

WHO SOLD YOU THIS, THEN?

A grave economic crisis calls for moral clarity, not superficial positioning, says Simon Titley

So you think the Liberal Democrats have a new tax policy? September's party conference, in rejecting an amendment opposing tax cuts, implicitly endorsed Nick Clegg's broad aspiration to cut tax. What the conference failed to do was elaborate on this policy in any formal sense beyond the single sentence in the pre-manifesto *Make it Happen*.

The party has consequently acquired a pig in a poke. The policy is contingent on there being "money to spare". From where? Nick Clegg simply said that he had asked Vince Cable to look for savings. Would it not have been more sensible to identify the savings before promising the cuts? Regardless, a definitive list of these elusive savings has yet to be published.

The party also has £16 billion-worth of additional spending commitments. Does this come out of the promised £20 billion savings? And who will benefit from the tax cuts? At various points, we have been told it will be those "most in need", or the low-paid, or people on "low and middle incomes", or 90% of Britain's families, or "struggling families", or "hard-pressed families", or "ordinary families" (whatever they are).

As the conference approached and the questions mounted, Nick Clegg and Danny Alexander were forced into a series of 'clarifications' that rarely clarified anything and sometimes contradicted one another. In media interviews, Clegg criticised questions being asked by various Liberal Democrat bloggers as "nit-picking" and "mere details".

What no-one seemed to realise is that Clegg and his critics were arguing at cross-purposes. The whole debate ignored a central fact. The tax cutting proposal was conceived as an act of positioning, not of policy-making; symbolism rather than substance. Hence Clegg's irritable reactions to persistent demands for elaboration and his questioners' frustration at being unable to pin down what this new policy actually meant.

Proper policy formulation is when one examines an issue from a moral standpoint, arrives at a coherent and practical position, and *then* uses effective communication to articulate one's proposals to a wider audience. Positioning puts the cart before the horse. It starts with some short-term PR imperative or gratuitous posture and treats detailed policy as an afterthought. Take Tory environmental policy, for example. David Cameron sledging across Norway behind a pack of huskies is positioning, not policy. We are meant to 'feel' Cameron's greenness without bothering to ask what the Tories might actually do once in power.

To understand this distinction in terms of the Liberal Democrat tax debate, one only has to ask how the task of changing the party's policy on tax – a question that is both ideologically profound and technically complex – would have been tackled had this been a sincere exercise in policy formulation rather than positioning. There would have been prior, wide consultation and debate. Savings would have been identified before cuts were tallied or promised. The proposal would have been run through a computer model (regardless of one's ideological sympathies, all tax proposals must 'work'). It would also have been translated into practical campaigning terms. A rigorous green paper or motion would have been drafted that spelt out the policy in unambiguous terms.

Had these steps been taken, Clegg would probably still have won the conference vote but he would have left Bournemouth with a robust policy under his belt and no bitter taste in anyone's mouth or confusion about where the party stood. None of these steps were taken and we had to rely on an amendment tabled by opponents of the proposal to get any debate at all.

As it turned out, by tabling an amendment, Clegg's opponents enabled him to claim victory anyway. But it will prove a pyrrhic victory. The proposal has not been thought through, looks opportunistic and lacks authenticity. Assuming the £16 billion in spending commitments is coming out of the £20 billion in proposed savings, that leaves £4 billion, equivalent to less than 1% of annual government spending, which does not justify the hype about "vast" tax cuts. The proposal is difficult to sell on the doorstep, since – given the ill-defined nature of both the beneficiaries and the savings – it cannot be reduced to a simple slogan campaigners can use (akin to the "1p on tax to pay for education").

In any case, this debate has been overtaken by events, rendering the party's new policy dead on arrival. Opponents of tax cuts have not necessarily been vindicated either. A deep recession means that neither the supporters nor the opponents of this policy would be able to implement their alternatives. As the recession bites, tax receipts will fall while spending on unemployment benefits will rise. Huge government borrowing will place a burden on public spending for years to come.

Supporters of tax cuts would be unwise to cut public expenditure while the economy is in recession, given the deflationary effects. But opponents would find little scope for spending on their pet projects when the time came to pay off the government's debts. Both groups would be faced with a stark choice between slashing spending on core public services and raising taxes.

If you think this problem will blow over once the recession ends, think again. Most of the ‘baby boom’ generation will retire during the next twenty years. The ratio of people over 65 to the working-age population will almost double to about 50% in thirty years’ time. The needs of retired people already account for a big chunk of public expenditure (when one aggregates pensions, healthcare, nursing care, social services and so forth). The bill for public sector pensions (which is paid out of current income and not supported by any capital fund) will become simply staggering. If the government remains the dominant provider of pensions and healthcare, taxes and public spending will have to rise continuously. Retired baby boomers will have no qualms about using their voting clout to see to that.

