

Here's how Brown could do the business

There is no longer any question that the British economy is in bad shape. Unemployment is rising, house prices are falling, credit is difficult or impossible to come by – there's more, but you get the idea. Not that things are as dire as the Chancellor seems to think, or necessarily getting as bad as the OECD, which is predicting a UK recession, seems to think. But talk of the consignment of boom-and-bust to the ash-heap of history is no longer heard, golden fiscal rules have turned to lead, and the pound is falling at a rate that reminds many of the bad old days of the IMF bail-out of sterling.

Optimists wait for the Prime Minister to unveil a recovery plan. He can't. The man who blames global developments can't simultaneously believe that he can concoct a UK recovery plan. It is possible to spill a bit more red ink across the national accounts to give consumers struggling with high fuel bills a bit of relief, or to help a few thousand homeowners in danger of losing their homes, or to force energy companies to make customers' homes more energy-efficient. But the years of spend, spend, spend, producing public sector borrowing on a scale not seen in 60 years, make it impossible to fund a US-style stimulus package, and any grand

measure such as the bail-out of mortgage giants Freddie Mac and Fannie Mae is beyond the ability of the Government to finance.

The EU has also vetoed plans for the sale of £500 million of pollution permits to finance energy vouchers for the needy, and Mervyn King will not cut interest rates until he is convinced that inflation – around 5 per cent – is coming down, and by a lot.

All of which could be very good news for the Prime Minister, if only he knew how to present it. Instead of promising a recovery plan when no such plan can exist – short of a wild spending spree that would provide the temporary relief that double-digit inflation brings to debtors and mortgagees – he could confess that one is not possible. Instead, he could address the nation's fundamental economic problems, and let the cycle play itself out, with a few bits of plaster applied to some of the worst wounds. House prices will fall enough to allow new buyers to get a foot on the ladder, imprudent lenders will write down dicey loans, shareholders in financial institutions will depose managements that have brought them to the brink of disaster, and the cooling economy will permit the Bank of England to lower rates.

Painful, but nowhere near as painful as failing to correct the



The only sensible economic plan is one that cuts taxes and state spending – and helps employers,
says Irwin Stelzer

fundamental problems that will keep the economy from growing and creating jobs.

First is the tax system. I suggested, in a pamphlet published by Politeia, that there is a "tipping point" at which the government's share of the economy becomes so large that the private sector cannot function efficiently. My guess was that if government claimed more than 40 per cent of national income,

bad things would begin to happen. And so they have, just shortly after Chancellor Brown raised the Government's share of GDP past that tipping point.

Companies have begun to take flight. The Regus Group, providers of business services, is off to Luxembourg. The Henderson Group, asset managers, and Charter, an engineering company, will soon be off to Ireland. WPP Group, supplier of marketing services, and Brit Insurance, are halfway out the door. Pharmaceuticals group Shire has sought a more congenial tax environment. Krom River, a hedge fund, has started what might become a stampede to Zug in Switzerland, where taxes are low and regulation minimal.

There is worse. The main creators of jobs are small businesses. Their establishment and expansion depends on the exuberance of entrepreneurs. That depends heavily on their appraisal of the probability that they will be allowed to keep the fruits of their risk-taking and be free of undue hassle from regulators and unions.

But there must also be some stability, some sense of certainty. "People don't know what to expect, and that is not a good position to be in," says Jolm Cridland, CBI deputy director-general. Entrepreneurs need a

government that admires them, that does not revile them if they become very rich, that doesn't unleash hostile tax inspectors to reinterpret rules, that doesn't engage in retroactive raids on profits, and that leaves them free to innovate and make deals, rather than study the latest revisions to the tax code.

Brown can make lower taxes, a business- and work-friendly atmosphere the core of a recovery plan. He admires America's entrepreneurial spirit, and has tried to figure out how to convert Britain's more risk-averse culture into a closer approximation of it. But it escapes him that a government that attempts to provide cradle-to-grave security can't breed risk-takers. And that a prime minister who appropriates a large portion of the rewards of risk-taking for a bloated public sector and payments to work-refuseniks can't offset the incentive-killing effect by being photographed with Bill Gates.

If Brown comes to grips with those facts, he will be able to offer a long-term economic plan that will enable him to realise his goal of "a bright future" for Britain. It would be bold to eschew short-term palliatives but, after all, Brown is best when he is boldest.

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