

## George Osborne: the antidote to Beveridge

As chancellor, George Osborne has redrawn the line between state and private responsibility – in the direction of growth



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The intensity of the battle raging over "the cuts" makes it easy to lose sight of what has been agreed by all parties. Most important is that the deficit level is unsustainable, and that some reduction in total spending is necessary. Deficit reduction, it also seems to be agreed, can be obtained in its entirety from neither efficiency gains nor tax increases and economic growth.

That's the easy part. The harder question is whether the magnitude of the reductions in spending targeted by the coalition is necessary as a matter of fiscal prudence. That is less clear, but the weight of evidence seems to be on the side of the coalition. The alternative – to ameliorate the cuts by tax increases greater than those now contemplated – seems more rather than less likely to drive business from these shores, and to inhibit growth. Studies by Christina Romer, who recently resigned as chair of Barack Obama's council of economic advisers, seem to prove that tax increases have a greater negative effect on growth and employment than do spending cuts. And growth is the key to the success of George Osborne's four-year plan for the UK economy.

Adding to the argument in favour of cuts, reductions would be in order even if the fiscal condition were not so dire. The boundary between state and private sectors has not been re-examined systematically since the Beveridge report laid out sound reasons for expanding the state. Since then Britain has grown richer and the underclass has changed in character – and many of the then unmet needs of citizens are now being catered for by a private sector finding profit in providing health, education and transport services: services that it did not provide when the line was last drawn with the public sector.

It would be excessively kind to say that the chancellor conducted such a rethink, but he has willy-nilly moved the boundary between state provision and individual responsibility in the direction needed for sustainable growth. Clearly, the private sector – even not counting the civil institutions the prime minister plans to conjure up in a secular society where churches are not up to the job – can be assigned a far larger role than the approximately half of GDP left for it by a government that has increased its own share by 10 percentage points since Margaret Thatcher's days. Even if the government does implement all its cuts, and reap all the savings it seeks, the share of GDP claimed by government will shrink only to about the level prevailing when Gordon Brown turned on the spending spigots. Which leaves two questions: the pace of cuts, and the distribution of pain. The latter, generally referred to as "fairness", I leave to others. As to pace, there is room for honest disagreement. Economists at the European Central Bank are calling for Osborne-style austerity, while their counterparts at the IMF, backed by Ed Balls and Nobel laureates Joseph Stiglitz and Paul Krugman, believe that fiscal tightening at the pace and of the magnitude the chancellor proposes will abort fragile recoveries and produce the dreaded double-dip recession. The ECB argues that the reduction in the deficit will reassure the markets, keep interest rates down, and restore private sector confidence, unlocking private sector investment and job creation. The IMF says that Keynes was right, that cutting spending now is the wrong medicine for an economy suffering from insufficient demand. But don't spend much time sorting out who is right. The chancellor's plan will not survive the inevitable events, dear boy, events, for the entire life of this parliament. If the private sector, which now provides 23 million jobs, proves able to absorb the 490,000 public sector workers to be displaced, leaving the total 200,000 above when Gordon Brown strolled into No 11 – and if, despite the reductions in personal income resulting from benefit cuts, the economy grows at the 2.5% rate the chancellor projects; if the coalition can finally figure out how to encourage business start-ups (tax cuts, anyone?) – the plan will hold, and the coalition will go into the next general election on a "we told you so" platform. If not, there will be irresistible pressure to move in the direction of the IMF-laureates-Balls approach. Osborne will have lost what Ed Miliband this week told the CBI is the chancellor's "gamble with growth and jobs".

Broadly, then, the government is close to getting things right, except that it has paid for ringfencing a bloated NHS and £3.7bn in foreign aid by sounding a retreat from global responsibilities: aircraft carriers with no aircraft; a nuclear deterrent that is obsolete or rapidly becoming so; a pared-down army soon to withdraw from continental Europe. We Americans mourn the loss of an effective ally.