
Cohabitation, English Style

*Can a marriage of convenience between Tories
and Lib Dems endure for five years?*

BY IRWIN M. STELZER

‘A bird may love a fish, but where would they build a home together?’ asked the milkman Tevye in *Fiddler on the Roof*. Apparently, in Britain’s House of Commons. After falling just short of an absolute majority of 326 parliamentary seats in the recent general election, David Cameron’s Conservative party (305 seats) has hammered out a deal to form a coalition with the Liberal Democrats (57 seats). Cameron, the Tory leader, has “kissed hands,” as they say in Britain, and accepted the queen’s offer to form a new government. Nick Clegg, the Lib Dem leader, will be deputy prime minister in the first peacetime coalition since the Depression-spawned National Governments of the 1930s.

To say this is an odd couple is to put it mildly. Cameron is wary of ceding more sovereignty to the European Union’s bureaucracy; Clegg is an enthusiastic Europhile who would have Britain replace the pound with the euro. Cameron wants to limit immigration into an overcrowded Britain that is rapidly losing its national identity; Clegg favors unlimited immigration and legalization of those who arrived illegally. Cameron wants the government to push the development of nuclear power; Clegg opposes it. Cameron wants to strengthen Britain’s military capability and is a supporter of NATO; Clegg

would like to replace Britain’s attachment to NATO with greater reliance on a European Defense Force and would abandon Britain’s nuclear deterrent. Cameron wants to crack down on judges who hand out lenient sentences to muggers and other hoodlums; Clegg thinks jails should be places of redemption, not punishment.

But these differences matter little when they stand in the way of power and jobs for politicians that have been out of government for 13 years—ever since Tony Blair

led a modernized and victorious Labour party into No. 10 Downing Street. So Clegg has agreed to a limit on immigration from outside the EU and not to press for adoption of the euro “in this Parliament,” and Cameron has agreed to the Lib Dems’ key demand: a referendum to convert the British electoral system to proportional representation, the system that has made Italy and Israel virtually ungovernable, as smaller parties end up in a position to make and break governments.

The quirky deal requires Conservative MPs to vote in favor of holding a referendum on electoral reform, but leaves them free to campaign against such a change when the referendum is held. The parties have agreed to disagree about nuclear power. These and other features of the Conservative-Lib Dem détente are laid out in detail in the coalition agreement.

The fun part will come when Cameron is off to some international meeting, and Clegg has to stand in for him at prime minister’s question time, fielding questions from his counterpart in the now-minority Labour party, whoever that might turn out to be. Or when Cameron is on paternity leave in a few months—his wife, Saman-

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tha, is pregnant—not an easy break to arrange since the PM’s residence is in the same building as his office. But paternity leave it must be, if Cameron is to be true to the practices the politicians have imposed on the British labor market and to his carefully crafted image as a modernizer.

The “single most pressing problem” facing the new government, says Mervyn King, governor of the Bank of England, is the state of Britain’s finances. The deficit is running at about \$250 billion annually, some 12 percent of GDP (approximately the same as ours), and is set to be the largest in Europe by the end of this year according to Azad Zangana, European economist at Schrodgers bank. The rating agencies have let it be known that they are increasingly uncertain that Britain should be allowed to retain its triple-A bond rating.

The new government has pledged to produce its first budget in 50 days, showing the steps it will take to stanch the flow of red ink. It will not be easy to keep to that timetable, given the wide differences between Conservatives on fiscal policy. George Osborne, the Tory chancellor, has his work cut out for him if he is to deliver a promised “significant acceleration in the reduction of the structural budget deficit.” The parties agreed that “the main burden” of deficit reduction would fall on spending cuts rather than tax increases. Rumor has it that the Tories favor a 4:1 ratio of spending cuts to tax increases, while the Lib Dems prefer a ratio of 1.5:1.

But so far it seems as if the tax-cutting rhetoric is sharper than the scissors to be taken to the budget. Indeed, there appear to be more spending increases than cost savings. Spending on the bloated National Health Service is to increase in real terms in every year of the Parliament, which is scheduled to sit for a five-year term unless 55 percent of the members call for a new election. Spending on foreign aid is to “remain in place” at current levels. There will be “a significant premium” for disadvantaged students, funding of a variety of green projects, a loan guarantee scheme for small and medium size businesses, an increase in the escalator applied to state pensions, and a \$24 billion cut in income taxes levied on the first \$15,000 of earnings.