Still, let’s look on the bright side. One by-product of this economic crisis is that it has killed the *Orange Book* project stone dead. Who now can credibly argue the case for continuing obeisance to the City and the ‘invisible hand’ of untrammelled market forces? What possible electoral advantage can there be in helping to prop-up the old Thatcherite consensus?

Fortunately the Liberal Democrats have an alternative. The ALDC’s new publication *The Theory and Practice of Community Economics* proposes a more human form of capitalism in place of economism: “In a democratic society, the role of politics is to enable its citizens to determine their political, social, environmental and cultural objectives; economics is the mechanism for achieving them.”

The time is ripe for such a radical alternative. This crisis is a time for the British to take a good, long hard look at themselves. What have we become? Why have we allowed our social relationships to disintegrate while obsessing ever more with our houses and cars? Do we care only about finding ‘cash in the attic’?

What is happening to the economy is not a narrow matter of faulty regulation. It is a moral question, the fundamental issue of how we create and share wealth, and how we define ‘value’. This crisis has shown what happens when the economy is based on the exaltation of greed rather than consideration for others. In recent weeks, the only major public figures to make this point have been the Archbishops of Canterbury and York. I had almost despaired of any senior politician making a similar observation until I heard Shirley Williams on Radio 4’s *Any Questions* (10 October):

“I think that the government has simply failed to recognise the scale of anger out there. And the reason for the scale of anger – let me give an example of a civil servant I was talking to earlier this week who’s been told firmly they can’t have an increase even equal to inflation, who then hear on the radio that the heads of Barclays and Lloyds and other banks are carrying back several million pounds for failed management, in the same year that these public service workers are once again being told for the sake of the country you’ve got to curb your ambitions and your greed.

“We look at the example of extraordinary greed. I agree that it’s only a minority but it’s a very, very controlling minority and I think so far the reaction has not been sufficient.

“What would I do? I would have a public figure, a kind of ombudsman figure, on every remuneration committee of every major company. Because what is already plain is that shareholder control is almost completely inadequate. It has never actually judged whether people have been good for

their companies or bad for their companies. It’s largely dominated by what directors say.

“What we’ve seen in Britain is a steady rise in inequality. And we’re looking at a country which is becoming more and more divided, less and less capable of having a sense of the common wealth in the best sense of the word. What we have to do if we possibly can is to root out the concept that greed should be the driving force of society. It’s one hell of a concept, it’s destructive of children’s relationships with their parents, destructive of elder people’s relationships with young people, and it’s gone too far, and we have to say that those bankers and others who’ve taken part in this must be regulated much more firmly than they have been up to now.

“I think this is actually an acid test for capitalism. We’ve seen capitalism work very well in some territories; we’ve seen it work disastrously in a country like Russia where it turned out to be jungle capitalism, which destroyed the rule of law. We have to think much more deeply about the whole future of the system than has been happening so far in the relatively narrow political responses.”

Another Liberal Democrat peer has displayed similar moral fibre. Matthew Oakeshott, speaking in the House of Lords (16 October), remarked: “Is it not time that the Stock Exchange got back to its real purpose, which is to raise money for companies so that they can invest, employ and serve their customers? Frankly, short selling is a wart on the face of capitalism.”

Why does Nick Clegg not “think much more deeply about the whole future of the system”? Why does he not openly repudiate New Labour’s and the Tories’ dogged belief in TINA (‘There Is No Alternative’)? Why is he responding with positioning rather than policy?

The problem is Clegg’s PR-driven approach to leadership. In my discussions about this problem with many senior Liberal Democrats, the finger of blame keeps pointing in the same direction: the kitchen cabinet. Clegg has surrounded himself with advisors who have an inappropriate skill set (PR tacticians rather than political strategists), inappropriate beliefs (free-market fundamentalism) or both. Hardly surprising if he receives inappropriate advice. He should pay less attention to the likes of John Sharkey, Neil Sherlock, Ian Wright, Gavin Grant and especially Paul Marshall (millionaire boss of hedge fund Marshall Wace, recently required by the FSA to disclose that it had handled large ‘short’ positions against both HBOS and Bradford & Bingley). Clegg represents Sheffield, a city noted for its cutlery. He must know that there isn’t a cutler alive who could manufacture a spoon long enough for him to sup politically with some of these people.

Britain is about to enter a deep recession, lasting probably two to three years. It will be a severe test of all our political leaders. Nick Clegg can and should rise to this challenge, display some moral leadership and stop taking his cue from those who believe the answer is merely some technocratic regulatory tweaking or a succession of flatulent PR initiatives.

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