

After her election victory, Theresa May must develop an economic programme



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Prime Minister Theresa May CREDIT: BEN LACK

On the whole, elections do not make that much difference to the economy. Great economic ideas, when they emerge, tend to sweep over all major parties alike. Despite some differences between Angela Merkel's centre-right CDU and Martin Schulz's centre-left SPD, the German election in September is likely to conform to this type.

Admittedly, Donald Trump's election as US President has made a big difference, but mainly to the level of political volatility and the White House's entertainment quotient. The resilience of the US economy owes little or nothing to Mr Trump's election.

There are some exceptions, though. Surely the recent Presidential election in France is one, as was our election of Margaret Thatcher in 1979. Moreover, the ideological differences between the Conservative and Labour Parties are probably wider now than since the early 1980s. So this election can potentially make a big difference. I am assuming (you might think recklessly) that Theresa May will win. What would the economic impact be?

Just as the Labour Party has recently moved to the left, so Mrs May has moved, at least presentationally, towards the centre, and in some respects to the left of centre. This seems curious, unless you give importance to the ambition of supplanting the Labour Party as the natural party of government in just about all parts of the country. But what is the point of supplanting the Labour Party if in order to do this you have to become the Labour Party?

I am suspending judgment. We are in an electioneering phase, when politicians are liable to say extraordinary things. Mrs May would be well advised to keep her economic and financial policy prognostications as vague as possible. In particular, she should avoid making expensive spending promises that use up fiscal room for manoeuvre, and she should avoid restricting the Chancellor of the Exchequer's options on tax by making pledges not to raise one sort of tax or another.

In that regard, [last week's manifesto](#) was just about acceptable, despite some continuing guarantees on the state pension, the re-affirmation of "free at the point of use" for the NHS, and the pledge not to raise the rate of VAT.

But some ideological issues need to be straightened out. There seems to be a presumption in Mrs May's circle that government intervention is good for "the many", whereas markets are good only for "the few". This presumption is completely wrong. When markets work well they work for everybody, especially for people at the bottom end of the income distribution, who lack the contacts and sharp elbows to further their interests in a system dominated by controls and rationing. Markets give them power and choice.

Of course, markets do not always work well. And this should provide the defining theme of Mrs May's new government. But there are many parts of the economy where what we need is not less of the market but more, including in the provision of health and education services, [especially for the "JAMs", the "Just About Managing"](#).

You cannot consider ideology in the Conservative Party without confronting Mrs Thatcher's legacy. She is thought to have believed that "there is no such thing as society". In fact, this oft-quoted observation does her an injustice. But she left ill-defined the appropriate boundaries between self-seeking private enterprise on the one hand and communitarian public service on the other.

Mrs May should not be trying to undo Mrs Thatcher's legacy, but rather to further it in the areas where markets work best, while using government action to intervene where markets are not working well.

This does not imply or require big increases in government spending. Quite the reverse. It is lazy thinking to presume that higher government spending equates to a more powerful state, let alone better outcomes for the JAMs.

Tax rates are absurdly high at the top end but, including National Insurance, and VAT, they are also absurdly high (and overly complex) all the way down to the

income tax threshold. For the overall tax rate to fall, of course, there has to be significant restraint on government spending. That should be the Chancellor's central task, not squirting largesse at the JAMs or other supposedly deserving groups.



Mrs May should not be trying to undo Mrs Thatcher's legacy CREDIT: GETTY IMAGES

Mrs Thatcher was no economist but she was well aware of the central importance of the economic question. She had the advantage of a few years of opposition before becoming Prime Minister, and she put it to good use, talking about key economic ideas and making contact, largely through the intermediation of Sir Keith Joseph, with great economic thinkers. And she surrounded herself with people who were also determined to improve Britain's economic performance.

There is no sign yet that Mrs May is from the same mould. Worryingly, none of her inner circle seems to have an economic background or a keen interest in economic issues. Yet economics will be central to what she is able to achieve.

So, soon after the Conservatives take office again, Mrs May's team should embark upon a period of analysis and discussion that puts together an economic programme for government. I realise that Brexit threatens to be all-consuming. But this is no excuse for inaction. Man cannot live by Brexit alone. Indeed, making a success of Brexit will itself require sound economic policy-making.

I have argued that economic governance is not necessarily improved by having a strong opposition. On the contrary, having to fight tooth and nail for every measure, and being constantly worried about losing your majority, makes for bad economic decision-making. By contrast, it looks as though Mrs May could enjoy the sort of

majority that would leave her trouble-free for years. The Conservatives might even be able to think about 10 or 15 years in power. That is the sort of span that allows a government to undertake serious reforms.

But does Mrs May know what to do with a thumping majority? Or would she, like Tony Blair, “carry it around like a Ming vase”. We may be about to find out.

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