George Osborne's Comprehensive Spending Review has yielded few surprises

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Tim Leunig *sees the emergence of a smaller state, but has concerns for growth prospects.*

The spending review was heavily trailed, widely leaked and therefore unsurprising. Rather than cutting everything equally, some things are left unaffected (schools, hospitals and international aid), and others have been savaged. In particular, university students will now pay for their own tuition, rather than having government pay half of it, and council tenants will now pay a market rent, instead of being subsidised. That is a move to a smaller state, and it is hard to see either being reversed.

Two big questions remain. First, does it really make sense to take this much out of the economy, given that growth, although positive, is still below trend? Most economists think not. The government is making us poorer than we need to be.

Second, why does the government not use this opportunity to invest in proven areas that we know yield a good rate of return? Government can borrow at 1 per cent above inflation at the moment, and there are lots of infrastructure projects—primarily road building—that offer much greater returns.

In short, the government will be successful in cutting the deficit, but there will be a real cost to our medium-term growth trajectory.

This article first appeared in Prospect Magazine on 20 October.

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