

Opinion

Sneer if you want:
billionaires know
what they're up to

Simon Barnes, page 26



Thank God for Mandelson the manipulator

The Government's saner, more sophisticated approach to the credit crunch and Heathrow is down to the Business Secretary

Anatole
Kaletsky



Another week, another sentence I never expected to write: Peter Mandelson has saved the skin of Gordon Brown — and, in the process, has done the right thing for British politics and the economy.

Like most journalists, over whom the Prince of Darkness is widely believed to exercise some kind of supernatural mind control, I have mostly distrusted and opposed Lord Mandelson and his pet ideas — the main bone of contention, in my case, being his Machiavellian plotting to lure Britain into the euro. I also concluded that Lord Mandelson's supposedly hypnotic powers of political manipulation were vastly overstated, as evidenced by his inability to manipulate his own way out of a paper bag. Furthermore, his trivial personal peccadillos and silly tactical mistakes have twice ended up wrecking his Cabinet career.

Why, then, do I suddenly hail Lord Mandelson as a saviour? The obvious reason is the action announced yesterday to ease business credit. The £20 billion in government bank guarantees will not be sufficient to end the credit crunch but this long overdue initiative would have been much weaker and tardier had it not been for the Business Secretary's refusal to brook any further Treasury obstruction and delay. The less obvious reason was the decision earlier this week to delay the decision over a new runway at

Heathrow, if only for a few days.

I described on this page last year the overwhelming economic and business arguments against the expansion of Heathrow — and since then most of these contentions have been confirmed. For example, Bob Ayling, the former chief executive of British Airways, has conceded that a bigger "hub" airport for London was unnecessary and unsound as a business strategy; the Competition Commission has proposed creating greater competition by forcing BAA to sell Stansted and Gatwick; and many Londoners, led by Boris Johnson, have accepted that the geographical accident of Heathrow's location creates an unanswerable case for the airport's long-term closure and relocation. It now seems possible that these arguments — and their obvious electoral implications in London's many marginal seats — were grasped by Lord Mandelson and considered by Mr Brown.

There is debate in Westminster about Lord Mandelson's precise role in attempting to dissuade the Prime Minister from his economically stupid, environmentally destructive and electorally suicidal obsession with expanding Heathrow. But the attempt to delay this foolish project bears the hallmarks of the more sophisticated understanding of the interactions between politics, economics, public opinion and business lobbying that Lord Mandelson brings to government.

Returning to the credit package, the extent of Treasury opposition that had to be overcome to get this modest proposal agreed can be gauged in four ways: first, the tenfold gap between the size of this week's announcement and the pathetic £2 billion support for companies offered in Alistair Darling's

Pre-Budget Report. Second, the even larger gap that remains to be bridged between the size of this British package and the hundreds of billions in credit guarantees offered by the US, Germany and France.

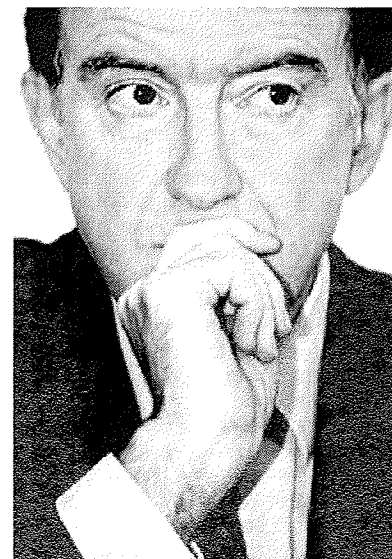
Third, the absence of any help for large companies and mortgage borrowers, which the Treasury seems still to be resisting.

Finally, the evident unease at the highest levels of business and government at the Treasury's counterproductive fiscal caution and procrastination — prime examples being the Treasury's reluctance to guarantee British bank deposits after the Lehman crisis and its insistence on a pre-Budget announcement of future tax rises, which largely neutralised the benefits of fiscal stimulus this year.

The good news is that almost everyone now seems to understand that additional measures will be needed and that their nominal price tags will run into hundreds of billions, even though their ultimate cost should be quite modest once the recession ends. The bad news is that so many different ideas to ease the credit crunch are circulating in Whitehall that the debate could go on for ever (which, one suspects, is exactly the result that some Treasury officials would like to achieve).

Yet with every week that these discussions continue, the recession is bound to get deeper and the ultimate cost to taxpayers grows. From this point of view, the opposition parties and the business community were right to damn Lord Mandelson's package with faint praise.

The Tories were correct to call for a much bigger programme, even though this contradicts their perverse demands for anti-Keynesian cuts in public borrowing and spending. The



The Prince of Darkness and a reputed master of mind control

CBI was right to warn of bureaucratic delays in making the new money available and to demand urgent measures to refinance larger companies by reopening wholesale financial markets. And the best response came, as has now become customary, from Vince Cable, who called on the Government to focus on the behaviour of the banks themselves — and in particular to ensure that those now "owned or part-owned by taxpayers should operate as state banks, maintaining lending for the economy".

There are many other measures that the Government could and should take to increase the supply of credit — for example, offer loan guarantees to large companies; arrange for the Bank of England to buy mortgage bonds and corporate commercial paper; change

accounting rules and suspend irrational or self-contradictory bank regulations. But the most effective change would be to alter the banks' behaviour. And as Dr Cable has suggested, the quickest and least costly emergency response would be to reverse the policy of running down Northern Rock and Bradford & Bingley. Both these banks are now fully owned by the Government and could be turned into rapidly growing state-guaranteed lenders.

The plans to run down their lending were right in the circumstances in which they were nationalised last year, when other private banks were functioning more or less normally. But things have completely changed and it now makes sense to reverse their policy of credit contraction. Northern Rock is ideally positioned to re-expand the supply of mortgages to first-time buyers, while Bradford & Bingley could revive the flow of finance to commercial and social housing. The Government could also be much less shy about exerting its majority control over the Royal Bank of Scotland and its 40 per cent stake in Lloyds-HBOS, by far the biggest commercial and mortgage lender in the country.

But the main obstacle to such an aggressive policy of credit expansion is probably the fear in the Treasury and Downing Street of performing an obvious policy U-turn. And this is where we get back to Lord Mandelson. If anyone can persuade Mr Brown that well-executed U-turns — whether on this or Heathrow — need not cause political embarrassment and can actually bring big benefits and popular kudos, Lord Mandelson is surely the man to do it. This week he seems to have made a good start.