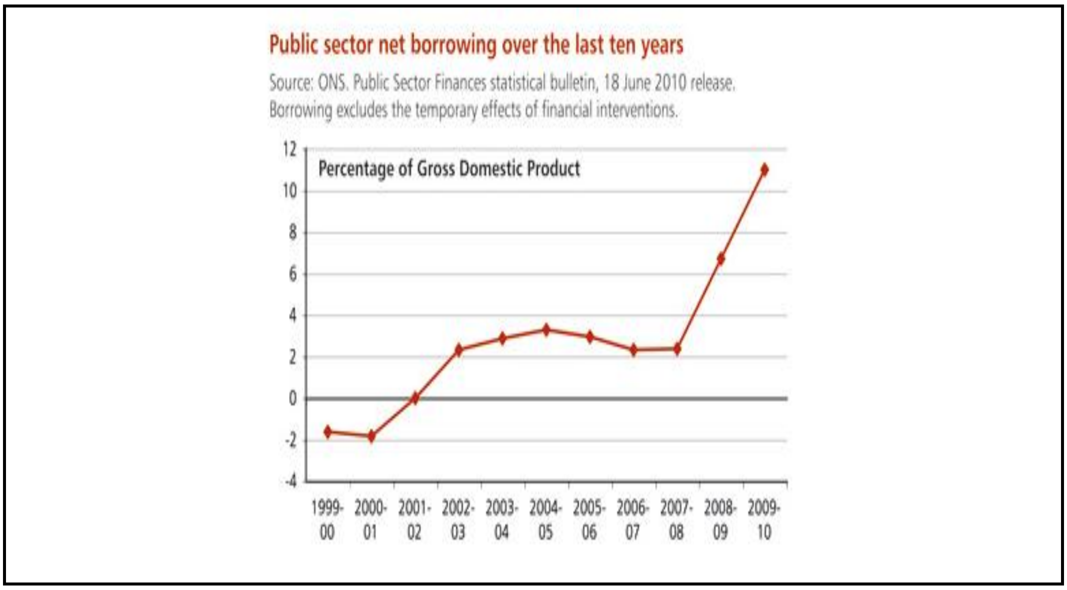
  - ***Local Decisions re Expenditure Cuts vs Tax Rises:*** As outlined above, the empirical evidence suggests that 'best practice' fiscal consolidation largely involves expenditure cuts, with a smaller emphasis on tax rises. This might be an important consideration in any deliberations regarding local issues such as the introduction of water charges[1], phasing out industrial derating, etc. The evidence would suggest that it would be preferable, under current economic conditions, to focus on generating savings to avoid stifling the - already fragile - economic recovery.

[1] This is a unique situation in that the issue is of deferred charges, rather than of a tax increase; however, it appears reasonable to assume that the economic impact would be a similar one.

Contents

1 Background

In the UK, the impending fiscal consolidation –rebalancing of revenues and expenditures – is urgently required to redress exceptionally high public debt levels (refer figure below)[2]. Public sector debt levels, already high, were exacerbated by the recent, large-scale bank bail-outs, (necessitated by the 'credit crunch'); as a result the net borrowing figure is now almost 12% of Gross Domestic Product (GDP), and this *excludes* the effects of financial interventions. It is vital that this unsustainable debt position be remedied urgently, to avoid the possibility of the UK's credit rating being downgraded. This would result in a reluctance to lend to the UK on international money markets, making credit less accessible and more expensive, thus adding to current costs of servicing the public debt. It is for this reason that a 'fiscal consolidation' is being urgently undertaken. The key challenge for the Government is to implement this in such a way as to avoid 'choking' economic recovery.



Source: HM Treasury, June Budget 2010

This paper presents four examples of previous consolidation exercises to identify how they were implemented and how successful[3] they were. There are numerous examples of fiscal consolidation throughout history; this briefing focuses on those that were 'large'– this is considered appropriate since the impending consolidation exercise in the UK is likely to be of an unprecedented scale. Accordingly, the following case studies are considered[4].

- UK in the early 80s and mid 90s
- Sweden in the 90s
- Canada in the 90s
- Finland in the 90s

The key issue in implementing any fiscal consolidation is deciding what proportion of spending cuts/tax increases is optimal. It is shown below that the evidence suggests that large scale fiscal consolidations are most effectively delivered by implementing *spending cuts*, rather than *tax increases*.

[2] This is not only relevant to the UK; in fact most Eurozone countries are in the same position.

