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Notes for talk at

Henry (“Scoop”) Jackson Society

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Many thanks for inviting me to share a few thoughts with you this evening. I am especially pleased to be asked by such kindred spirits to throw out a few ideas for discussion.

As I look around the room I am reasonably confident that I am the only person here who actually met the late Senator. Twice. The first time was when his Senate committee was considering the issue of a natural gas shortage and the consequent rise in prices from, if recollection serves, about 5-cents per Mcf to about 11-cents, levels that seem ludicrous in this age when prices in the \$6-\$9 range have made their appearance. At the time I was sporting a beard in an effort to look older so that any potential clients would not be put off by my inexperience.

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Senator Jackson peppered me with questions, repeatedly referring to me as “Professor”, which persuaded me that my efforts to convey the air of a mature consultant were failing, and instead I appeared to be an academic. Off came the beard.

My second encounter with Senator Jackson came when he was campaigning for the Democratic presidential nomination in Long Island, and I was advising on energy matters. The Senator, of course, was concerned about our reliance on Saudi Arabia and other Arab countries for a continued supply of oil -- there is nothing new in the world of energy policy. So I unveiled a proposal that I have repeated - - unsuccessfully -- to this day: raise the tax on petrol. The Senator, campaigning in the New York suburbs, home to car-using commuters and ex-Manhattanites who were in love with the notion of driving to the supermarket, or around the corner to visit a friend, was unenthused about my suggestion. I did not hear from him again.

The exchanges I have had with the organisers of this session suggest that you might be interested in three topics: a review of the state of the global economy, some thoughts on the state of play in British politics, and a few remarks about the US presidential campaign, now well underway.

The Global Economy

I think it fair to say that the world economy is in rather good shape, with the perennial exception of much of Africa. Great Britain, while not in as great shape as Gordon Brown reports, is coming off a decade of substantial growth. Building on the Thatcher legacy, and having had the foresight to grant independence to the Bank of England, and to keep Britain out of euroland, the Chancellor has somehow managed to combine vigorous tax-raising with a host of microeconomic measures that have, so far, kept the economy growing at an average annual rate of 2.7%. I leave for later and for the discussion period whether this is sustainable, given the bloating of the public sector (700,000 new jobs in the past decade, one-third of all those added), and the increasing weight of taxation -- both its level (now at 42%-43% of GDP) and its complexity (a tax code of 10,000 pages, rated one of the most complex in the developed world).

Germany seems to be on the road to recovery, with business confidence close to its historic high. Thanks to a bit of rather quietly executed labour-market reforms negotiated with the trade unions, fearful of further capital and job flight to the East, labour costs are returning to competitive levels.

Equally important, there seems to be a dawning if grudging realisation by voters that the country must reform its overly-generous welfare system in order to increase incentives to work and decrease incentives to stay on the dole.

Spain is in the midst of a boom. It has had 13 consecutive years of solid growth, aided in part by a large immigrant work force, and a construction boom in housing.. Ireland is also booming, in part due low taxes that have attracted many businesses and jobs to Ireland. France remains in the doldrums, and is likely to remain there no matter who wins the election -- Ségolène Royal is an old-line socialist with a programme that would surely doom France to double-digit unemployment, and Nicolas Sarkozy is a protectionist whose solution to France's problems is to persuade its international competitors to raise their taxes to French levels, erect barriers to trade, and politicise the European Central Bank.

This latter point contains a lesson. France, its economy lagging, wants the ECB to cut interest rates. Spain and Ireland, in danger of over-heating, need the Bank to raise interest rates. One size just does not fit all. The Bank of England, safely outside of euroland, meanwhile moves

merrily on setting interest rates appropriate to the circumstances of the UK economy.

Latin America is a bit of an enigma. Brazil remains a rich country, forever on the brink of prosperity; Colombia exists on US payments to help the government contain the drug barons; Mexico survives because its excess labour force finds employment in America and remits billions to relatives at home; Argentina remains Argentina, ungovernable; Venezuela is in the throes of a Castro-style revolution, fueled by oil revenue, resulting in an 18% inflation rate and declining productivity. There is little question that Hugo Chávez is capable of destabilising the region, but aside from the reduced oil production that his nationalisation will inevitably produce, his impact on the world economy should not be significant.

