

This shotgun marriage of minds between Labour and the Tories won't last

It just might be that out of the shouting at Prime Minister's Questions, the sallies and charges, a set of sensible fiscal and financial policies is emerging.

The leader of the opposition is right: Labour is planning to cut capital spending in half in the next few years. The Prime Minister is also right: the cuts result from a decision to bring forward into these recession years spending that had been planned for what policymakers call 'the out years'. That decision inflates spending this year, but will reduce it in later years, unless when the time comes Brown can't bring himself to 'cut', which might be the reason he has cancelled next year's comprehensive spending review.

Meanwhile, Brown is right: if you look at a several-year total, he is not cutting spending, and the Tories are right that if you compare later years with this one, he is indeed doing just that. That out of the way, we can ask the important question: is the Brown plan to move spending forward a good idea — Keynes at his best?

The Tories have certainly proved that Brown, who is running a record peacetime deficit of 12 per cent of GDP and has the nation's debt heading to a staggering 90 per cent of GDP, finds it difficult to use the word 'cut' in connection with spending. But they have not even hinted that they would do anything different. Good thing. For the only thing they could do differently would be to cut capital spending now, in the midst of a recession. Keynes might have been right that government should make up for the decline in private-sector investment and spending, or he might have been wrong. No one really knows. But if he was right, and the Tories cut spending, the recession will deepen and lengthen. If Keynes was wrong, and spending is not cut, there is a risk that the private sector will remain on the sidelines, and that inflation will get out of hand. But presumably Mervyn King is alert to that problem and can leaven a bit of government Keynesianism with a dollop of Milton Friedman's advice to contract the money supply, and head off inflation.

So Brown explicitly and Osborne implicitly seem to agree that investment should not be cut just now. And the Prime Minister has been dragged to the conclusion — always subject to change in his case — that as soon as the economy recovers, spending must slow and the flow of red ink cascading across the nation's books be staunching. Alistair Darling knows that, Lord Mandelson knows that,

most of the Cabinet know that, and even most left-leaning backbenchers know that if they are to avoid the ignominy of another drop-in by a team from the IMF, spending and borrowing must drop.

Agreement stops when it comes to deciding how to cut the deficit. Labour would rely more on tax increases, and less on spending cuts than would the Tories. But Labour will agree to some spending cuts, and the Tories to increases in VAT at least to the level prevailing before the Prime Minister reduced the rate late last year. And since both parties proclaim, although with increasingly faint voices, that spending on education and the NHS will be 'ring-fenced', there won't be much room for a difference as to how much to cut spending in other areas. Both a Labour and a Tory government will be looking at departmental spending cuts of the order of 10 per cent, the only differences being the gnashing of teeth at Labour party headquarters, and the subdued cheers at Tory headquarters, and the distribution of the cuts among departments. Labour will have to go along with such spending cuts so as not to add to its history of taking the country over the brink of fiscal collapse, and the Tories, if in power, will seize the opportunity of the fiscal mess to persuade voters that there is no choice but to tighten the belt of the not-too-svelte public sector. Despite Brown's threats, the impact of an average 10 per cent reduction in spending need not result in massive reductions of the number of cops on the street, and nurses that actually tend to patients.

More likely, given the large portion of the budget gobbled up by the health and education sectors, it will be impossible for either party to promise to exempt these sectors from cuts in planned expenditures. The important point is that when shouting gives way to governing, the party in power will be backed by an unwilling consensus, a sort of shotgun marriage of the minds: spending cuts, with health and education to be spared to the extent possible, increases in taxes, with

Labour loading them on to the incomes of the rich, and the Tories increasing taxes on consumption, especially on products that contribute to pollution.

The Brown-Darling vs. Cameron-Osborne debate on the future structure of regulation of the financial sector has also produced something of a consensus. Peter Mandelson and his friend-on-the-water, George Osborne, agree that it is necessary to prevent new EU regulations from reducing Britain's competitive advantage in the financial services sector. Darling now agrees with Osborne's proposal that banks be required to increase their capital as lending increases, especially as lending to other than completely credit-worthy borrowers takes off, as it did in the recent boom. Brown and Cameron agree that bankers have an obligation to devise compensation schemes that do not reward short-term risk-taking, but instead are geared to long-term performance. Both are keen on having businesses recognise their 'social responsibilities'. The only clear blue water between the parties is whether the Bank of England should regain some of its lost regulatory authority or not, an important but less than crucial difference.

Finally, Brown's Old Labour insistence on targets and central direction — his thesis that government knows better than parents what is good for their kids, and better than patients what course of treatment is best for themselves — is moving in the direction of Tony Blair's and Lord Mandelson's New Labour call for more choice. Not as much as Michael Gove would opt for were he free to mention the 'V' word (vouchers), but sufficiently more than Ed Balls finds agreeable to permit the conclusion that the policy gap has narrowed.

None of this is to suggest that the election will not matter, that policy differences that remain are inconsequential, that any consensus will prove durable. They matter, most especially in the long run when the constraints imposed by the nation's appalling financial condition moderate, as they will when the economy recovers. Then, voters will have the luxury of choosing between entirely different paths to the future — follow Labour into an era of expanded government and higher taxes, or the Tories into an age of lower taxes, increased personal choice and a less swollen state.

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