RELEASE IN PART
B6

From: H <hrod17@clintonemail.com>
Sent: Monday, May 7, 2012 5:25 PM
To: 'Russorv@state.gov'
Subject: Fw: H: FYI, best critique of retro-Romneyism is critique of UK Osborneomics. Sid

Pls print.

From: sbwhoeop[redacted] [mailto:sbwhoeop[redacted]] B6
Sent: Sunday, April 29, 2012 08:35 AM
To: H
Subject: H: FYI, best critique of retro-Romneyism is critique of UK Osborneomics. Sid

Will Hutton is an old friend of mine.
Bio:
William Nicolas Hutton (born 21 May 1950, Woolwich) is an English writer, weekly columnist and former editor-in-chief for *The Observer*. He is currently Principal of Hertford College, Oxford and Chair of the Big Innovation Centre, an initiative from The Work Foundation (formerly the Industrial Society), having been Chief Executive of The Work Foundation from 2000 to 2008.

http://www.guardian.co.uk/commentisfree/2012/apr/29/will-hutton-george-osborne-intellectually-broken

Osborne is intellectually broken and the real enemy of business

It was obvious to everybody that the recovery the chancellor predicted could not happen. And so it has proved

-
    -
        - Will Hutton
        - The Observer, Sunday 29 April 2012

The chancellor at bay. George Osborne's hopes of recovery have been crucially undermined. Photograph: Pool/Getty Images

Britain can and should expect better. Last week, we learned that output is still an incredible 4.3% below its 2008 level. The economy has relapsed into a double-dip recession and there is little prospect of pre-recession levels of output for at least another two years. Yet the chancellor, the ineptitude of his policies exposed to all, declared he would stand firm and stick with the sharpest reduction in public expenditure launched in modern times. He was not to blame, he suggested; instead, it was the fault of the economic crisis engulfing Europe.

This was outrageous. Europe is an easy excuse for hard-pressed British politicians. It is true that exports to Europe are important, representing some 15% of GDP. But despite the crisis, they are, fortunately, 8.1% up on a year ago. It is exports to non-EU countries that are falling, down 2.5%. The recent rise in the pound and economic weakness in the eurozone may check export growth to Europe in 18 months' time, while the ongoing concern that the euro may break up is plainly hitting business confidence. However, while it is convenient to blame Europe for Britain's generalised economic weakness, it is wrong.

Neither Osborne nor the Bank of England understands why the economy is performing as it is or what to do about it. The categories in which they think and the policy channels through which they operate are redundant. They are intellectually defeated and have become the enemy of both the business community they purport to serve and the wider working population, whose prospects are being so needlessly trashed. When Osbome launched his scorched earth policies two years ago, it was obvious to all but the most purblind that the recovery he blithely forecast could not happen. So it has proved.

Worse, unless there is a major rethink, the calamity will continue. No big industrialised country in economic history had a banking system as over-lent and as undercapitalised as Britain's was in 2008. If there is now no growth to allow the consequential private debt to be serviced more easily, then the choices are stark. The severity of the debt service demands will drive the economy into a lost decade (at least) of Japanese- style austerity. Or there will be widespread defaults or, indeed, inflation to reduce the real value of the debt. There are no other options.

What is now required is a policy mix that recognises the profundity of Britain's challenge: to manage the aftermath of a financial crisis while addressing the reality that too much of the UK economy is locked in low productivity and low-innovation sectors. We need to think in terms of developing our economy as much as growing it. A new British capitalism must be created, embracing investment and innovation. And to support this, there needs to be an intellectual and political revolution, a recognition that despite imported American rightwing polemics, the state is an indispensable part of the solution.

For what besets the capitalist economy is risk, unknown unknowns. The conservative doctrine is that the market will handle these best alone and unimpaired. But markets and business cannot deal by themselves with, for example, the systemic uncertainty of transformational new technologies or the aftermaths of credit crunches; they batten down the hatches. Instead, they need a smart state to mitigate and socialise the risks. What creates a great and dynamic capitalism is the interplay between risk-taking entrepreneurs and companies and a smart state.

This is the heart of Keynesian economics – not the doctrine of ever larger budget deficits as is commonly understood by its detractors and, more unfortunately, by some of its champions. Policy should now rotate around three axes. The first axis should be a forceful and novel integration of fiscal, monetary and financial policy. The government should be finding ways to use the public balance sheet to support the stricken banking system and to get business lending rising. The cash printed under the Bank of England's quantitative easing programme should be channelled into new bank lending. To do this, the Treasury must indemnify part of new business lending, which is then aggregated into securities that the Bank of England buys. The Americans, Japanese and Germans invented variants of this. So must Britain.

The second axis is investment and innovation. Britain has a very weak innovation ecosystem. The whole edifice – from creating ideas and networking them into businesses, along with the ability to scale up fast – is pathetically inadequate. Too few owners steward their companies. Even areas of existing strength such as pharmaceuticals are tottering: witness AstraZeneca's plunging profits last week and the resignation of its CEO. Vince Cable's Department for Business has some good ideas, but a lack of money and an unpersuaded Number 10 and Treasury mean too little is happening at sufficient scale or speed.

The last axis is a 21st-century social contract – the means for individuals to mitigate the risk of unemployment, obsolescent skills, old age, disability and homelessness in fast-moving globalised times. The debate instead is solely about how to minimise the cost, not to transform the landscape so that individuals can feel more confident both as workers and consumers – a confidence that will spill over into efficient workplaces and busier shopping centres. I advocate a new bargain: so-called "flexicurity" that combines greater workplace flexibilities with higher unemployment benefit, greater training and job guarantees; a far cry from the Gradgrind-esque Work Programme.

All this requires careful design and a smart state. But another casualty of Osbornenomics is the hollowing out and dumbing down of the British state. A Treasury report observes worriedly that turnover in the Treasury is now so high that the average age of an official is 32 with a mere three years' experience and, what's more, inadequate numbers are to be driven down further still. It is a similar pattern across the board, with the £142,500 cap on senior pay (benchmarked against the prime minister's but with no allowance made for the PM's additional near £400K of benefits in kind, an estimate from the Fair Pay review I delivered last year), making it increasingly hard to hire and retain the best. All this, and Osborne has only been chancellor for under two years. The question for everyone – his party and his coalition partners especially – is whether Britain can survive another three.