

**Anatole Kaletsky** The 10p U-turn has destroyed Downing Street's authority



# We're hurtling towards Enron government

**W**hat makes Gordon Brown so popular with newspapers and voters? This may seem a strange question to ask when the Prime Minister has just suffered the worst local election defeat since the early 1980s and faced the most humiliating headlines since the collapse of John Major's economic policy on Black Wednesday. But considering just how disastrously Mr Brown's Government has lately been performing, the real surprise about this week's U-turn on taxes has been the mildness of the media and public response.

A prime minister's inability to get his Budget passed by the Commons has traditionally been considered the quintessential resigning issue. And in this case, capitulation on the most important tax measure in two consecutive Budgets was accompanied by Mr Brown's abandonment of his fiscal rules. These were the lodestars of his entire economic programme, as surely the sterling-mark exchange rate was Mr Major's guiding light.

Now that the fiscal rules have been abandoned and the Treasury's main Budget judgments have been opened up to revision by backbenchers, we can have literally no idea of where the Brown Government's economic policy may be heading — and neither can the Chancellor and his Treasury civil servants. This erosion of the Treasury's budgetary function, literally unprecedented in the history of modern British government, sets the stage for economic and political disaster. The Treasury's main job is essentially the same as the finance department's in a well-run company. It must consider the many deserving requests for new projects arriving every day from departmental ministers or line managers and it



It will be hard to just say "no"

must above all have the authority to say "no".

That authority, in turn, depends on two factors: a serious companywide commitment to the budget processes and an ability by the finance director (or Chancellor) to overrule even the chief executive or company chairman (in this case the Prime Minister) when it comes to ensuring the agreed budget is observed. When these conditions break down and the Chancellor loses his authority to say "no" to the Prime Minister, the Government risks becoming like a company run by a domineering chief executive who treats the whole business, including its finances, as a personal fiefdom.

This is essentially what happened in the empires of Robert Maxwell and Conrad Black and, most notoriously at Enron. When the Treasury and chancellor can no longer say "no" to demands from the

prime minister for political fixes and wheezes, the country risks Enron government — or, to put it more politely, the rule by pressure groups and lobbies.

After all, if Mr Brown's fiscal rules could be ignored so easily this year to accommodate a £2.7 billion tax cut to satisfy Labour backbenchers, why shouldn't they also be ignored to satisfy fuel-tax protesters and pensioners and underpaid public sector workers and bankers demanding bailouts and homeowners struggling with their mortgages and multinational companies threatening to pull out of Britain and farmers complaining about the weather and indeed you and me, since we would all prefer to pay less tax and get more out of government? In short, this week's U-turn could presage a summer of discontent in which every possible claimant and lobby demands its extra share of taxpayer funds.

To put the same point in a way that may be more understandable to the political manipulator in Mr Brown, if you can suddenly conjure up £2.7 billion from nowhere and tear up your sacrosanct fiscal rules, why shouldn't the Tories do the same? They can now promise big tax cuts combined with improvements in public services, effortlessly financed by extra borrowing.

It may be argued, nevertheless, the fiscal rules now abandoned were arbitrary and foolish in the first place and should never have been accorded the pride of place they enjoyed in the 11 Budgets Mr Brown presented as Chancellor. Indeed, I have repeatedly argued this myself.

But the absence of economic logic behind Mr Brown's rules is irrelevant. The same could be said (and was) of Mr Major's commitment to keep the exchange rate at DM2.95 to the pound, come hell or high

water. Yet when this arbitrary economic totem was broken, so was Mr Major's authority. The same must surely now be true of Mr Brown.

Yet far from demanding Mr Brown's immediate resignation or predicting the inevitable demise of his Government, the media have mostly treated this week's U-turn as the moment when the Prime Minister's fortunes could start to recover. *The Daily Telegraph* headlined its editorial "Right move for wrong reasons" and argued that the Government "deserves congratulations" for its sudden discovery that it could borrow its way out of trouble. *The Financial Times* described the tax giveaway as an "act of desperation" but nevertheless predicted that "this retreat may turn out to be the moment when the Government fightback began". The leader in *The*

## The media believe this could be when his fortunes start to recover

*Times* described this mini-budget as a "final service to the Labour Party" by Gwyneth Dunwoody, the Labour MP, whose untimely death triggered the Crewe & Nantwich by-election and encouraged Mr Brown to offer voters this bribe.

So why, I repeat, is everyone suddenly so deferential to the Prime Minister? For overt rightwingers the calculation is fairly simple — the Tories want Mr Brown as their opponent in the 2010 election. For more impartial media commentators, it is also a matter of personal pride. We are all afraid of getting caught up in mass hysteria and anxious to prove our independence. So the very fact that Mr Brown's maladministration has now become so obvious makes it clever and

original to imagine possible ways out.

There is an honourable reason for giving Mr Brown the benefit of the doubt. Mr Brown, for all his recent blunders, was a remarkably successful politician until he became Prime Minister.

Indeed, he was probably the most successful chancellor in modern history, notwithstanding his muddled tax reforms, his badly timed gold sales and the fatal damage he allowed the regulators and courts to inflict on Britain's pension funds. Mr Brown made the right decisions on monetary policy and the Bank of England. He kept Britain out of the euro. He reduced capital gains and corporation tax more radically than any Tory chancellor and he resisted populist demands to squeeze the rich.

Above all, Mr Brown allowed the economy to grow rapidly and to benefit from its comparative advantage in global business services without trying to tilt the playing field in favour of Labour's traditional working-class constituencies.

By doing the British economy no serious harm during his long tenure at the Treasury, Mr Brown earned a distinction unique among postwar chancellors, with the possible exception of Kenneth Clarke.

Mr Brown's fatal flaws as Prime Minister have had nothing to do with the statist, socialist, old Labour instincts that his detractors claimed to detect behind the mask of the competent Chancellor. If Mr Brown fails as Prime Minister, it will not be because of his ideology but because of his personality: his failure to delegate, his intolerance of dissent, his indecisiveness, his stubbornness, and his brittleness under stress. In sum, Mr Brown was a great Chancellor but is a terrible Prime Minister. That at least puts him above John Major and James Callaghan, who were terrible at both jobs.