

Fiscal rules OK

The balanced budget rule which says spending on current budgets has to be covered by tax income is sensible and prudent. Whilst education is an investment in young people, teachers' pay is still a current and recurring item of spending.

Some of you are concerned that the government can borrow to invest. Investment means the capital budget where you buy items like new school buildings or a new road which will be used for many years going forward. Most investment in the state sector is building and construction work.

The Balanced budget rule still provides a constraint on how many new buildings you can build to expand a free to the user service, as all the staff and running costs of the new buildings fall on current account under the Balanced budget rule. It does encourage investment in replacement buildings that are more fuel efficient and in other ways cheaper to run or public investments that generate a revenue return.

In order to justify borrowing to invest we need to show the need for the new capital provision and the imputed return where it is for a service provided free to the user. Let us take the case of the M25. This expensive motorway offers no direct financial return to the taxpayers who paid for it, because we do not have road charging. If we had put in place a road charge system instead of the current Vehicle Excise duties and fuel duties, the M25 would have shown a great return for the state investor. The state has to impute a value to the likely use of the facility to assess one public sector project against another. By definition this can only be a judgement based on stated assumptions. The state also has to take into account that use is likely to be higher because it is provided free.

In the case of borrowing to provide a new school the case is overwhelming where there are more pupils than school places in a local area. If it is a replacement school then the project needs to show substantial running cost savings compared to the building it is replacing, and preferably a return of capital to the state from disposal of the one it is replacing unless on the same site.

A new railway line is easier to assess, as the railways do collect money from train users. Spending a lot of money on a heavily loss making line would not be a wise investment.

Somehow the state has to improve its way of evaluating all these competing projects to come up with a list that genuinely expands the national wealth or are essential to the delivery of good quality public service like health and education.