

The Tory quest for a fiscal Holy Grail is doomed

Brown's golden rules have been exposed as a sham, says **Irwin Stelzer**, but the Tory response has been feeble. Their target should be the PM's feathering of Old Labour nests

The good news is that Gordon Brown's golden rules are no more. These rules did not stop the then chancellor from launching a spending binge. They did not stop him from spilling red ink all over the nation's books at a time when the flow of cash into the Treasury was at record levels. They did not stop him from raising taxes, 60 times by some counts. They did not stop him from redistributing income from wealth-creators to wealth-consumers.

What the rules did do was provide the curtain behind which this latter-day Wizard of Oz could hide, give him the distraction on which magicians rely to prevent audiences from following their sleight-of-hand. Pay no attention to my tax-and-spend, I am adhering to the golden rules I invented.

And in the end, when his 2002 promise that 'at all times — now and in the future — we will never compromise our commitment to meet our fiscal rules and disciplines' became inconvenient, Brown sent his chosen successor into the newly cruel world to announce, 'To apply the fiscal rules in a rigid manner today would be perverse.' Indeed, Alistair Darling has no intention of applying them in a rigid or any other manner. Golden rule, R.I.P. rules that are jettisoned when they become inconvenient hardly qualify for that designation. It is as if we were all allowed to disregard the speed limit when we are in a hurry — not very binding, such rules.

The fiscal rules that were Brown's guarantor against 'boom and bust' are not the only casualties of the current credit crisis and recession. The independence of the Bank of England

has been seriously compromised. Now, the Bank was never truly independent, since the Chancellor has the power to appoint and, if he is unhappy, to fail to reappoint the Governor and the members of the monetary policy committee. He also sets the inflation target, currently at 2 per cent, a single mandate that has prompted Mervyn King to keep interest rates higher than any sensible economist would countenance. Now that inflation is clicking along at an annual rate in excess of 5 per cent, the Chancellor has signalled the Bank that it need not worry just now about meeting its 2 per cent target — better to lower interest rates to support the government's efforts to stimulate the economy. Gone is the notion that an independent bank's primary job is to tighten monetary policy when it feels the government is playing fast and loose with fiscal policy. Or at least to apply the judgment of its monetary policy gurus, rather than take 'advice' from Number 11 — more precisely, Number 10.

The final casualty of Brown's attempt to minimise the downturn is our understanding of the economics of John Maynard Keynes. Keynes did, as Brown argues, favour expanding government spending and borrowing during a downturn. But he was too much of a conservative to support such an expansion during good times. The great economist might not have been much of a believer in the teachings of the Bible, but his policy prescription was closer to the one Joseph recommended to the Pharaoh than to the one Brown and his Chancellor are recommending to British voters.

This uncharacteristic lack of intellectual rigour on the part of the Prime Minister is one with his analysis of the cause of the crisis. It seems Britain is the victim of a disease that originated in America, and magically crossed the ocean to infect perfectly healthy British banks — the very institutions that were writing mortgages valued at 125 per cent of the value of homes, issuing millions of credit cards and not checking financial statements of borrowers, all under the eyes of regulators attempting to implement the trifurcated regime created by then chancellor Gordon Brown.

Still, Brown has finally got it right. No use pointing out that a price will be paid in future inflation, higher taxes, slower growth and mis-allocation of resources. These costs will be worth paying if they save us from the still higher costs of a collapse of the financial system and a deep and protracted recession.

It was surely right to recapitalise the banks, as Brown led the world in doing. It is surely right to loosen fiscal policy, even though the starting point is a government budget already unnecessarily deep in the red. It will surely be right to cut some taxes to stimulate spending, which Brown is considering.

Which is why the Tory response has been so feeble. Yes, David Cameron and George Osborne are right to remind voters that Britain is likely to suffer from this crisis long after other countries recover: that's the cost of Brown's profligacy, growth-stunting taxes and initiative-sapping welfare state. And they are surely right that future generations will pay the bill for the current borrowing binge.

But the Tories have so far been unable to demonstrate that the cost of the Brown programme will exceed the costs the economy would bear in its absence. Nor have they explained why they were willing to adopt Brown's spending plans when the economy was booming — and government spending should have been cut — but oppose those spending plans now, when they are needed. In short, they have not augmented whingeing with a coherent alternative programme.

Which brings us back to rules. There are no fiscal rules that serve an economy well in all circumstances. The Tory hunt for that holy grail is doomed to fail. There are only pragmatic course adjustments. Judgments. Priorities consistent with one's governing philosophy. Which is what Osborne should be looking for now. The problem is not that Brown plans still another spending and borrowing spree, it is that he plans to spend the money in ways that won't speed the recovery — by the time his infrastructure projects come off the drawing-boards the recession will be over — and that reflect his hard-left, redistributionist philosophy. The military is to remain under-equipped and underpaid; expansion of the welfare state is to proceed apace. Millions are to be spent on translators for non-English-speaking felons, while prison capacity remains so inadequate that dangerous criminals are released early. The creation of useless public-sector jobs proceeds, to the profit of the *Guardian's* ad department, while police become a rare sight on the increasingly mean streets of many cities.

Osborne can't mount a credible attack on Brown's theory of recession-fighting because the Prime Minister has it broadly right. What he can do is point out that it is being implemented in a way that serves the interests of Old Labour constituencies, rather than the nation. And suggest a better way of borrowing, spending and shoring up financial institutions. There will be plenty of time for recriminations. But voters will find them of interest only if they are accompanied with plans to get them out of the deep hole which Gordon Brown helped dig, and into which he has plunged them.

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