

**THE TIMES**

# Osborne has renounced old-style capitalism

Anatole Kaletsky

Last updated October 5 2011 12:01AM

This week the Chancellor showed that, unlike his political rivals, he understands how the modern economy works

Britain's economy may be in desperate straits but things are going rather well for the Tories. For an explanation we need look no farther than the speeches delivered in the past few weeks by George Osborne, Nick Clegg and Ed Miliband. With unemployment rising, deficit targets moving towards incredulity and the country on the brink of recession, the Chancellor was nonetheless able to offer a coherent-sounding story on where the Government is going. The same cannot be said of his Labour opponents or his allies in the Liberal Democrats.

There are several reasons why dire economic conditions are not proving nearly as bad for the Government as might have been expected. First and foremost, there has been the absence of a coherent Labour narrative about the past and future. As a result, the Tories have been free to blame all of the country's ills on the Labour Party and Gordon Brown.

Second, the Lib Dems have continued to fulfil their principal coalition role as human shields for David Cameron. And the more that conditions deteriorate, the more convincing they become in their scapegoat role. From the standpoint of Liberal Democrat voters, who broadly support public spending, the economic terms of the coalition agreement could only be justified by a recovery or a successful deficit reduction plan. If the deficit targets are missed and the economy slides into recession, the Lib Dems do not have a leg to stand on when they face the voters and will be wiped out.

Most Tories, on the other hand, believe in public spending reduction as an end in itself, almost regardless of what it may do to the economy or the fiscal outlook. The Tories, therefore, can be forgiven for quiet gloating as they watch the Lib Dems self-destruct, leaving dozens of seats in middle-class constituencies as easy pickings for Tory candidates in 2015.

Third, the deteriorating state of the world economy — and particularly the crisis in Europe — has provided a new excuse for the hardships in Britain. Even better, it has allowed Tory Eurosceptics to present themselves as the nation's saviours, an accolade that Mr Brown could easily have claimed for himself had he been a more skilful politician.

Finally, and most importantly in the long run, Tory policies have actually become more sensible as the economy has got worse. After the collapse of growth precipitated by last year's Budget, the

Treasury no longer talks much about the theory of “expansionary contraction” — the Depression Era, pre-Keynesian idea that rapidly reducing government deficits will inspire such confidence in the business community that public spending cuts will stimulate rather than retard growth. As this idea has turned out to be wishful thinking, the Treasury has quietly edged towards a more sensible strategy based on concepts that were until recently taboo.

Mr Osborne boasted in his speech on Monday of being a “monetary activist” — in other words of using monetary policy as the primary tool for managing growth and employment and not just for inflation control. For Tory devotees of the monetary gospel according to Milton Friedman and Nigel Lawson, this was the ultimate apostasy.

More remarkably still, Mr Osborne went on to acknowledge that industrial interventionism and fine-tuning would be an indispensable component of policy in the post-Lehman world. “I’ve never believed the Government should just stand on the sidelines, that it has no role in fostering enterprise and creating jobs. I will intervene when the market doesn’t work, and set it free when it does.”

The main element still missing from this increasingly pragmatic approach has been a coherent narrative that would tie together all the disparate elements — aggressive use of monetary policy to overcome unemployment, intervention in industry, channelling credit directly into small businesses, directing investment into green energy and allowing deficits to overshoot in the short term without losing sight of the long-term strategic goals.

Even in this respect, however, the Tories seem to be making more progress than either the Lib Dems or Labour in articulating a new vision of mixed-economy capitalism after the financial crisis. Mr Osborne’s speech represented a genuine attempt to move beyond both the “market is always right” anti-government fundamentalism of the Thatcher period and the “Whitehall knows best” philosophy that dominated Britain in the Keynesian 1960s and 1970s.

Unlike Ed Miliband, whose bizarre distinction between “producers and predators” veered straight back to the anti-business atavism of old Labour, Mr Osborne was willing to recognise that there could be useful ideas in both the Thatcherite and interventionist models. Old Labour in Britain and the Tea Party in America may still be inspired by the old conflicts between markets and government, between regulation and economic freedom, between private wealth and social justice. But Mr Osborne’s speech suggested a government genuinely interested in creating a new kind of complementary, rather than adversarial, relationship between politics and economics.

This is a big change. As recently as the March Budget, the Tories were still proclaiming that the most important economic role of the Government was to pay back its debts as fast as possible and keep bureaucrats off the back of wealth-creating entrepreneurs. They were still insisting that market forces alone would solve the problems of energy security and global warming, that government investment in infrastructure was inherently wasteful and that Keynesian economics was all bunk.

Now the Chancellor boasts about industrial interventionism and acknowledges the key insights of Keynesian economics — that a modern capitalist economy requires active demand management by government and activist central banking if full employment is to be achieved. Whether demand

management is conducted through monetary policy or fiscal deficits has always been a secondary issue, as is the precise form that industrial interventionism may take.

What really matters is that the State should be willing to play an appropriate role in the economy, a role that is neither too large nor too small. This is, of course, a difficult balance and no government will ever get it completely right. But the Tories have at least begun to try.

© Times Newspapers Limited 2011 | Version 1.23.0.0 (28674)

Registered in England No. 894646 Registered office:

*3 Thomas More Square, London, E98 1XY*

[My Account](#) | [RSS](#) | [Site Map](#) | [FAQ](#) | [Classified advertising](#) | [Display advertising](#)

[Privacy Policy](#) | [Syndication](#) | [Terms & Conditions](#) | [Contact us](#)

---