China, of course, is growing at double-digit rates thanks to an export machine fueled by cheap labour and an undervalued currency. Its economic performance is food for thought for those of us who always believed that economic growth and the creation of a middle class would inevitably be followed by the emergence of democratic institutions, and that highly planned economies cannot prosper. There are signs that the political situation in China is changing in

response to its economic growth -- businessmen are now allowed to join the Communist Party, and limited rights of private property have been established. But by and large the regime maintains its grip on the levers of power. And is using its new economic muscle for two purposes: to fund a major expansion in its military machine, including equipment that will allow China to project its power throughout the region; and to buy influence around the world, especially in oil-rich regions.

Russia, too, is reasserting its claim to global importance, using its vast oil and gas reserves to extend its influence, especially in Western Europe, now heavily reliant on Russian natural gas to keep its homes lit and warm, and therefore muting its objections to Vladimir Putin's stifling of domestic opposition and dealing with even those dissidents who have fled the country. In my view, Russia's energy strategy is brilliant: the government has replaced soldiers with barrels of oil and cubic feet of natural gas as instruments of power. It is in as complete control of the nation's resources as it is of its army, and those resources are a more potent weapon than the army. It is negotiating deals designed to prevent the emergence of alternatives to the pipeline-delivery systems that it controls. It raises such

capital as it needs from Westerners ever-willing to provide the funds to buy the rope with which Russia plans to hang them.

America's economy is slowing, but I doubt that the problems in the housing market will produce a recession. Unemployment is low, jobs are plentiful, the central bank has learned its lesson from past bouts of inflation and recession, and exports are increasing. Congress will undoubtedly take a few steps in the direction of populism, but there are enough Republicans in the Senate to prevent the worst of any economic legislation from passing, and the President can if necessary veto any really silly bits of legislation sent to him for signing.

So two cheers for the world economy. But only two. I have not mentioned the very substantial political risks that might turn prosperity into recession. Here are a four:

1. A conflagration in the Middle East that disrupts the flow of oil onto world markets. Iran is interested in causing problems for the West, whether by hostage-taking, or by aiding terrorists in Iraq, or by threatening to destroy Israel. Iraq, which could be a major oil producer, cannot attract the necessary foreign capital and expertise until it establishes minimal security, and hopes that the recent surge would do

just that have been cooled by congress' recent notification to the terrorists that America might not have the nerve to see its engagement in Iraq through to success. Saudi Arabia, sheltering under the American military umbrella, continues to fund the madrasas that are turning out Wahabbi-terrorists, although there are signs that it is now sufficiently threatened by Iran to consider intervening to bring the Israel-Palestine dispute under control.

2. Re-emergence of protectionism. The Doha Round is dead, even if some communiqué is concocted to make it sound like a success. Democrats in congress are unenthusiastic about further trade-opening measures; France is unwilling to give up the lavish protectionist schemes that enrich its farmers; China will not revalue its currency sufficiently to slow its flood of job-creating exports; theft of American intellectual property is prompting calls for retaliation -- these are only a few of the trade issues that can erupt into a general round of growth-stifling protectionist measures.

3. Over-reaction to the problem of global warming. I think it safe to assume that whatever the facts, for policy purposes we should recognise that politicians the world over now believe the globe is warming, and that human activity is

the cause -- they either believe it, or believe their constituents believe it, which is operationally the same thing. If the hysteria and economic illiteracy of the Stern Report and Al Gore's "Inconvenient Truth" are translated into policy, taxes will rise, the cost of doing business will rise, and major costs will be incurred for relatively minor savings. Ethanol is being produced by driving the price of corn so high that Mexicans can't afford tortillas; carbon credits are being purchased from brokers who probably have never seen a tree planted. Fortunately, policies such as cap-and-trade are being developed that just might allow for a reasoned and somewhat efficient response to the perceived problem.

