

From the CBI to the chancellor, the nerves are beginning to show

Like Denis Healey before him, Ed Balls has become shadow chancellor after a sudden resignation. Now he confronts an austerity consensus that is beginning to crumble



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Sir Richard Lambert of the CBI: worried about growth. Photograph: Sarah Lee for the Guardian

Ed Balls is not the first Labour shadow chancellor to have been thrust back into the public eye by a sudden resignation. Way back in 1972, shadow foreign secretary Denis Healey, who wanted to be the real foreign secretary, found himself catapulted into the shadow chancellorial role after the resignation, over Labour's European policies, of Roy Jenkins.

Healey, rather like Alan Johnson, made no pretence to economic expertise. "I had no more knowledge of economics than the average newspaper reader," he wrote in his memoirs, adding mischievously, "and I had never bothered to look at the City pages."

Healey talked about being launched "on the stormy and shark-ridden seas of economic policy". Well, no one can accuse Ed Balls of ignorance of economic policy and those shark-ridden seas. But, in one of those curious twists of fate, the formidable critic of George Osborne's deflationary mission finds himself also opposing a governor of the Bank of England in whose original appointment he had a hand.

For, although Balls is perfectly content with the Bank of England's refusal to raise interest rates when the economy is already on the rocks, he is understandably concerned about the governor's continued support for the chancellor's cuts strategy. In which context, it was good news last week that in his valedictory speech, the retiring director general of the Confederation of British Industry, Sir Richard Lambert, finally got around to attacking the government for its lack of a growth strategy – although I was not the only one to wonder how Sir Richard could simultaneously be backing the government's approach to the deficit.

Now, there is little doubt that the coalition has been shaken by the appointment of the shadow chancellor from whom they have most to fear. And the ferocity of some of the attacks on Balls from right wing commentators reflects the concern of Messrs Cameron and Osborne. Balls can cope with that kind of thing – even relish the fight. He is as tough as Healey.

At this stage there is no need for the shadow chancellor to be too worried about attempts to sow the seeds of division between him and his leader, Ed Miliband. Nor, if I

were in his shoes, would I be too worried by the "what would *you* do?" questions. As Healey writes: "For opposition purposes... I found it sufficient to concentrate on attacking the contradictions and inequities in [Conservative chancellor Anthony] Barber's policy."

The essential message of Balls's outstanding speech during the Labour leadership campaign was very much in accordance with Healey's famous dictum: "When you are in a hole, don't dig deeper." But that is precisely what the coalition has been doing.

Meanwhile, I can report that, at the tender age of 93 and a half, Lord Healey is in top form, and watching the coalition – which he gives a year at most – with interest. Addressing a high-powered audience assembled by the Mile End Group of Queen Mary, University of London, last week on the theme of "Being Chancellor", Healey made it clear that during his own chancellorship – 1974-79 – the big problem, in addition to the oil crisis, was the power of the trade unions, before the block vote was replaced in the 1980s by "one person, one vote".

Healey greatly admired the way that the Austrian and Swedish governments managed to conduct successful incomes policies in conjunction with what they called their "social partners" (employers and unions), thereby avoiding the classic UK wage-price spiral.

As it happened, Healey's old friend Dr Hannes Androsch, Austria's finance minister in the 1970s, was in London last week for the launch of a book he has edited, entitled *Austria: Past, Present and Future*, which is also fascinating on Europe generally. Androsch, who has considerable experience of China, and was once chairman of the IMF's key policymaking committee, is convinced that, because of its distrust of the US, China will do its best to support the euro in its troubles. Androsch was a guest at the Healey celebration, and the two agreed that, while Austria handled the unions better than the UK in the old days, life is more difficult for all western finance ministers in the era of globalisation. As Healey commented: "I feel sorry for George Osborne, despite his politics [pregnant pause] – and his personality."

I suspect that Healey still admires the Swedish economy, which, during the week that we learned of the 0.5% drop in UK gross domestic product during the fourth quarter, was reportedly steaming ahead at a record pace, with a large trade surplus on top, and not much sign of budgetary cuts.

Which brings us back to the UK. George Osborne's hint of concessions on fuel tax in his forthcoming budget is the first sign of panic in the ranks. And Mervyn King's speech last week contained a passage that should have frightened the life out of the cuts brigade. "In 2011," he said, "real wages are likely to be no higher than they were in 2005," adding: "One has to go back to the 1920s to find a time when real wages fell over a period of six years."

I have heard some alarming reports about the growing number of citizens who do not know how on earth they are going to make ends meet this year. As the prospect of a double-dip recession grows closer, I wonder whether the coalition asks itself whether the ends justify the means. Indeed, what exactly are the ends?