[3] As measured by a reduction in the debt-GDP ratio

[4] Case studies as per "Comparative Government Responses to Recessions: Lessons to be Learnt from Fiscal Consolidations", *CPPR*¸ April 2010

It is worth highlighting that the Chancellor's recent Emergency Budget announcements are broadly consistent with this evidence; indeed, in his Budget speech on 22 June 2010, the Chancellor stated that:

"Our approach is supported by the international evidence….which found that consolidations delivered through lower spending are more effective at correcting deficits and boosting growth than consolidations delivered through tax increases…This is the origin of our 80:20 rule of thumb – roughly 80 per cent through lower spending and 20 per cent through higher taxes."

2. General Lessons from Studies of Past Fiscal Consolidations

In advance of considering specific case studies, this section identifies the results of two studies into previous consolidation exercises which provide some general lessons on best practice. The OECD carried out a study into previous consolidation exercises which considered over 85 episodes in 24 OECD countries in 1978-2005[5]. A number of general observations emerged from this analysis; namely that:

- 'Success', in terms of stabilising the debt-GDP ratio, occurred in around half of the previous examples of Fiscal Consolidation;
- In the case of large consolidations (>4%GDP), it is more effective to implement *spending cuts* than *tax increases*;

A more recent study (2009) produced evidence which was consistent with these OECD findings[6]. It similarly indicated that fiscal adjustments based upon spending cuts are more likely to reduce deficits/debt than those based on tax increases. Significantly, this study confirmed that the expenditure-based approach to fiscal consolidation is also less likely to create a recession.

Another study carried out by the International Monetary Fund (IMF) indicated that an equally important ingredient in 'successful' fiscal consolidations was that they be undertaken as part of a broader reform program, which enhanced the overall credibility of the government's commitment to the consolidation[7].

[5] " Fiscal Consolidation: Lessons from past experience", *OECD,* June 2007 (Preliminary Edition)

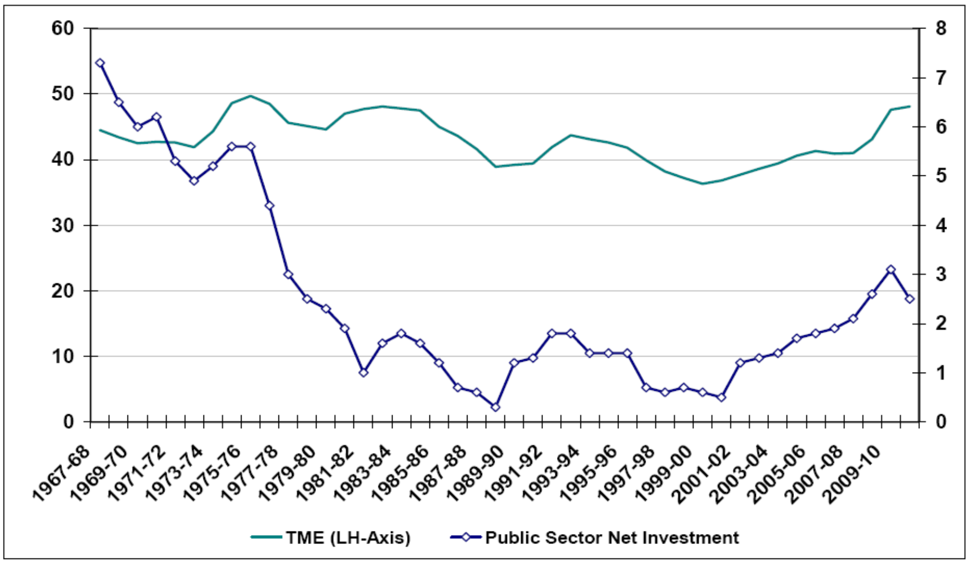
[6] "Large changes in fiscal policy: taxes versus spending", *Alesina and Ardagna*, October 2009 (Prepared for Tax Policy and the Economy)

[7] "Fiscal Reforms that Work", McDermott & Wescott, *International Monetary Fund*¸1996

3. The UK in 80s and 90s

In the period preceding the first fiscal consolidation (early to mid 1980s), the UK economy was suffering from declining productivity levels relative to other 'developed' economies. The oil price shocks of the mid 70s and early 80s had further contributed to a slowdown in economic growth. Government expenditure (i.e. Total Managed Expenditure) had risen to almost 50% of GDP by 1977 (Figure 1). The second consolidation exercise followed a bust in booming property and share prices, high inflation and interest rates and a global downturn[8].

