

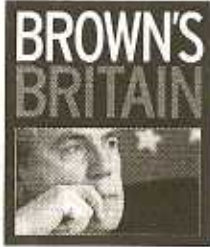
Brown must tell his Chancellor to steer a different course

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Relief is in sight. The members of the anti-Gordon Brown fan club who began to think they were doomed from here to eternity to watch the Chancellor present Budgets to the Commons can take heart: only one more to go. The Chancellor has been a master at snatching from an unaware middle class enough of its money to permit him to distribute goodies to groups he deems worthier. And despite warnings from the likes of me, the economy has nevertheless performed reasonably well in the past decade.

Yes, Margaret Thatcher had removed many of the structural obstacles to sustained non-inflationary growth. But it took considerable courage on Brown's part to resist the entreaties of his backbenchers to scupper the Iron Lady's gains by restoring the trade unions' ability to impose productivity-killing work practices and inflation-producing wage increases. He also had to face down demands that he retain the power to stimulate the economy by setting uneconomically low interest rates, rather than liberate the Bank of England from most (but not all) of the pressure to which it had been subjected by vote-hungry chancellors.

Still, this departing Chancellor has presided over a Leftward policy lurch, as a result of which his legacy includes formidable problems that will haunt the poor wretch who is selected to serve as chancellor under a Prime Minister Brown. Taxes have been raised while Britain's international competitors lower theirs; the



national balance sheet has been Enron-ed, with many liabilities simply left off; an increasingly aggressive Treasury staff treats taxpayers as potential criminals; retroactive and often petty tax increases have made business and estate planning

difficult, and raised the cost of capital; legal plans to minimise taxes have been treated as illegal tax evasion. As the *Economist* put it recently, when it comes to taxation and regulation, "Mr Brown has been a nuisance".

And yet, and yet. Since Brown took control of macroeconomic policy, the economy has grown at an average annual rate of 2.8 per cent, above its post-war trend rate of 2.5 per cent. Some 2.5 million new jobs have been created, albeit almost a third of them in the public sector. Consumer balance sheets have been enriched by the increased value of their homes. The City is booming, so much so that New York's billionaire mayor treks to London for instruction from Red Ken. All in all, even if Brown's critics are right, they are reduced to crying "apocalypse later".

Whether they prove right will depend very much on Brown's future policies, of which we shall have at least a hint later this month, when he produces the 11th and final act in his long-running show of budgetary mastery. At least one sign is encouraging: wage increases for public sector employees will be kept below (ever-so-slightly-below) the projected inflation rate, and more than trivially below the actual rate at which prices are rising.

But before raising your glasses



Irwin Stelzer

in salute, remember that the public sector has been the recipient of largesse beyond the dreams of all save the most avaricious trade union leaders, of whom there are several. Brown has loaded the cost of an additional 700,000 highly compensated workers on to the backs of taxpayers, and claimed an increasing portion of the output of the more efficient private sector to pay the bills.

My suspicion is that the Chancellor is well aware that the resultant increase in the quantity and quality of the public services has not kept pace with the increase in expenditure. Hence his decision to rein in wage increases. But as with all Brown's moves, much will depend on implementation: whether grade rankings will be manipulated to obscure higher-than-inflation pay rises; whether public sector workers will be paid in even-richer pensions and benefits that will not go into the computation of wage increases.

Most important, much will depend on whether the Chancellor pushes forward with reforms that will replace public-sector jobs for

life with performance-based tenure and competition.

Much will also depend on how the Chancellor decides to confront the international competition he has identified as the greatest threat to Britain's future prosperity. Until now, his emphasis has been on creating government programmes to stimulate this or that activity he selects as crucial to British success in globalised markets, rather than releasing individuals from the burdens of regulation and taxation. Brown cannot have it both ways. As the think-tank Civitas points out, a society in which one in three households looks to the state for at least half its income "create[s] beholden voters rather than independent people".

The Chancellor wants British workers and capitalists to become as hard-working and entrepreneurial as the Americans he so admires. But a dependency culture is a risk-averse culture, and people who surrender 40 per cent of their income when they earn it, and another 17 per cent when they spend it, are not likely to walk that extra mile in pursuit of the 43p they are allowed to keep from every pound they earn.

Brown will, therefore, have to choose between continuing down the high-tax, egalitarian path that might have been appropriate to the Britain he inherited and going for growth. That growth agenda necessarily will involve replacing redistributionist handouts with greater reliance on rewarding individual effort, and reducing the share of national income claimed by his Government. He will have to do more than reduce the rate of increase in public-sector wages; he will have to shrink the relative size of the state as he converts society from a coddled to a meritocratic one.

That means turning round the ship of state he has been piloting in one direction for a decade – and, like supertankers, ships of state can be redirected only slowly. There will be reasons enough for a change in direction. Increasingly fierce international competition from lower-tax venues will continue to sap the competitive strength of British enterprises. The demonstrated inability of central planners to manage the healthcare and education systems will cry out for increasing patient and parent power. The squeaking of the middle-class pips is a warning that expropriating more of their hard-earned money will stifle work and risk-taking, and increase incentives for evasion. Perhaps most important, Brown will have to decide if his priorities – starve the Armed Forces, freeze the budget of the ministry charged with fighting crime and controlling illegal immigration in order to feed the inefficient welfare state – are fit for purpose.

Gordon Brown is a man of formidable intellect. His head will tell him that much of the above is true; his heart will urge him to go on and on with his tax-and-redistribution policies, and stick to his priorities. My guess is that the intellect will combine with the force of circumstances to require him to follow his head, and to exercise his Prime Minister's position as First Lord of the Treasury to make certain that his successor begins the policy reversal that Brown will find so difficult to justify in his heart.

TOMORROW

**Psychologically flawed?
Andrew Pierce on the
character of Gordon Brown**