In my view

Gordon: you must break free from the devil you never really knew

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The Labour party has traditionally been frightened of the financial markets, often with good reason. Gordon Brown has been obsessively wary of the Conservative party, often with less reason. It was through fear of the financial markets that Brown handed control of official interest rates to the Bank of England. Oddly enough, the Attlee government nationalised the Bank in 1946 out of fearful memories of what the financial markets had done to Labour in 1929-31. It's a funny old world.

Putting monetary policy in the hands of non-political technicians was deemed necessary so that New Labour's baggage train of revisionist policies would not be derailed by the financial highwaymen of the City of London or by the broader financial world. Well, here we are on the verge of autumn 2008, and Gordon Brown's government finds itself in deep trouble not least because, by trying to outflank the Conservatives from the right (the 10p tax fiasco, identity cards, plans for 42 days' detention without trial), it has alienated its core vote while achieving the seemingly impossible in making the Conservatives claim to be the more caring party.

Depressed Labour supporters in general, and Brown in particular, could take heart from two refreshing contributions to the debate by those great foot soldiers of the moderate left, the Fabians. In an article in Renewal, Sunder Katwala, general-secretary of the Fabian Society, argues: 'Labour's mission is greater equality. It must again be the fairness party, or it is nothing.'

In a world where memories are often short, Katwala reminds his fellow Labour party members that New Labour was not just the work of Blair and Brown: the ground had been prepared by Neil Kinnock, John Smith and others. Indeed, way back in the Nuffield General Election Study of 1992, David Butler and Dennis Kavanagh identified some of New Labour's characteristics - its emphasis on 'skills training, new ways of working, improved public services, greater rights for women and families, and protection of the environment' some two years before the Granita Deal between Blair and Brown.

Katwala acknowledges that renewing Labour's claim to fairness will be difficult after the 10p tax episode. 'Nobody will stand against fairness, least of all David Cameron's shiny new Conservatism.' He adds: 'The disagreement between the parties is primarily about the role and responsibility of government... Cameron's claim to be the true 'progressive' is founded on his claim that Conservatives know that it is not the state's job to act on the important progressive causes of social inequality, climate change or international development ... Labour's argument must be the opposite: "fairness doesn't happen by chance".'

Tim Horton, the Fabian research director, takes up the baton with a searching analysis of the Conservatives' plans for public spending. Looking beneath the sheep's clothing in which George Osborne's recent statements have been draped, Horton notes that 'sharing the proceeds of growth' means cutting tax and public spending at a time - the next 10 to 20 years - when demographic factors (a growing and ageing population) will mean that public spending will need to be increased merely to maintain standards which many people regard as barely adequate at the present. New Labour is in danger of allowing the debate to centre on managerial competence but there is a profound division between the parties on desirable levels of public spending.

As Katwala notes, 'the credit crunch has shown how citizens look to government to provide stability and insure them against the worst risks ... voters should decide whether more free childcare and safer streets would be better for them than tax cuts.'

Which brings us back to the financial markets. Perhaps the appropriate question at present is not how to share the proceeds of growth, but how to share the proceeds of recession. A healthy debate has opened up about the ethics of a financial and banking culture in which the participants think they are entitled to vast salaries and huge bonuses whether they are making or losing money for their clients.

New Labour had an exaggerated respect for the financial markets - a respect that these days is not even shared by the governor of the Bank of England. The fallout from the credit crunch may yet prove that the Chancellor of the Exchequer was right to be so pessimistic in public. The understandable interest in the US presidential election may have distracted people from the hugely significant US government bail-out of the US financial institutions Freddie Mac and Fannie Mae. The bailers-out had to be bailed out!

The collapse of the modern banking model, one of whose central fallacies was the belief that by spreading risk you could eliminate it, has indeed produced the biggest financial crisis for many decades. This does not yet merit being categorised as the biggest economic crisis for 60 years, and the very move towards recession is itself easing 'stagflationary' fears and raising the prospect of cuts in interest rates at some stage. But the idea that, after what it has produced, the financial sector does not need better regulation is for the birds. As Hannes Androsch, former finance minister and vice-chancellor of Austria, says in the summer issue of Europe's World: 'Like technological innovation, financial regulation is concerned with cost reduction; in this case the cost of transferring funds from savers to investors ... But where financial innovation is designed to circumvent regulation, either prudential or taxation, we need to be much more circumspect.'