

Financial woes create election hope for Brown

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The mood round the table is sober. At its first two meetings this week, the "war cabinet" was warned: if you think it's bad now, wait for the turn of the year – and recession, company closures and unemployment. The reason the financial markets are so jittery is that they know what is coming next. It's unlikely to be over by 2010, the general election year, despite Gordon Brown's misplaced optimism in August that things would look better next year. We won't be hearing much more of that.

Mr Brown has crossed a Rubicon. The man who dithered for months over nationalising Northern Rock because he was haunted by the ghosts of Old Labour says we must "abandon dogma" and committed £500bn of taxpayers' money to our ailing banks. He needed some persuading, naturally. But there was no other way to prevent the economy going into meltdown. Now it is done, and the Prime Minister has undergone a remarkable transformation that even some close allies thought impossible.

They believe he has been liberated by the unprecedented action on the banks and a ministerial reshuffle which has changed the terms of trade in British politics. "The Cabinet was on the verge of a nervous breakdown this summer," another member said. "On the day of the reshuffle, that all changed. It has passed." Most cabinet ministers now think Mr Brown will lead Labour into the general election and that it would take an earthquake at next June's European and local elections to dislodge him. The appetite for a coup has disappeared.

Peter Mandelson wasn't the first Blairite bodyguard Mr Brown tried to recruit. For months he wooed Alan Milburn, the former health secretary, but Mr Milburn turned him down, not believing Mr Brown was the right man to lead Labour into the election and not wanting a second return to the crazy hours of a minister. To Mr Brown, Mr Milburn's rejection symbolised what many Labour people thought: the game was up for him. Mr Mandelson's decision to say "yes" sent the opposite signal. It has given Mr Brown hope that he can still beat the Tories.

This explains his confidence at Prime Minister's Questions. I studied the body language of Mr Brown and David Cameron carefully. Mr Brown, for once, was comfortable, playing on his home ground on the economy. A nervous Mr Cameron expected defeat in a difficult away match, and it happened. It is dawning on the Tories that they have some big rethinking to do. Not only will they have to rewrite their plans for government because "the cupboard is bare", but Mr Brown is no longer going to hand them the election on a plate.

All the same, the jubilation on the Labour back benches at Mr Brown's performance was premature. Like the economic crisis, his fightback is only just beginning. "He has got a second chance, but he's now got to convert it into a new lease of life," said one aide. "It's not enough to be a strong leader in troubled times who reaches the finishing line of the general election. To have any chance when he gets there, he will have to reinvent New Labour."

The limited "Brown bounce" in the opinion polls suggests Mr Brown has a mandate to pilot the ship through the storm, but that voters will still look for another captain once it's over. After 13 years of Labour rule, they won't want to reward a government for getting the country through a recession that many will think was of its own making. But after his remarkable reprieve, Mr Brown has an outside chance of answering the "time for change" call if he can somehow manage, while handling the crisis, to sketch out a forward policy agenda too.

It won't be easy. I've been struck by how many ministers and Labour advisers now expect Mr Brown to be an impressive leader of a nation in crisis, and then to lose the general election. "We will probably go down to a glorious defeat," one minister said.

It would be a much better way to go out than looked possible before the reshuffle and the bank rescue. Mr Brown may go down in history as another leader who saved Britain from a terrible fate, only to see the voters turn to another party for a new dawn after the threat passed. Like Winston Churchill, Mr Brown may win the war but lose the election. But at least he would go down fighting, not dithering.

The Independent's Political Editor Andrew Grice has been writing about politics for 25 years. Formerly Political Editor at the Sunday Times, he claims he started at Westminster when he was 10 but Whitehall sources say he was 25. His column, The Week in Politics, appears in The Independent each Saturday, with regular updates throughout the week at Today in Politics.