

David Cameron: 'British Government could default on its debts'

Gordon Brown is running the risk that the British Government will be unable to pay back the money it is borrowing from international investors, the Conservative leader said.

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The Conservative leader suggests that Labour has increased the risk of the Government being unable to honour its debts Photo: AFP

Mr Cameron said Labour's plan to borrow an extra £700 billion over five years and take the national debt to £1.4 trillion was a "disgrace" that exposes the UK to serious economic risks.

Governments borrow by selling bonds – a form of IOU note – to investors, who then receive interest payments on the loan.

The Treasury forecasts that paying the interest on the national debt will cost taxpayers £42.9 billion in 2010/11, more than the annual budget of the Ministry of Defence. Grant Thornton, an accountancy firm, estimates that by 2013, debt interest will cost £58 billion.

Normally, governments can borrow much more cheaply than other institutions, because investors are confident they will get their money back.

But speaking at the Royal Society of Arts, Mr Cameron warned that Labour is now borrowing so much that some investors will demand higher interest rates to reflect what they see as the increased risk of British government debt.

The Conservative leader went on to suggest that Labour has increased the risk of the Government being unable to honour its debts, an unprecedented economic failure.

He said: "You can get to a level of government debt where, not that it becomes certain that people will cease to lend you the money, but you start running the risk of them demanding higher premia, higher interest rates.

"Or you run the risk of not being able to meet your obligations."

Mr Cameron added: "I'm not predicting that it's going to happen, but as Government borrowing goes up and up and up, you start running that risk.

"I'm not saying it's going to happen, but the Government, with the levels of indebtedness they have, they are running those risks."

Mervyn King, the governor of the Bank of England, has called Labour's borrowing "extraordinary" and said that the UK went into the recession with relatively high Government debt.

And Standard and Poor's, a City credit ratings agency, has warned that it may have to cut its assessment of Britain's credit worthiness from its current AAA ratings, the highest possible level.

Labour should have borrowed less while the economy was growing, Mr Cameron said, because current debt levels now pose unjustified economic risks. "The risk you shouldn't run is that you have difficulties in funding your debt," he said.

Mr Cameron made his comments about debt as he shared a platform with Nassim Nicholas Taleb, an author and financial trader.

Labour criticised Mr Cameron for associating with Mr Taleb, author of *The Black Swan*, a best-selling book about risk.

At the RSA event, Mr Taleb said that he was not convinced that global warming is a man-made phenomenon, a view Mr Cameron said he rejected.

Mr Taleb also said that as a financial trader, "I like crashes" because market volatility provides opportunities to make profits. He predicted "hyperinflation" as a result of current government responses to the financial crisis and the recession.

Mr Cameron's aides insisted that he did not share all of Mr Taleb's views.

Phyllis Starkey, a Labour backbencher, said: "David Cameron seems increasingly keen to associate himself with people who have "eccentric" views. Why is David Cameron so keen to associate himself with people like this if he doesn't share their views?"

A Treasury spokesman said: "Any suggestion that Britain might default on its borrowing is wrong and irresponsible. UK borrowing costs are historically low while the Government has set out clear plans to halve the deficit in five years."

<http://www.telegraph.co.uk/news/newstoppers/politics/david-cameron/6050271/David-Cameron-British-Government-could-default-on-its-debts.html>