Figure 1: Total Managed Expenditure (TME) & Public Sector Net Investment as a % of GDP



Source: CPPR Paper for Scottish FSU¸ April 2010

Features of the Fiscal Consolidations

- Fiscal consolidation exercises were implemented in the UK in the early/mid 1980s and early 1990s.
- In both cases, the consolidation exercise was dominated by an expenditure-based approach.
- In the first episode, the largest departments to lose out were Industry and Agriculture, while Health and Defence gained in funding. Benefits continued to rise, due to persistently high unemployment rates; although this was partially offset by a reform of the welfare system which imposed lower benefits levels, and more stringent eligibility requirements[9];
- Public sector employment fell by more than 12% between 1981 and 1988 (partially due to large-scale privatisations, and associated labour transfers);
- The large scale privatization programme helped to reduce current expenditure/public debt, while producing tax from profits generated by the newly privatized enterprises[10];
- In the second phase, in the mid 1990s, there were cuts to Defence, Transport and Housing budgets. Tighter eligibility criteria for benefits also enabled a reduction in the Social Protection budget.
- Specific measures included a freezing of departments' running costs and public sector wage bills at 1993 levels for three years.

[8] "Comparative Government Responses to Recessions: Lessons to be Learnt from Fiscal Consolidations", *CPPR*¸ April 2010

[9] Ibid

[10] "Expenditure Reform in Industrialised Countries: A Case Study Approach", *European Central Bank,* Working Paper Series, No. 634/May 2006

- A key difference between the first and second phases was that the spending reductions in the latter period did not sizeably come at the expense of public investment.

Complementary Reforms
A number of amendments were made to budget/taxation processes during the first period: spending caps were introduced, as were ‘cash’ rather than ‘real’ spending limits and income and corporation tax rates were reduced. There was a shift from direct to indirect taxes, which protected the revenue base. In the 1990s, multi-year budgets, targets for debt and borrowing limits were introduced. The independence of the Bank of England in setting interest rate was also established.

How ‘successful’ were they?
The UK’s expenditure reforms in the 1980s and 1990s were ambitious and involved a significant degree of privatization and structural reform. As is shown in the table below, the programmes enabled a return to a sound financial position and were associated with a sustained revival in economic growth and employment levels (although – perhaps unsurprisingly – there was an initial dip in employment levels within the first couple of years).

Table 1: UK Key Indicators – all shown as a % of GDP

	Phase 1	Change from 1981		Phase 2	Change from 1992	
	1981	1981-83	1981-88	1992	192-94	192-99
Total Government revenue	46.3	-0.8	-5.6	40.1	-1.9	0.4
Total Government expenditure	50.7	-1.8	-10.5	46.5	-1.6	-7.1
Fiscal balance	-4.4	1.0	4.8	-6.5	-0.3	7.5
Public debt	53.5	-0.9	-11.3	38.2	9.3	5.6
Real GDP growth	-1.4	5.0	6.4	0.3	4.1	2.8
Inflation (CPI growth %)	11.9	-7.3	-7.0	3.7	-1.3	-2.2
Employment ratio	66.7	-2.4	3.3	68.3	-0.2	2.9
Education	5.5	-0.3	-0.8	5.26	0.0	-0.8
Health	5.2	0.0	-0.3	5.77	0.0	-0.1
Transfers & Subsidies	15.4	0.3	-2.0	16.5	0.0	-2.6

Source: ECB Working Paper Series No 634

4. Sweden in the 1990s

Fiscal consolidation in Sweden occurred as a result of a severe recession coupled with a financial crisis following the 'bubble-economy'[11] of the late 1980s. This resulted in lower employment rates, fiscal imbalances and strong inflationary pressures. The public expenditure ratio had soared to 73% of GDP in 1993, while deficits exceeded 10% of GDP and public debt exceeded 70% of GDP[12].

Features of the Fiscal Consolidation

Reforms started after 1993; measures combined tax increases with substantial reductions in public expenditure. The main cuts related to transfers and subsidies (down from 27% of GDP in 1993 to 19% in 2000: particularly in the areas of pensions and social security), government consumption (particularly regarding public employment) and pensions.