4. The anti-Americanism now so fashionable here and in other countries, combined with a defeat in Iraq, might produce a neo-isolationist reaction in the US, causing us to withdraw to a Fortress America and leave the world to sort out its own problems. It is difficult to explain to Americans the purpose of a NATO organisation that provides German troops that are forbidden to leave their barracks at night, and Italian troops who are being recalled because the Taliban are approaching their positions -- while Europe builds a European Defence Force heavy with planners, bureaucrats

and generals, but planning to rely on NATO -- read, American -- assets to transport troops and supplies.

In short, it's a dangerous world out there. And made more dangerous by the possibility that the Anglo-American special relationship is coming to an end. At this point I hope you will take what I say as coming from one who is fond of your country, who recognises that America owes Britain a huge debt for standing against fascism while we dithered, and who appreciates the fact that Britain has stayed a staunch ally in the current Iraq intervention.

It is because I am so fond of Britain, so committed to the thesis that it is the English-speaking peoples in alliance who have borne and continue to bear the burden of defending Western values, that I hope you will use your political influence, especially in the Tory Party, to persuade its new leaders that their anti-American stance is not in Britain's long-run interests. It is difficult to convey the intensity of the reaction of many Americans to David Cameron's selection of September 11 as a day to announce that he would abandon "slavish" adherence to American policy. Or to William Hague's attack on Israel for its "disproportionate" response to Hezbollah's shelling of its cities from the safe haven of Lebanon. Or to the common

notion that the attack on the World Trade Center was an isolated act to which America is over-reacting by blowing up one incident into a long-term war of civilisations.

I know that as a matter of politics it is convenient for some of you to beat Tony Blair with the stick of “Bush’s poodle”. But to fail to recognise that it was Blair who persuaded President Bush to sign onto the Middle East “roadmap”, or that it has been Blair who has persuaded the President to move towards a more accommodating environmental policy, is to do more than score unearned political points: it is to drive a wedge between our countries by fanning anti-Americanism that in the past has best been left to the Left to propagate. If the Tory Party really wants to distance itself from America, it is succeeding -- even John McCain now wishes he had passed up the opportunity to address your last party conference. But those of you with influence in the Tory Party might want to consider whether such distancing is in your country’s long-run interests. America does not want a “slavish” ally; it wants one in which the vigorous exchange of views that characterised the Reagan-Thatcher years is the norm.

UK Politics

Let me turn to the domestic political situation. I think it is safe to assume that we are entering an era of Gordon Brown vs. David Cameron, one in which for the first time in a long time there will be a real contest to see which vision will determine the future of Britain for many years. As I see it, it will be a contest between Gordon Brown's very clear vision of Britain's future, as he would like it to be, and David Cameron's, er, blurred, or foggy, or in-the-process-of-becoming vision.

As the Prime-Minister-in-waiting -- and waiting and waiting and waiting -- sees the world, it looks something like this:

1. The British economy is in good shape. A decade of uninterrupted growth; low inflation; full employment -- due to his achievements, which include granting independence for the Bank of England, preventing Tony Blair from taking Britain into Euroland, welcoming immigration to keep labour costs down, and providing the macroeconomic environment that has contributed so much to making London an international success story.

2. Two of the three phases of his long-term plan are complete. The first was to establish economic credibility by restraining spending; the second was to beef up the public

services by turning on the spending taps; the third will be to cut back on spending and concentrate on improving delivery. This will involve tough wage settlements and pruning of the public sector.

3. Britain must thrive in a competitive world, and to do so it must set as its priority education, education, education, something we first heard from Tony Blair many years ago. The government must also support innovation, maintain a competitive domestic economy, and target tax policy so as to stimulate activities it deems essential to give Britain an internationally competitive business sector.

4. The drive for social justice must continue, which means increased aid to Africa, and continued income redistribution in the UK, especially in the direction of poor children. Past failures notwithstanding, this means continuation of complicated tax credits and similar schemes.

