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Ed Balls deserves his chance at No 11

Gordon Brown's old ally has few friends on either side of the House – but he is respected in the City, says Irwin Stelzer.

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Could Ed Balls be moving into Number 11? Photo: PA

The country needs a general election. It won't get one. The Labour party needs a new leader. It is unlikely to get one. What the country and the party will likely get is a Cabinet shake-up. And, rumour has it, that means Ed Balls moving into Number 11. Not a bad thing, given the alternatives. Better to make Balls Chancellor than to grasp at Straw.

Blairites will be miffed, but they are more or less in a permanent state of miffiness; MPs who were trampled upon when Balls was previously at the Treasury – as a special adviser and then junior minister – will be unhappy; and it is likely that the school system will benefit from the removal of his heavy hand.

When Gordon Brown first stepped into Tony Blair's shoes I argued that he should put Balls at the Treasury. Balls was not interested: he wanted to prove that he could capably manage a spending department, and to decouple his career from Brown's. He failed on both counts. But that does not mean that it would be a bad move for the Prime Minister to name Balls his new Chancellor – assuming there are no inappropriate Balls household expenses that have been covered by the taxpayers.

Brown has only one chance to snatch victory from the jaws of defeat – and a slim one at that. It is to recapture some portion of his reputation for economic competence. That will require, first, that at least some of the green shoots do not wither and die. In short, some real signs of economic recovery. It could happen. America seems to have moved from downturn to stability, and might just be poised to lead a global upswing. The declines in the British housing market and general confidence are abating. And if the banks can be persuaded, cajoled, pressured into lending, Christmas might not be stolen by Scrooge.

Enter Balls. Whatever the Parliamentary Labour Party thinks of him, and I am told that is not much, and whatever the Tories think of him, which is even less, he is respected in the City. Even by those who share my view that the Brown Government is pursuing a fiscal policy that will bring Britain to ruin if not reversed. Spending to stimulate the economy is one thing. Spending on programmes that will be embedded in the economy long after the recession has passed is quite another – especially since that spending will have to be funded with borrowing at levels that will surely cause Britain to lose its current credit rating, might force the International Monetary Fund to revisit the country *en route* to a stopover in some Third World country, and could trigger a combination of higher taxes and runaway inflation. Not exactly a programme on which to base a re-election campaign.

Balls knows all of this. He studied at Harvard under some of the best macroeconomists in the world. They were unable to persuade him that markets generally produce more efficient results than ministers, but they did teach him about the relation of excessive borrowing to the health of the economy. I am told he was a good student.

Balls would also have an important advantage. With little to lose and much to gain, Brown might actually entertain the idea that Balls might have to rein in spending; cut a tax or two to stimulate growth; forswear the tax increases that Alistair Darling has scheduled; and bring in an emergency Budget that reassures the financial community and world markets that Britain is not intending to follow the fiscal policies that have made Mugabe famous. As the old song goes, "I can dream, can't I?"

Balls also has a pretty good idea of the way to structure the regulatory reforms that are needed in the financial sector. He knows, or says he knows, that regulation is needed only to correct market failure – an inability of free markets to produce efficient and socially acceptable results. He and I have differed as to just when market failure is present – he sees it in lots of places where I don't, and therefore has a grander notion of the needed

scope of government action, and less faith in individuals to make their own decisions about their health care and their children's education. But he has a conceptual framework within which he can have sensible discussions with bankers.

Finally, having had no direct responsibility for getting the Government so deeply involved in the financial sector, he would be well positioned to develop and execute an exit strategy. And to impose it on a weakened Prime Minister.

The real question is whether IQ and education trump ideology. When it came to schools, the answer was no: from playground to classroom to lunch room to curriculum, Balls knew better than parents, or thought he did. When it comes to monetary and fiscal policy the answer might just be "yes". Only "might", but the country has little to lose by finding out. If you doubt that, consider the appalling alternative candidates for the job.

One thing Balls will not be able to do, even if he were so inclined: persuade his boss that an ever-expanding welfare state is the road to economic ruin and to lower living standards. Which is why even modest success by a Chancellor Balls should not deter voters from giving Labour the boot. Still, he deserves his chance: he did devise the tests that kept Britain out of the euro.