Complementary Reforms

The Swedish government also introduced a number of improvements in legislative control over the budget process. These lengthened the Parliamentary period and introduced three-year expenditure ceilings on certain categories of expenditure. Following this reform, budgetary control was shared by the government and the 'budgetary committee' in parliament, enhancing the process considerably. A number of innovative features were also introduced, such as provisions to 'carry over' a certain proportion of the budget, thereby reducing the incentive to exhaust the annual expenditure frame.

How successful was it?

Sweden represents an example of a successful, *expenditure-based* fiscal consolidation. Combined with institutional, macroeconomic and structural policy reforms, it resulted in a strong and remarkably quick rebound in real economic growth. The table below shows the impact of the consolidation on key economic indicators; this reflects improvements in the fiscal balance, public debt, all combined with positive economic growth and reduced inflation:

Sweden: The macro picture (% of GDP)

	T0 1993	T0-T2 1993-1995	T0-T7 1993-2000
Total revenue	61.6	-0.9	0.8
Total expenditure	73.0	-5.2	-15.7
Primary expenditure	67.2	-6.1	-14.0
Fiscal balance	-11.4	4.4	16.5
Cyclically adj. balance	-7.3	1.6	11.0
Cyclically adjusted primary balance	-1.4	2.5	9.2
Public debt	71.3	2.4	-18.4
Real GDP growth (%)	-2.0	6.0	6.3
Trend GDP growth (%)	0.8	1.4	2.0
Inflation (CPI growth in %)	4.7	-2.3	-3.8
Employment ratio	73.2	-0.3	1.4

Source: European Central Bank, Working Paper Series, No. 634

[11] Essentially, this refers to the situation where there is a difference between the price and intrinsic value of products due to speculative activity

[12] Budget deficits are the yearly excess of government expenditures over revenues; government debt is the accumulated deficits over the years.

"Expenditure Reform in Industrialised Countries: A Case Study Approach", *European Central Bank,* Working Paper Series, No. 634/May 2006

5. Canada in the 1990s

In the 1990s, the Canadian economy was experiencing a severe downturn. The subsequent recovery was a slow one and resulted in significant increases in unemployment (peaking at 11.5% in 1992). Public spending exceeded 50% of GDP, fiscal deficits reached 9% of GDP and, accordingly, the public debt-to-GDP ratio grew to above 100% of GDP[13].

Features of the Fiscal Consolidation

The resultant program of fiscal tightening was chiefly based on measures to reduce expenditure. Cuts in government consumption, particularly regarding public employee compensation, accounted for almost half of the overall retrenchment. Approximately one third of the consolidation programme was achieved by reducing subsidies and transfers to households[14]. Unemployment insurance systems were amended, and ultimately discontinued. The cuts also resulted in reduced health care services and slashed agricultural subsidies[15].

Complementary Reforms

The success of Canada's fiscal consolidation was also attributable to a range of other, complementary reforms. Transfer systems were reformed, and a number of privatizations were undertaken. The eventual abolishment of unemployment insurance was accompanied by active labour market policies. Specific measures were introduced to increase labour market flexibility and improve skills levels within the work force. The government also restructured financial legislation, resulting in increased competition, innovation and efficiency in the financial sector. The tax system was also reformed, so as to lower the tax burden while improving the fairness of the system, and broadening the tax base.

How successful was it?

The Canadian experience of fiscal consolidation was a successful one, built around a three-fold strategy: low and stable inflation, structural reforms and substantial expenditure cuts. Within two years, total and primary expenditure was cut by around 3.5% of GDP. The programme continued in the following years and within 7 years total spending had fallen by 11% of GDP (compared to the peak level in 1992). By 1997, the Canadian budget was balanced, and in 1999 the fiscal deficit had been improved by more than 10% of GDP (versus 1992). As shown in the table below, this improved fiscal position was accompanied by a strong increase in trend growth and a reduction in the public debt ratio[16].

[13] The worsening of the overall government deficit was partially attributable to a difficult provincial budget situation. Canada was also facing a significant competitive disadvantage, due to high labour costs, low productivity growth rates and pronounced exchange-rate appreciation since the mid-1980's.

