

It's worth giving Mandelson a job if it keeps him out of trouble

Gordon Brown's critics are confused. For months they have been accusing him of dithering, of timidity, of being unable to make the bold moves that are needed if his government is to get a grip on the unfolding problems in the financial sector and, now, in the economy as a whole.

Now that he has shown more than a bit of both decisiveness and courage by bringing Peter Mandelson back from what most fair-minded people recognise is a credible stint as European trade commissioner, the critics have shifted gears. Mandelson is not the man to help craft policies with which to fight the emerging economic crisis because... well, because he is Peter Mandelson. Twice forced to resign ministerial positions, the first time for financial indiscretions related to his taste for the high life, the second because Tony Blair was too nervous to wait for the exoneration that came after a careful investigation.

Anyone who thought that by accepting the Brussels appointment Mandelson had forever given up the hope of returning to a Cabinet-level appointment didn't know their man. On the night of one of Blair's often botched reshuffles, the Prime Minister was being pressed by Mandelson to give him an opportunity then to say what he says now — 'third time lucky'. Blair hesitated before accepting the sound advice of his inner circle, and telling Mandelson the political fallout would be devastating. Better, said Blair, to hie off to Brussels where the work would be intellectually interesting, the lifestyle of an EU commissioner agreeable, and where success might provide a path back to a Cabinet job in Britain. And so it has proved.

I would be the last to argue that Mandelson is a flawless exemplar of the selfless public servant, although there is no doubt that lucrative directorships would have been his for the asking. Indeed, his weaknesses — especially his penchant for the good life — are just the sort of weaknesses that Gordon Brown would find somewhere between inexcusable and offensive. Add that the Prime Minister surely knows that Mandelson's reputation for bullying editors will result in a generally hostile press, and that 'the Prince of Darkness' just might decide to undercut Shriti Vadera, rather than work harmoniously with the woman to whom Brown has always looked for economic advice and whose power he has recently increased. After all, plotting is not a skill Mandelson is like-

ly to have allowed to grow rusty during his stay in Brussels, when he had to push a free-trade agenda through a French-dominated bureaucracy.

Ed Balls is surely right that this is a risky appointment. When negotiating aspects of the Doha trade round with Bob Zoellick, his talented American counterpart who is now head of the World Bank, Mandelson first threatened to have Blair go over Zoellick's head to President Bush, then slammed down the phone, and then took to newspapers in Washington to attack the US negotiating position. Bad form, at the very least.

But Balls is also right that this is a risk worth taking. For Mandelson is extraordinarily able, as I can attest from personal experience when he was in charge of the Department of Trade and Industry. We had occasion to discuss various aspects of energy policy and other issues. Peter was always well informed, had read the often turgid memoranda I had written, and had useful ideas and comments. That may be why his civil servants are said to be welcoming his return. No 'Winston is back' telegrams are flashing through the bureaucracy; but there is a general feeling that Lord Mandelson knows more about what makes the economy tick than many of his colleagues, Baroness Vadera possibly excepted.

The real question is whether Mandelson can matter. Early indications are that he will. He is already advising the government to abandon the finger-pointing that constituted its early response to the credit crisis. There is blame enough to go around, ranging from the overly risky lending practices of many banks, to the government's abortive trifurcation of regulatory responsibility, and a spending spree that left it with no room for a fiscal response to the current troubles. But as David Cameron sensibly points out, that is for later. The task now is to cope with the emergency and to put in place regulatory reforms that will lessen the frequency and magnitude of future downturns.

First, clear away the sillier of the remedies proposed by the opposition parties. Co-operation with the opposition, which Mandelson's reputation for duplicity and manipulating the press might make more difficult, should not mean adopting daft proposals. The usually sensible Vince Cable wants to suspend the independence of the Bank of England — just once, just for a short period. How investors would be persuaded

that such a move is indeed a one-off is unexplained. Like virginity, independence once surrendered cannot be recovered.

Then there is George Osborne, who would cede control of much of fiscal policy — taxing, spending and borrowing — to an independent commission. His desire to create some substitute for self-control on the part of the elected government is understandable, given this government's rejection of good old Prudence in favour of that tart Profligacy. But such a device is no substitute for political responsibility. We have had several in America, including one that requires spending cuts to match any increases, and our politicians have run up a huge deficit nevertheless.

The next chore is to cope with the credit crunch, rather than simply blame it on America. The Prime Minister has thus far approached the banking sector's problems on an ad hoc basis. But when banks refuse to lend to one another for longer than one day, the problem is systemic. America's decision to take what might eventually be \$700 billion of dicey paper off the books of the banks — including perhaps some UK banks, if Brown's various attacks on America have not made that politically impossible — should help. But it will take months to put in place the mechanism for valuing the IOUs to be purchased, during which time this government will need some overall strategy to prevent serial assaults on bank shares.

Mandelson's good relations with the City, along with Vadera's experience in the investment community (which under the circumstances will forgive her enthusiasm in 2001 for wiping out owners of railroad shares) and Ed Balls's sharp if often misdirected analytical skills might not be a team of 'all the talents', but it is a solid team nevertheless.

Finally, enduring reforms must be crafted. George Osborne has sensibly suggested that banks be required to increase their equity ratios as a boom heats up; compensation schemes that place less emphasis on short-term profits are being tried in the City; the roles of the several regulators must be clarified and co-operative arrangements made with other countries. Enough to do to keep Mandelson out of trouble, and to prevent the past from being prologue.

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