

The Telegraph

No more whack-a-mole: The next PM needs a clear policy on economy

Ryan Bourne

May 23, 2019

Theresa May looks finished as Prime Minister. But one hopes the advent of a new leader rids us of “Mayism” in economic policy, too. The Conservative Party has had a schizophrenic attitude to economics since David Cameron’s leadership victory in 2005. His “modernisers” thought economic debates had been largely settled, with answers somewhere between the policies of Margaret Thatcher and Gordon Brown. Social and environmental issues were thought to be the new fertile ground for the Tories, hence the logo change to a tree.

The financial crisis and subsequent ballooning public debt slapped the Tory leadership out of their complacency. George Osborne as Chancellor was forced to deliver a long and difficult path to reduce the budget deficit. But while these moves were borne of necessity, Cameron’s government paid little attention to the tougher task of setting a broader pro-economic growth agenda.

Under PM May, with the budget deficit under control, economics has been further downgraded in importance. This vacuum has left Jeremy Corbyn and campaign groups setting the narrative. These days Tory economic policy, such that it exists, operates as a blend of a political manifestation of the BBC TV show *Watchdog*, the musings of David Attenborough and an advice and support service for doomed industries. It combines banning, regulating and clamping down, with a dreary managerialism to protect certain favoured sectors from Brexit or tech company competition.

Potential new leaders and their acolytes recognise the need for a fresh economic approach. But there are deep-seated divisions as to what that should entail. International Development Secretary Rory Stewart, for example, wants a “radical centrist” agenda of reheated Cameronist environmentalism. Work and Pensions Secretary Amber Rudd says supporting HS2 is her litmus test of a candidate’s economic seriousness (a valid test, but for the opposite reason than she supposes).

In contrast, former Brexit Secretary Dominic Raab wants a basic income tax rate cut (opposed by the current Chancellor) combined with the party beefing up consumer protection laws. Liz Truss is the only potential candidate not echoing the “I think capitalism is a force for good, but ...” mantra de jour, instead offering market solutions to a host of problems, not least housing.

The contours of debate so far though have been set according to what is needed to “see off” Corbyn. While preventing Corbyn’s neo-socialist agenda is surely a public service, the

Conservatives need a new positive vision of their own. Their aim should be to make Britain more prosperous, more resilient to shocks, and to maximize the possibility of human flourishing through freedom.

Months of a lame duck Prime Minister mired in a kamikaze Brexit strategy has swallowed most political oxygen. Yet a competitive leadership race will hopefully drag wannabe PMs into answering important economic questions with these goals in mind. What, for example, do the leadership candidates see as the optimal balance between government spending, taxation and the path of public debt? With the tax burden at its highest in half a century, the allure of offering tax cuts will be strong. Arguably, pro-growth tax reform necessitates net tax cuts to be palatable anyway.

But tax cuts which have little growth impact, funded by borrowing, are just taxes deferred to the future. With an aging population already putting upward pressure on health, social care and state pension spending, simplistic tax cuts to deliver “pounds in the pocket” require permanent, credible reductions in government spending. That is achievable and desirable. But it requires more honesty than alluding to phantom efficiencies such as small-change savings from merging government departments.

Next: will any new PM seriously attempt to revive lagging economic growth? Growth can come temporarily from making the economy more efficient or permanently from increasing the rate of innovation. Creating these conditions entail trade-offs and the payoffs are often uncertain. Tax reform that incentivises productive investment, land-use planning reform to densify cities and facilitate labour mobility, and prioritising infrastructure investment to maximize “bang for the buck,” could all help grow the economy.

Yet May’s government currently spurns these ideas for other aims. Whether it be rebalancing the economy across regions, insulating farmers and manufacturers from foreign competition, or investing in expensive, low-return projects such as HS2, much Tory thinking resists growth and its disruption, instead seeking to redistribute resources to “losers”. May, for example, has capped energy prices and bashed landlords. This is politically easier than delivering the much-needed supply-side reforms to bring down energy bills and deliver cheaper housing. Will a new PM continue this whack-a-mole approach to treat the symptoms of economic problems? Or will they put in the hard microeconomic yards to grow the pie to the benefit of all?

A final big question: what does any new PM see as the role of monetary policy in alleviating economic downturns? Cameron’s government was clear: the Bank of England was the institution it entrusted to fight recessions, even when interest rates were already on the floor. One of the new Prime Minister’s first jobs will be to select a new Governor of the Bank of England. That seems as good a time as any to reassess whether that approach and the Bank’s mandate was successful through the crisis. These issues should be given far more weight in the decision of selecting the next Governor than the relative triviality of the new governor’s sex.

Brexit will rightly dominate any leadership hustings, of course. Alongside the democratic imperative, leaving the EU touches on all these public finance, growth and macroeconomic stabilisation questions.

But after years of neglect, it would be nice to finally have a Conservative leader with an interest in economics, and a clear position on these challenges.

Ryan Bourne holds the R Evan Scharf chair for the public understanding of economics at the Cato Institute