[14] "Expenditure Reform in Industrialised Countries: A Case Study Approach", *European Central Bank,* Working Paper Series, No. 634/May 2006

[15] "A Historical guide for David Cameron to public-sector bonfires, *Daily Telegraph website,* 7 June 2010

[16] "Expenditure Reform in Industrialised Countries: A Case Study Approach", *European Central Bank,* Working Paper Series, No. 634/May 2006

Canada: The macro picture (% of GDP)

	T0 1992	T0-T2 1992-1994	T0-T7 1992-1999
Total revenue	45.1	-1.2	-0.3
Total expenditure	52.6	-3.5	-11.4
Primary expenditure	44.9	-3.4	-9.5
Fiscal balance	-9.3	2.5	10.9
Cyclically adj. balance	n.a.	n.a.	n.a.
Cyclically adjusted primary balance	n.a.	n.a.	n.a.
Public debt	110.5	8.6	0.3
Real GDP growth (%)	0.9	3.9	4.7
Trend GDP growth (%)	1.8	0.6	1.8
Inflation (CPI growth in %)	1.5	-1.3	0.2
Employment ratio	68.1	0.6	3.6

Source: European Central Bank, Working Paper Series, No. 634

6. Finland in the 1990s

The Finnish economy slumped in the wake of the late 1980s bubble-economy and the disruption of trade with the Soviet Union. This lasted from 1990 until mid -1993, during which period GDP fell by almost 15% and unemployment peaked in 1994 at just under 20%. As welfare spending rose and revenue fell, the spending ratio reached almost 65% of GDP and the deficit exceeded 7%. A bail out of the banking sector exacerbated the public debt ratio[17].

Features of the Fiscal Consolidation

Finland undertook an ambitious expenditure reform programme to redress debt levels between 1994 and 2000. The ratio of spending cuts to tax rises implemented is estimated at 55:45[18]. Specific retrenchment measures mainly comprised cuts of subsidies and transfers to households and in government consumption. Major savings were delivered through moderate wage agreements in the public sector, and by reductions in public sector employment levels (by almost 5% in 1993 alone)[19]. Contractual pay increases were frozen for 4 years from 1991 and staff numbers fell dramatically (although this was, in part, due to labour transfers associated with privatisations). Unemployment benefits were also heavily targets among the cuts[20].

Complementary Reforms

'Income policy agreements' were implemented, which ensured wage moderation and stable inflation. The government also implemented a number of changes to the tax system; these improved the revenue base and included measures such as lower income tax, VAT reform and an increase in social security contributions. The Finnish authorities also restructured the banking industry and introduced labour market and pension reforms, alongside major privatisations and deregulations of formerly public enterprises, for example, telecommunications.

How successful was it?

The Finnish experience of fiscal consolidation comprised a comprehensive institutional, macroeconomic and structural reform program. As shown in the table below, it was associated with a rise in growth and employment. The deficit reduction boosted confidence in the Finnish economy and government; thereafter, there was a shift, with the proceeds of recovery being used to reduce the tax burden rather than the deficit. By 2000, the government was equipped to offer income tax reductions across the board. The process was deemed to have been an economic and political success[21].

[17] "Expenditure Reform in Industrialised Countries: A Case Study Approach", *European Central Bank,* Working Paper Series, No. 634/May 2006

[18] "A Historical guide for David Cameron to public-sector bonfires, *Daily Telegraph website,* 7 June 2010

[19] "Expenditure Reform in Industrialised Countries: A Case Study Approach", *European Central Bank,* Working Paper Series, No. 634/May 2006

[20] "Comparative Government Responses to Recessions: Lessons to be Learnt from Fiscal Consolidations", *CPPR¸* April 2010

[21] "A Historical guide for David Cameron to public-sector bonfires, *Daily Telegraph website,* 7 June 2010

Finland: The macro picture (% of GDP)

	T0 1993	T0-T2 1993-1995	T0-T7 1993-2000
Total revenue	57.4	-1.7	-1.3
Total expenditure	64.8	-5.1	-15.7
Primary expenditure	60.3	-4.6	-14.0
Fiscal balance	-7.3	3.4	14.4
Cyclically adj. balance	-1.8	0.4	6.7
Cyclically adjusted primary balance	2.7	-0.1	5.0
Public debt	56.4	0.7	-11.8
Real GDP growth (%)	-1.2	4.7	6.2
Trend GDP growth (%)	0.2	1.6	3.4
Inflation (CPI growth in %)	2.2	-1.4	0.9
Employment ratio	60.2	0.1	6.2

