

THE TIMES

Don't let them blame Brown. Blame the GFC

Anatole Kaletsky

Last updated September 28 2011 12:01AM

The coalition is rewriting history. Labour should rewrite the future with its own vision of a new capitalism

What does the Labour Party need to do to win back voters? Is it stronger promises of Keynesian stimulus, or a clearer commitment to deficit reduction, or a leader who can repent more sincerely for the sins of Gordon Brown? I don't think so.

What Labour needs, especially at this early stage of the electoral cycle, is not a different policy or tone or leader. It needs a better story about its role in Britain's political life. Like any decent story, the Labour narrative needs a clear subject and a comprehensible structure. The subject is obvious: economic management. What seems to be less obvious to the Labour leadership is the need for a proper narrative structure. Instead of the laundry lists of unconnected proposals, the random soundbites and the scatter-shot attacks on Tory policies presented at Liverpool this week, Labour's economic story needs a clear beginning, middle and end.

The beginning of the story ought to be an account of what really happened in the 13 years of Labour government. This should not be an apology, but a proud celebration of the economic and social achievements from May 1997 until the summer of 2008. This was not only the longest period of uninterrupted growth, rising living standards, unprecedented small-business entrepreneurship, expanding home ownership and full employment in the 200 years of Britain's recorded economic history. It was also a decade of exemplary monetary and fiscal management, with inflation low and steady, interest rates affordable, government debt declining steadily in relation to national income and Britain consistently outpacing other advanced economies for the first time since the late 19th century.

Contrary to the rewriting of history by the coalition parties, the pre-crisis decade was not a period of profligate borrowing and gross financial negligence — at least not by the Government. In Labour's first ten years, government debt fell faster relative to national income than in any other decade of British history, including the Thatcher period. And Britain's total borrowing from overseas averaged just 2.5 per cent of national income during this period; substantially smaller than the average of 3.5 per cent during the Thatcher-Major years. (That is not to say it could not or should not have done better in reducing the deficit in what were boom conditions.) What then went wrong? This is where we come to the middle of the narrative required to rehabilitate Labour. If Labour wants to be taken seriously it has to offer a better explanation of the 2008 crisis, the

recession and the present crisis in public borrowing than “bankers’ greed” or “lax regulation”. Those two excuses are no match for the Tory-Lib Dem claim that Britain’s troubles were all caused by government extravagance and the personal incompetence of Mr Brown.

To refute these accusations, Labour needs to do more than offer statistics about responsible fiscal and monetary management in the 11 years after 1997. It must explain why a catastrophe still occurred, despite the efforts of the Government and the Bank of England.

This part of the story could be told in simple language that would be easily understood by British voters. This struck me when I visited Australia last month. There, the turmoil of 2008 is universally described as “the GFC”, an abbreviation I had never heard before. The “global financial crisis” is a much better explanation than the “sins of Labour and Gordon Brown” for a calamity that caused more damage to most other major economies than it did to Britain — at least until the arrival of the coalition with its pre-Keynesian, sadomasochistic policies.

Which brings me to the final and most important part of the narrative for Labour’s rehabilitation: what to do next. Given the current size of the deficit not even Keynes would suggest that increasing it further is the answer. Instead, Labour should be banging a drum for strong and well-resourced government.

Rather than arguing pointlessly with the Government about particular policies — this or that deficit target or VAT rate — which it is in no position to implement anyway, Labour must try to move the debate on to the fundamental objectives of government. What should be the division of responsibilities between the government and the market in the post-crisis economy?

Labour must explain that the truly fundamental cause of the Global Financial Crisis was the exaggerated application of the Thatcher-Reagan doctrine that “the market is always right”. It must show how the fundamentalism of minimal government still infuses the actions of the coalition. And it must argue that Britain now needs a new model of mixed-economy capitalism that learns from the mistakes made both by the market fundamentalism of the post-Thatcher period and by the overweening government intervention of the pre-Thatcher years.

To do this convincingly, however, Labour must acknowledge that government should shrink in many areas where its activities are intrusive, unnecessary or unacceptably expensive, such as the provision of pensions and healthcare, even as public responsibilities expand in other areas such as financial regulation, income redistribution, education, energy and environment.

These ideas may sound too abstract to provide the basis for a policy agenda, never mind inspire a political narrative. Yet the fundamental reassessment of business-government relations that is bound to follow from the global financial crisis points to a host of concrete policies. I can think of dozens of specific proposals on macroeconomic management, financial regulation, priorities for public spending and international economic relations, that would serve the party well.

But long lists are not the way to convey such policies in a speech. Voters must be convinced that a new model of the mixed economy is really necessary after the crisis and that Labour is the party with the best understanding of how 21st century capitalism should now evolve.