

Don't cut the budget quite yet, says OECD

By WILLIAM HOROBIN AND ILONA BILLINGTON

PARIS -- The Organization for Economic Cooperation and Development said the U.K. shouldn't start to cut its budget deficit until next year, backing the governing Labour Party in an argument that is at the heart of the election campaign.

In its interim report on the outlook for the Group of Seven leading industrial nations, the Paris-based think tank also estimated that the U.K. economy grew at an annualized rate of 2.0% in the first quarter, and forecast it will grow by 3.1% in the second.

With the economic recovery still fragile, governments should announce their medium-term plans to cut borrowing, but not implement them until 2011, the OECD said.

That's the policy of the British government, which trails the opposition Conservative Party in opinion polls ahead of the May 6 election.

The program in the U.K., like in other countries, should be announced today but implemented next year," OECD Chief Economist Pier Carlo Padoan said in an interview.

The government says it will post a deficit of £163 billion in the year that began in April, down from £166.5 billion last year, but well above £96.1 billion a year ago.

On Wednesday, Prime Minister Gordon Brown accused the opposition Conservative Party of making a "historical mistake" in promising to reverse the national insurance tax increase by cutting spending.

The Conservative Party has said that if elected, it will cut spending by up to £6.5 billion this year in order to reassure bond investors and avoid a sharp rise in long-term in-

terest rates.

The Conservatives have also said they will find the money for scrapping the national insurance tax rise by cutting more waste from the public sector over the next 12 months. They have not yet provided details of where those efficiency savings would be found.

Separately, the U.K.'s dominant services sector expanded, but at a slower pace in March than the previous month. Research group **Markit Economics** and the **Chartered Institute of Purchasing & Supply** said the services Purchasing Managers Index slipped to 56.5 in March from 58.4 in February. Economists had forecast a smaller decline to 57.9, according to a poll by Dow Jones Newswires last week. A reading above 50.0 indicates the sector is expanding, while a reading below 50.0 indicates it is contracting.

However, the data do little to alter current first-quarter GDP forecasts, a number which could prove crucial to Labour's election campaign. Preliminary first-quarter GDP data are due April 23.

The leaders of the U.K.'s three main political parties clashed on political reorganization, taxes and the economy on the first full day of campaigning for the U.K. election Wednesday.

Messrs. Brown and Cameron sparred on the economy at their final prime-minister's question-time face-off before the vote.

"There is a clear choice. We can put the national insurance up and therefore protect our schools, our hospitals and our policing or we can do what the Conservatives traditionally do and that is put our hospitals, policing and our health service at risk," Mr. Brown said.

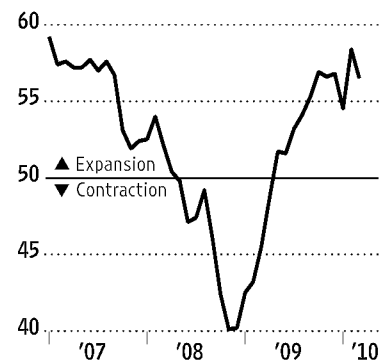
The Conservatives have said they would substitute the increase with some £6 billion in extra efficiency savings in the public sector this year, but haven't set out the details of these savings yet.

"The choice is Labour's decision to go on wasting money and then put up tax on every job in the country," Mr. Cameron said. He said the tax increase "would wreck the recovery by putting a tax on every job, on everyone earning over 20,000 [pounds], a tax on aspiration."

— Paul Hannon and Laurence Norman contributed to this article.

Drop back

U.K.'s purchasing managers index for the services sector



Note: Seasonally adjusted
Source: Markit

