

In America, public spending conservatism is being lost. It could happen in Britain.

Ryan Bourne

September 4, 2019

Austerity is over. Theresa May told us so after the 2017 election, and again at the Conservative Party Conference last year. Philip Hammond tried restraining her from a blitz of high-profile spending announcements. Yet Team Johnson has now picked up the baton anyway. The spending review due today from Sajid Javid will reportedly confirm significant money injections for schools, hospitals and the police. The Prime Minister said Monday it will be “the most ambitious spending round for more than a decade.”

Restraining government spending was always said to be a temporary deficit repair tool, of course. Those “tough choices,” added to net tax hikes, have helped bring down the budget deficit to just 1.3 per cent of GDP, from a gargantuan 9.9 per cent in 2010. Once near-balance, a spending squeeze was never envisaged to continue year after year. Despite Nick Timothy’s fear of libertarians under the bed, no recent Conservative leader has been ideologically committed to shrink the size and scope of government. Absent “thinking the unthinkable,” one eventually must release the spending grip given voter demands for high-quality services.

And yet...the zeal with which the Tories have turned heel on their spending narrative is surprising. Whatever one’s view on the efficacy or composition of “cuts”, they were central to the party’s offer through 2016, including the 2015 election win. Balancing the books was said to be about unburdening the next generation from dumping more debt on top of the iceberg associated with an ageing population. Any intergenerational justice message has now gone the way of the Titanic.

For the Government is not promising gradual targeted spending increases in these areas – a natural uplift from a reset baseline after years of restraint. No, proposed hikes in education funding would virtually reverse any real schools’ spending cuts over the past decade. May’s extra money for the NHS is a big step-change too. The spending review is celebrated as the “biggest, most generous spending review since the height of Tony Blair’s New Labour,” no less – a far cry from denouncing that era’s profligacy. In one swoop, the Treasury has undercut its long-held opposition to raising borrowing and junked the idea that public service reform trumps showering public services with money.

Javid attempts to thread the needle by arguing that more spending is still consistent with keeping the debt-to-GDP ratio on a shallow downward path. That maybe true. But a stated goal of policy was always to balance the books overall, even if George Osborne and David Cameron continually pushed back the deadline. A former Treasury fiscal policy director now says that borrowing will in fact start rising again, and soon be above two per cent of GDP. Manageable, yes – but a clear change in direction.

The public discourse effects of this reversal should worry fiscal conservatives. Cameron and Osborne's consistent messaging helped entrench two crucial contours in discussions about government spending. First, that there was no free lunch (every Labour proposal for years was met with the question "how will you pay for it?") Second, that what you did with the money (the organisation of public services) was as important as spending levels. After years of Tony Blair's money throwing, the public were receptive to such apparently grown-up thinking. Now, both those claims-cum-restraints that ensnared Labour have been removed.

If large, real increases in education funding are synonymous with better schools, as Tories imply, Labour can coherently ask "why did you cut real funding beforehand?" Such corrective spending hikes look an admission of a past mistake. Doubly so if funded through borrowing that was previously considered intolerable.

Couching this as "an end to austerity" brings similar peril. These particular decisions don't imply "we are going to return to affordable spending increases consistent with a low deficit." If large spending hikes for education are seen as *reversing* austerity, then obvious questions arise: what about local authority funding? Prisons? Criminal justice? Have these not suffered more from the pain you admit was damaging?

Of course, Brexit is the important context here. It is sucking oxygen from normal economic debates – one reason why the logjam needs to be broken. A slowing economy, induced in part by uncertainty, means an obsessive near-term public finance focus is probably unwise. The very process of extrication requires budget flexibility, not least because the underlying public finances could look very different when future trade relations crystallise.

But all this would be a case for relaxing or suspending fiscal targets through the choppy Brexit seas, not bold new announcements.

No, it's difficult not to conclude there's not something bigger happening here. Much of the party has embraced a simplistic "left behind" narrative of the Brexit vote – that it was a cry for investment in public services. They are egged on by former government advisors, armed with polling, who see an opportunity to steer the party towards a "bigger government" vision for the party they've always spoiled for.

Academic evidence in fact shows new Brexit voters affiliating with the Tories quickly adopt traditional Tory views on other issues. There's no need to pander. Yet when you see John Redwood railing against austerity, you realise how strong this view about the changing party voter base has set.

Whether Johnson shares that interpretation is less clear. Perhaps he sees funding boosts now in three major non-Brexit policy areas as short-term deck clearing before an election. Polling strength from these "good news stories" might even firm up pressure on the EU and rebel MPs on his central task. If it helps finally deliver Brexit, many of us will accept fiscal jam tomorrow.

I want to believe this, but the noises aren't encouraging. And living in the US, where Republicans have gone from a Tea Party anti-spending force to delivering unprecedented deficits for peacetime, in just a decade, I've observed just how easily spending conservatism is lost.

Here, it started with big spending increases on priorities too. Republicans cut taxes, yes, but huge cash increases for defence were delivered, greased by money for some Democrat priorities. Once

that dam opened though, the money poured. July's budget deal threw off the last vestiges of spending caps delivered by the Tea Party Congress. Promises of Republican spending restraint in Donald Trump's potential second term ring as hollow as claims he's using tariffs as a path to freer trade.

Here's the worrying consequence. As US conservatives have learned to love deficits, or at least use them, the left's spending demands have only gotten more extreme. With constraints stripped away, Democratic Presidential candidates feel liberated to propose mammoth programmes and spending hikes – the Green New Deal, a jobs guarantee, universal childcare and more. When asked how the country can afford this, they point out to the red ink spilled for Republican priorities. There is no answer.

UK Conservatives are far from the Republican point of no return on spending, as yet. But the mood music has changed dramatically. America shows that when conservatives abandon spending constraint, they legitimise the left's spending wild demands, to taxpayers' detriment.

Ryan Bourne is Chair in Public Understanding of Economics at the Cato Institute.