This will presumably be paid for by an increase in capital gains taxes on nonbusiness assets from 18 percent to 40 percent; a tax on bank profits and bonuses; cuts in benefits going to high earners; reductions in pay for civil servants (but only those earning more than \$150,000); an increase in the retirement age to 66 (starting in 2016 for men and 2020 for women); and a tax increase on the employees’ portion of payroll taxes. Ominously, a review of the military budget is to be conducted “with strong involvement of the Treasury,” which has never met a

piece of military equipment it thought worth buying. Finally, Commerzbank is predicting that the coalition will increase from 17.5 percent to 20 percent the Value Added Tax, a type of national sales tax that might be in our future.

The Conservative principles lurking in this deal are not immediately obvious, nor is it easy to find support for the argument that the net of all of this will be an acceleration in deficit reduction. Chris Giles, a columnist for the *Financial Times*, estimates that promised new spending and tax cuts come to more than 1 percent of national income, while the spending reductions and tax increases come to a mere 0.3 percent.

It is easy to understand why the Lib Dems, by far the junior partner in terms of votes and seats—they actually lost seats in the election—feel that they have gotten more than they have conceded, although public chortling is just not on. Deficit reduction, it should be noted, is not in the Lib Dem DNA, unless it comes at the expense of military spending.

The coalition is also agreed that the banking sector needs reform. Vince Cable, the avuncular Lib Dem who specializes in bank-bashing, has been made secretary for business and banking. The Tories are motivated to take on the banks by more than vulgar populist pressures, although those are present. Conservatives now in charge of the Treasury have emphasized to me that they plan to reduce the relative importance of the financial services industries in the U.K. economy, because that sector adds volatility to the entire economy, and to encourage industries that “make things.” Since financial services are one sector in which Britain has a clear competitive advantage, and Britain is unlikely to have much of an advantage over China in “making things,” this seems an odd goal, never mind that such an industrial policy would be more becoming to a Labour government.

The obvious subordination of principle to the desire for power should not obscure the great strength of the British system, the patience of the British people. Through days of wrangling in the back rooms of party headquarters, all the players behaved with, well, good manners. Gordon Brown, having failed to establish a coalition with the Liberal Democrats, bowed out of the picture. The negotiating parties avoided leaks and attacks on one another, despite the fact that they were coming off an acrimonious campaign. The civil service aided all the parties with the facts and data they needed to do the policy horse-trading that preceded the final agreement. The crowds gathered outside of Downing

Street were small and well behaved. Nothing brings out the good sense of the British like a crisis.

They are now wondering if the coalition will hold together through the five year life of the Parliament. That seems more rather than less likely. For one thing, all of the political parties are broke: The Tories had to scrounge for money to get through the last week of the campaign. Labour has yet to pick a leader or to decide just what it stands for. More important, now that the Lib Dems have their feet under those ministerial desks, are being driven in ministerial cars, and are banking ministerial salaries (MPs are paid around \$100,000, ministers of state get that plus an additional \$120,000), they are not going to part ways with the Tories over anything as inconsequential as a principle, or even two. Less cynically, the Lib Dems have to demonstrate that coalition governments can serve the national interest if they are to persuade voters to vote “yes” on the proposed electoral reform that would make coalition government a fact of life forevermore in Britain, and assure them a major slice of political power.

There were two losers in this election. The obvious one was Labour, which lost about one-quarter of its 347 seats and its 13-year hold on power. It will be led temporarily—if she has her way permanently—by Harriet

Harman, Britain’s version of Nancy Pelosi. The current favorite is outgoing foreign secretary David Miliband, a center-left contender who among other things has worked to tighten the European embargo on goods made and grown on the West Bank and labeled “Made in Israel.” He will fight it out with Ed Balls, the Brown ally and very left Harvard-trained economist whose claim to fame is the tightening of central control of the education system when he was in charge of schools, and eking out a 100-vote margin in his constituency in the recent election. Other contenders will undoubtedly emerge, most notably Ed Miliband, David’s younger (by five years) and abler brother.

The other loser is the United States, whose only significant friend in the new cabinet is Defense Secretary Liam Fox, a man who understands the threat of radical Islam and is fully committed to combating it. The vaguely anti-American Tory foreign secretary, William Hague, joins David Cameron in opposing “slavish” support of U.S. foreign policy, which we of course have never demanded. Nick Clegg opposed our intervention in Iraq, shares all the European left’s antipathy to America’s dominant role in world affairs, and wants to soak the rich. He should very much enjoy his meetings with Barack Obama. ♦



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