

It's time for Brown to behave like Brown

Triangulation is the name given to the act of a political candidate presenting his or her ideology as being 'above' and 'between' the 'Left' and 'Right' sides (or 'wings') of a traditional (e.g. UK or US) democratic 'political spectrum.'" So says Wikipedia. Triangulation's most successful practitioner was Bill Clinton. Unfortunately, Gordon Brown adopted the technique, not realising that its success depends in good part on the public charm of the triangulator. Such charm left Number 10 when Tony Blair departed for the Middle East, the City, Yale University and other venues.

To please the Chinese the Prime Minister refused to invite the Dalai Lama to No 10; to please the human rights crowd (and salve his own conscience) he met him at Lambeth Palace. To please the human rights faction of his party he refused to attend the opening of the Olympics; to please the City and recognise the importance of China as a market for British goods he attended the closing. It is doubtful that this triangulation appeased anyone. It just isn't Mr Brown's thing.

Which he seems to have recognised as he plans his autumn fight-back. In America, Ronald Reagan's fans called on the president's advisers to "Let Reagan be Reagan". Now it is time to let Brown be Brown. In the current economic circumstances that will mean abandoning triangulation in favour of confrontation.

The most important will be a confrontation with his own Left when (if) he vetoes a windfall tax on energy companies, defying the 80 MPs who have signed a petition calling for one. The energy companies' profits will provide the investment that sector needs if it is to meet future demands. Perhaps Labour's Left-wing will be soothed when Brown proposes to dole out benefits to as many voters as he can find. That won't be triangulation but an act of conviction.

The unfortunate part of letting Gordon be Gordon is that it requires accepting still more of the credits and handouts that appeal to the Prime Minister more than tax cuts. Remember: all these credits are Treasury expenditures, and spill just as much red ink on to the Government's books as would straight-forward tax cuts. So it is disingenuous in the extreme for the Prime Minister to pretend that the parlous state of the nation's finances prohibits tax cuts but allows a new round of credits.

The more important confrontation that the abandonment of triangulation will involve will be with Mervyn King and the Bank of England. Brown wants to take steps to revive the housing market, as a combination of the Federal Reserve Board and the Treasury have done in the United States. The US model would involve measures to take on to the Government's balance sheet some of the dicey loans now recorded on the books of investment and commercial



The Prime Minister should abandon his attempts to please and appease – and fight for his polices, says
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banks – give them money (or, the same thing, saleable government IOUs) in exchange for mortgages and other IOUs. The taxpayer becomes the ultimate guarantor of the loans. See Northern Rock.

Brown knows that such moves in the US have helped, but not as much as the Fed, the Treasury and the White House had hoped. My guess is that he wants to get a double benefit from any plan to rescue the housing market, and the voters attached thereto. That means guaranteeing all new mortgages, rather than taking billions in existing mortgages on to the Government's balance sheet. Brown would thereby spur sales of newly built homes, providing a boost to the construction industry. He would enable first-time buyers to obtain

mortgages at reasonable rates and terms, and to snap up some of the bargains on the market. The full impact of such a plan would be felt quickly – in time for you-know-what in 2010.

But this would monetise debts that the market otherwise would not allow to be created. I won't bore you with a full explanation: take my word that this would be inflationary. More money in the system. The already-weak pound would sink further, making imports more expensive and driving up prices. The trade unions, at the peak of their bargaining power vis-à-vis a government heavily dependent on them for financial support, would undoubtedly demand wage increases to offset higher prices. If the Government caves in, Britain would have the sort of wage-price spiral (the "boom" in "boom and bust") that the former chancellor unwisely chose to boast he had eliminated from British life.

Brown knows all of this. It was rare in the conversations we had when he was at the Treasury that he could not foresee the possible macroeconomic consequences of his proposals – he had the data, the help of Ed Balls in analysing them, and supreme (in retrospect, at times misplaced) confidence in his ability to craft methods to offset possible negative consequences. Would means testing discourage savings? No, because data he presented showed that the beneficiaries are in no position to save from their meagre incomes. That was Gordon being Gordon – informed,

decisive, sometimes right, sometimes wrong. But never a ditherer or triangulator, always directly confronting opposing arguments. In those days, civilly.

The confrontation with King and the Bank of England is inevitable. King has one responsibility – to control inflation. But to control it within a limit set by the PM (oops, the Chancellor, the man now studying the daily press to discover "his" latest policy positions). One thing the PM might do is raise the inflation target he has the power to impose on King. Another would be to change the single mandate under which King now operates to the sort of dual mandate set for the Fed – to contain inflation and to maintain full employment.

King has shown himself to be a formidable defender of his turf and his anti-inflation mission. He has resisted pressures to do as much as the City and the Government would have him do to pump up the economy at the risk of adding fuel to an already-smouldering inflationary fire. He will fight his corner – and lose. As former White House economist Larry Lindsey, now a consultant, advised his clients: "Economic history strongly suggests that a combination of nationalisation and monetisation of bad debts created in a credit cycle this massive is the path of least resistance." Especially for an unpopular government facing an election.

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