

# The Daily Telegraph

## Sunak's Budget marks the Tories' final retreat from Thatcherism

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The headlines were about a near-term splurge on coronavirus relief and delivering on the manifesto promise to “end austerity”. But Chancellor Rishi Sunak's first Budget saw a much broader shift in Tory economic philosophy than rubber-stamping more government borrowing.

For arguably the first time since 1979, this week's Budget explicitly endorsed two policy principles Conservatives have long rejected: that governments should use public spending to steer the macroeconomy and that activist government can drive innovation and long-run growth.

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The party's 1983 manifesto outlined how government overspending destroyed jobs. In 1987, they insisted “it is people who create wealth, not governments”.

John Major's 1997 offer to the electorate declared: “Governments do not create jobs. Businesses do.” It also said that “growth is created by people's hard work, ingenuity, thrift and willingness to take risks”. David Cameron believed prosperity would come from “creating jobs in the private sector”.

But, in recent years, segments of the party have romanticised the idea of government-led prosperity. A decade of near-stagnant productivity growth has left politicians scrambling, correctly diagnosing that innovation is the route to higher living standards. Now, the Thatcherite recommendation to achieve that – liberating the private sector to deliver through supply-side reform – is out of vogue. Sunak's speech reflects new Tory faith in government as the guarantor and source of innovation.

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The supposed economic benefits of state spending permeated his Budget speech. First, there was the coronavirus response, with more short-term funds for the NHS, sick pay and support for workers and businesses as insurance-like relief against the shock.

Even the most libertarian of us recognise a rationale for such temporary support during an unexpected epidemic, not least to prevent widespread business failures and a financial crisis. But the additional £12bn of funds added to the £18bn extra day-to-day spending otherwise promised was not dubbed “bridging relief” or “providing short-term economic security” by the Chancellor, but a fiscal “stimulus”.

Why, exactly, the Chancellor wants to “stimulate” economic activity, when curbing the virus’s transmission requires its reduction, is a mystery. But his wording was telling. For it shows Conservative openness to the idea of business cycle management through government spending.

That shift back towards Keynesianism was confirmed with a promised review of whether “fiscal policy can provide timely and effective demand management”. Gone, seemingly, are the days of “monetary activism and fiscal responsibility” associated with former chancellor George Osborne.

The break from orthodoxy when it comes to long-term growth and innovation is greater still. For four decades, Tories have seen government spending as a drag on the private sector and so sought to hold its growth below that of GDP. Sunak, in contrast, sees government spending as a source of prosperity, even considering rebranding more of it as investment to emphasise its supposed pro-growth benefits.

His Budget promised robust growth in public service spending, with annual increases not seen since New Labour. But it is the £175bn extra infrastructure spend over the Parliament that he really heralds as a game-changer.

No economist would deny, of course, that good infrastructure can enhance productivity. But the scale of this uplift guarantees substantial crowd-out of private sector capital projects. So who do you trust to choose and deliver projects with the highest economic returns: businessmen or Sunak?

Assertions that a massive government infrastructure splurge is, on net, “good for the economy”, suggests the latter. I am not confident. Those who blindly expect infrastructure projects to deliver growth, and regional revival, should look to Japan in the Nineties, Spain in the 2000s, and New Labour’s failed regional regeneration attempts, to see how little is guaranteed.

But Sunak’s trust in government as a growth source extends far beyond raising infrastructure spending to the highest level since the Seventies. The Budget also increased government broadband spend, start-up loans and export finance.

It increased state R&D spending to 0.8pc of GDP, while setting up a UK version of the US Advanced Research Projects Agency (Arpa) – a supposed “blue skies agency” to fund “high-risk, high reward science”.

The brainchild of No 10 adviser Dominic Cummings, the agency is meant to bring together researchers to work on unusual projects, supposedly generating big spillover benefits for the private sector. But, as with infrastructure, there is a danger of crowd out. Taking great scientists into state activity removes them from private activity where their talents can be put to other productive uses.

Government-led science hardly ended well for Harold Wilson and his “white heat of technology”. While the USSR’s researchers achieved great inventions, it turned few into consumer-facing innovations. Nor is there much historically here to suggest a British Arpa is necessary: the UK led the world in the industrial revolution with no state funding for non-military scientific or technological research.

What Sunak’s speech represents, therefore, is an abandonment of key principles of Thatcherism – its fiscal conservatism, opposition to demand management, and belief in consumer-led entrepreneurial capitalism. Sunak seems confident that his counter-combination of higher public spending, more infrastructure investment, activist fiscal policy, and state-science can turn around the UK’s sluggish productivity growth. Historically, it’s unclear why he is so bullish.

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