7. Summary Lessons

- ***The Importance of Leadership:*** Many of the successful cases of fiscal consolidation were undertaken as part of a broader reform program that may have enhanced the credibility of the government's commitment to the consolidation[22]. There is also a requirement for 'openness' and transparency to ensure public confidence[23]. For example, in Canada, there was a clear sense of confidence/trust in the government and this was considered to assist in the successful implementation of the consolidation programme in the 90s[24];
- ***An Expenditure-Based Approach:*** Expenditure cuts should primarily contribute to any large scale fiscal consolidation. Tax rises will play a smaller role; it is important that those tax rises that do occur are not growth inhibiting, nor should they exacerbate inequalities in society (i.e. they should not be regressive);
- ***Subsidies/Transfers:*** Cuts in subsidies/transfers tend to play a considerable role in consolidating;
- ***Capital Investment:*** The Government's current plans indicate that capital investment will be cut disproportionately as part of the consolidation exercise. This may relieve some of the 'pain' in the short-term; however, it is likely to leave a legacy impact and could impede economic growth in the medium to long-term.
- ***Complementary Reforms:*** Many of the successful fiscal consolidations have incorporated complementary reforms of, for example, budget processes and the tax system. However, some such examples (multi-year budgets, with strict cash terms ceilings) are already in use within the UK.
- ***Monetary Policy:*** Real short-term interest rates tended to decline in the successful consolidations, but to increase in the unsuccessful ones[25] – lower interest rates are likely to assist in economic recovery by boosting investment;
- ***Currency Impacts:*** Currency depreciation can improve competitiveness and assist export-led recovery (however, this requires that there is somewhere to export to! As such, it would be dependent upon other regions' recovery)

[22] "Fiscal Reforms that Work", McDermott & Wescott, *International Monetary Fund*¸1996
[23] "Comparative Government Responses to Recessions: Lessons to be Learnt from Fiscal Consolidations", *CPPR*¸ April 2010
[24] "A Historical guide for David Cameron to public-sector bonfires, *Daily Telegraph website,* 7 June 2010
[25] "Fiscal Reforms that Work", McDermott & Wescott, *International Monetary Fund*¸1996

8. Application to the UK/NI

8.1 UK Context

As mentioned above, the Chancellor's proposals for retrenchment are weighted in favour of expenditure cuts, with tax increases making up a smaller element (80:20 rule). This is consistent with what might be deemed 'best practice' from the existing literature on previous consolidation exercises.

With regards to the planned tax increases, the VAT increase to 20% (from 17.5%) is likely to be the largest contributor to additional revenue. This is a somewhat obvious choice of tax instrument, in that it is a robust way to increase revenue, and in implementing a rise in VAT, rather than income tax, the Chancellor has opted to tax *expenditure*, as opposed to *earnings*. However, a potentially worrying issue with a VAT rise is that it also contributes to price inflation. This is a concern since rises in inflation (which is already high, remaining stubbornly above the Bank of England target of 2%, at 3.4%[26]) would lead to higher interest rates, which would make it more expensive for the UK to service its debt. This would also reduce investment and create further pressure on homeowners, by raising the cost of domestic mortgages.

There is another – more cynical – argument that the government, in fact, has an incentive to create an inflationary environment since this would enable it to pay off its debt with cheaper, inflated money. However, the independence of the Bank of England in setting monetary policy (i.e. determining interest rates) *should* serve to alleviate this risk (since the Bank would increase interest rates to counter inflation should they deem it appropriate to do so).

8.2 Northern Ireland Context

Some of the above lessons have relevance at a local level; in particular, the significance of leadership is worth noting. Other considerations include:

Transfers/Subsidies
Although most transfers/subsidies are determined centrally, there are some local subsidies which might be examined to determine the scope for reductions in expenditure.

Capital Investment
Policy at a national level appears to favour large scale cuts in capital expenditure. The Executive will, to some extent, determine the scale of cuts to local capital budgets; it is important to be cognisant of the long-term economic effects of slashing capital expenditure, which would have a legacy impact in terms of employment, infrastructure, etc.

Local Decisions re Expenditure vs. Tax Rises
The above research shows that it is optimal, in view of the scale of the impending fiscal consolidation, to achieve this largely through expenditure cuts rather than tax rises. This might be an important consideration in any deliberations regarding local issues such as the introduction of water charges[27], phasing out industrial de-rating, etc. The evidence would suggest that it would be preferable, under current economic conditions, to focus on efficiency savings to avoid stifling the, already fragile, economic recovery.

[26] As at May 2010 (latest Bank of England Inflation Report)

[27] This is a unique situation in that the issue is of deferred charges, rather than of a tax increase; however, it appears reasonable to assume that the economic impact would be a similar one.