

Ken has joined Gordon's blind march to ruin

Recessions make strange bedfellows. On the Left we have the team of Gordon Brown, Vladimir Putin, and Wen Jiabao, the leaders of the UK, Russia and China. None has been elected to his job by his nation's electorate; all preside over troubled economies; all are united behind the proposition that their own peerless leadership could not offset the bungling and greed of the Americans.

Never mind that Putin has scared off investment from abroad by confiscating foreign capital, threatening foreign executives and generally condoning an atmosphere of threat and lawlessness. Economists rarely agree on very much, but they do agree that without the rule of law and private property rights, no economy can prosper.

Forget that Wen presides over an economy heavily dependent on his manipulation of the currency to keep it below market value. That has caused distortions in trade flows that contributed to too-low interest rates in the West.

Then there is Gordon Brown, who after a decade running the UK economy now contends his leadership was flawless – avert your eyes from the huge increase in private and public debt and the

swollen welfare state that has created entire regions in Britain that depend on the state for more than 70 per cent of their economic activity. Nothing to do with him, all the fault of American bankers, who somehow forced UK banks to acquire toxic assets under Brown's very nose. Brown has rediscovered an earlier hero, John Maynard Keynes, an advocate of government spending during recessions – and, less cited by Brown, budget surpluses during boom times.

So much for the statist trio. On the Right we have the unlikely alliance of David Cameron and George Osborne with Ken Clarke. Cameron and Osborne think Brown might be forced to follow in the footsteps of Jim Callaghan, who in 1976 called in the International Monetary Fund to bail out the UK. If forced to concede that he could not save Britain, much less the world, Brown would contend that the experience proves he was right all along. After all, hasn't he been saying that the solution to Britain's ills requires action by international bodies?

Clarke, famous for his unwillingness to do the hard work required to master any issue, has contradicted his more cerebral shadow cabinet colleagues: his intuition tells him that the British



*Unfortunately,
the economic
evidence favours
the Tory
pessimists, says
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economy is not in such dire straits as Cameron and Osborne believe. The Tories are paying a high price for Cameron's decision that a touch of blokeyness is a necessary offset to the Etonian tone of the shadow cabinet.

The fact is that Cameron and Osborne are more likely to be right than are Brown and Clarke. The pound has fallen by 30 per cent since the crisis started, as much as before Callaghan called in the IMF. The deficit is headed towards 10 per cent of GDP.

Worse still, three factors support the gloomy view of the thoughtful segment of the shadow cabinet.

First is confidence, or its lack. Jim Rogers, dismissed by Brown as a "self-interested speculator", is instead a well-regarded investor and the former partner of George Soros. When Rogers talks, people listen. "I would urge you to sell any sterling you might have. It's [Britain is] finished. I hate to say it, but I would not put any money in the UK." Confidence is so shaky that these words caused the largest one-day drop in the pound since the Wednesday in 1992 when sterling was expelled from the European Exchange Rate Mechanism.

Second, an increasing number of experts agree with the IMF that Britain's recession will be more severe and prolonged than those of most other industrialised countries. As David Cameron pointed out in Davos: "As the OECD, the IMF, and the ECB have all said, if your country can't afford it, a fiscal stimulus is a very bad idea." And Britain can't afford it, largely because of the high level of government spending and debt in the fat years.

Cameron could have cited two other authorities. Chancellor Alistair Darling concedes that Britain has a harder row to hoe than other countries because of its greater reliance on the decimated financial sector. And Ken Rogoff, the respected

Harvard economist, says: "The banking sector is not stable. The hole is too big and it is not sustainable."

Third, the Government seems unable to develop a credible anti-recession policy. A whirlwind of prime ministerial activity is no substitute for a coherent policy. Brown had it right at the beginning when he focused on the banks. But he added bail-outs of the car industry, the broadbanding of Britain, a derisory and expensive cut in VAT, a ministerial group to shepherd the pharmaceutical industry – all stoking a soaring deficit. Being rational, consumers have reined in their spending in preparation for the inevitable rainy, taxing day.

Gordon Brown's reason for dismissing these warnings is obvious: he will soon, finally, have to face the voters. Ken Clarke comes to the same conclusion as the data-heavy Prime Minister, but relying on his intuition. Meanwhile, the markets seem to be saying that all roads lead to the IMF. Fortunately, recent experience suggests that markets at times overreact to downswings as well as upswings. If Brown is lucky, this will be one of those occasions.

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