All in all, the Brown vision adds up to continued if slower growth of the state, which will claim 42-43% of GDP. It includes as well reorganisation of government to assure greater probity, resistance to inflationary wage demands that would injure the macroeconomy on which the flow of tax revenues depends, and some relatively minor bows to the Greens, mostly in the form of tax credits for insulation

(credits don't show up as expenditures) and mandates on business (these raise costs and eventually prices, but they don't require tax-based funding).

Which brings us to the Tory policy. What is clear is that the rebranding exercise will continue, in part because it has been successful, in part because that is what Cameron knows how to do. What else?

The policy system in train is, in my view, a potential disaster. Cameron has had to walk away from the Forsyth report on taxes; he will certainly have to walk away from whatever John Redwood comes up with; there will be others, and I doubt whether Oliver Letwin, his great command of the language of accommodation notwithstanding, will be able to wed John Redwood to Zak Goldsmith to produce a coherent policy.

Here's why: the missing link is a coherent policy by David Cameron. What does he believe? How much is he willing to rely on markets, and how much on government? What role does he assign to the tax code?

Here is what I think we know:

1. He will distance Britain from the US -- think Rifkin, Hurd, Clarke. Since he will also distance Britain from

Europe, I assume he intends to restore Britain as a great power!

2. He will urge everyone not to eat chocolate covered oranges. This is not a trivial matter, since it demonstrates a tendency towards nannyism, or paternalism.

3. He will attack businesses that obey the law if they do not also conform to his idea of good corporate citizenship. This is a slippery slope, this inviting of private corporations to set public policy.

4. He will continue to grow the state, the inevitable consequence of sharing the gains in income between the public services and tax cuts, with the latter to apply only after the budget deficit is reduced.

5. He will not go much beyond Blair in permitting patient choice and parent choice, having rejected both patient passports and tuition vouchers.

6. He will continue to pursue environmental goals, although one would hope in a more sensible way than is now proposed.

7. He will try to develop pro-family policies, with “family” defined so broadly as to make these policies incapable of producing the social advantages he favours.

I list these because this is a pudding without a theme. Which is why I am guessing that the Tories will find it difficult to confront Gordon Brown's coherent view with this sort of ad hockery.

Unfortunately, it is not only conservatives here in Britain who are in difficulty. Here, conservatives seem to have no coherent agenda, but do have great presentational skills. In America, conservatives have a coherent agenda, but rotten presentational skills. That US agenda includes things near and dear to the Henry Jackson Society: spreading democracy; treating terrorism as a real threat to be confronted in a long war; lowering tax *rates* so as to stimulate economic growth and tax *receipts*; expanding the welfare state (the "compassion" in "compassionate conservatism"). And it includes one thing not so near and dear to this Society -- finding ways to botch up the pursuit of all of the above.

Which is why Rudi Giuliani is ahead in the race for the Republican presidential nomination. Competence matters, especially after the inept response to Katrina and the mismanagement of the occupation of Iraq. But whether this will offset the social liberalism that played so well in New York City remains to be seen. Giuliani is pro-abortion, pro-

gun control, and pro-gay marriage. This offends the guns, gays and God hard core of the Republican Party, as does his personal life, which includes messy divorces, moving in with a gay couple, and appearing in a skit in drag.

John McCain is also in trouble with the Republican base, primarily because he opposed the Bush tax cut, and was one of the authors of campaign finance reform, which conservatives such as George Will see as an assault on freedom of speech. McCain has also been critical of the President, and Republicans dislike anything that smacks of disloyalty.

Finally, questions are being raised about the Senator's age -- he will be 72 when he is sworn in -- and his health -- he has had a serious bout with cancer.

It is interesting that the polls indicate that McCain's support for the war in Iraq has not contributed to the decline in his popularity -- it is seen as another example of the Senator's willingness to fight for his principles, no matter how unpopular they might be.

Mitt Romney has the slickest campaign and the best looking family (5 sons, 5 daughters-in-law and 10 grand children, plus a photogenic wife) -- but he was for abortion when he ran for Governor of Massachusetts, and is now

against it; for gay marriage then and against it now; and for gun control then and against it now. Also he is a Mormon, which evangelicals, and important part of the core Republican base, consider a sect. But he does point out that he is the only candidate who has only had one wife -- this to answer critics of polygamy.

Core conservatives are not happy with any of these choices, or with Newt Gingrich, who hovers on the edges of the race. So they are urging Fred Thompson, former senator from Tennessee, very conservative, and now a star of the TV series Law & Order and other programmes to toss his hat into the ring, and use his great voice and presentational skills to win the nomination and beat whomever the Democrats might nominate.

On the Democratic side there are of course Hillary Clinton and Barack Obama.

Hillary has lots of money, is very smart and focused, and is tough-minded and has an efficient organisation. She also has Bill, a fund-raising machine still very popular with the party faithful. But she voted for the war, which the Left that dominates the primaries cannot forgive, and is the original ice maiden.

Barack Obama is attractive, and offers soccer moms an opportunity to prove that they are not racists. He has been against the war, and is a new face in a country that might not want to live through another Clinton, which would potentially bring the Bush-Clinton-Bush-Clinton era to 28 years (1988-2016), with Jeb Bush in the wings and Chelsea Clinton expressing an interest in politics!

I don't believe money will be a problem as he has substantial backing from a group of Chicago billionaires and Hollywood moguls.

Which brings us to John Edwards, whose funding comes from fellow-trial lawyers. Edwards is touching a responsive nerve with his "two Americas" campaign because of rising inequality and dissatisfaction with executive pay, and with Bush's tax cuts for "the rich". He is an old-fashioned, southern, them-versus-us class warrior, a protectionist, and willing to confess that his initial support for the war in Iraq was a mistake, something Hillary Clinton is unwilling to do.

Edwards is ahead in Iowa, the first state to be polled as to its preference. We do not know how news that his wife's cancer has recurred, and that her survival chances are only around 20%, will affect voters, some of whom think he

should step down to care for her, others of whom agree with his wife as she campaigns with him because, she says, she doesn't want her legacy to be depriving the country of her husband in the White House.)

My guess is that around September Al Gore will step in, backed by Silicon Valley and Silicone Alley (Hollywood), after Hillary and Obama destroy each other. Fred Thompson might adopt a similar strategy on the Republican side. Gore opposed the war, and the Left of the party still believes he won the election in 2000. Thompson can position himself as the only true conservative after the three front-runners have spent months exposing each other's weaknesses.

Remember: the nominations are most likely to be decided by February 2008, when over half of the delegates to the party conventions will have been chosen -- at a cost of \$10 million per month per candidate.

It will be very difficult for any Republican to win unless (1) Iraq comes right, meaning is pacified and has a functioning government; (2) Democrats over-reach; (3) Al Gore once again demonstrates an ability to lose an otherwise winnable election.

So let's conclude with a bit of fun, and peer into the future. David Cameron is Prime Minister and Al Gore is in

the White House. Instead of the weekly video conferences that Blair and Bush have, instead of the candid telephone conversations that characterised the Thatcher-Reagan years, instead of the enormous correspondence that featured during the Churchill-Roosevelt era, there will be monthly meetings. After planting the suitable number of trees to offset the carbon emissions during his flight, David Cameron will bike from Dulles airport to the White House, where he and President Gore will retire to the White House screening room and once again watch an “Inconvenient Truth”, to be followed by a joint press conference in that portion of the Rose Garden not taken up with windmills or the Bush legacy, several rows of corn. Both will praise Iran and North Korea for reducing their carbon emissions by relying on nuclear power, before the Prime Minister pedals back to Dulles for a return flight, and more tree plantings.

More seriously: There is a good chance, it seems, that David Cameron will soon occupy No. 10. I would hope that those in the Tory Party who value the special relationship will persuade him that the anti-Americanism that might have been convenient campaign politics is not in Britain’s interest. I would hope, too, that exclusive emphasis on rebranding will give way to a coherent policy that will allow Britain to

succeed economically (lower taxes, a simpler tax structure, less regulation, an economically sensible environmental policy) and to improve the quality of life (more prisons to reduce crime, abandonment of immigration policies that fail to distinguish between those who want to become part of the country and those who want to destroy it).

Thank you for your attention.