

The task ahead for Labour if it came to power

Gerry Holtham

Cardiff Metropolitan University

Learning from the past

INTRODUCTION

Any Labour government coming to power in the next few years will face a severe test. We do not know where the economy will be. What we do know is the economy has deep-seated long-term problems. These will need to be addressed while social aspirations will be harder to achieve. Neglect of our ecology will be taking an increasing toll. Moreover, the state of public services will be appalling.

Returning to today, the health service is crumbling and social care for young and old has largely collapsed. Spending per pupil in school has been falling since 2010 and we are *en route* for the worst educational system in western Europe, as the OECD's Programme for International Student Assessment (PISA) reports have exposed.¹ The quality of tuition in our universities has declined – students can go months without meeting their supervisor personally – and their international research links are weakening. The criminal justice system is in crisis, with cases waiting years to get to court and barristers striking over the paucity of legal aid. The police service is underpowered and mired in scandal, with detection rates for many crimes at a meagre few per cent.² There is plenty of talk about a green revolution, but the task of mobilising the huge resources required to reconfigure our energy system and economy in general has only just begun.

- 1 OECD (2018) 'United Kingdom: student performance (PISA 2018)' (database). <https://gpseducation.oecd.org/CountryProfile?primaryCountry=GBR&treshold=10&topic=PI#:~:text=In%20reading%20literacy%2C%20the%20main,30%20points%20higher%20for%20girls>
- 2 Home Office (2022) 'Crime outcomes in England and Wales 2021 to 2022', Official Statistics (database). <https://www.gov.uk/government/statistics/crime-outcomes-in-england-and-wales-2021-to-2022/crime-outcomes-in-england-and-wales-2021-to-2022>

This is an open access article under the terms of the [Creative Commons Attribution-NonCommercial](#) License, which permits use, distribution and reproduction in any medium, provided the original work is properly cited and is not used for commercial purposes.

© 2022 The Author. *IPPR Progressive Review* published by John Wiley & Sons Ltd on behalf of Institute of Public Policy Research.

“the task of mobilising the huge resources required to reconfigure our energy system and economy in general has only just begun”

LABOUR’S RECORD IN POWER

Previous Labour governments have come to power in difficult circumstances. Are there lessons to be learned? The Attlee government inherited a country exhausted by war and very deeply in debt. The Wilson government inherited a bursting bubble with incipient inflation and a chronic balance of payments crisis. Only the Blair government inherited a relatively tranquil economic situation and was more easily able to tackle underspending on public services. Not coincidentally, the Blair government was the most electorally successful. Clement Attlee survived a single term and one year before losing office. Harold Wilson won two elections and survived six years before losing. He returned for another four years of effectively minority government in the turbulent 1970s. Tony Blair won three elections and he and Gordon Brown between them had 13 years in office.

Yet there is no correlation between time in office and the scale of the legacy that each government was able to leave. The Attlee government implemented the Beveridge plan for the welfare state,³ founded the National Health Service and nationalised the main utilities, while maintaining defence expenditures at over double current levels in relation to Gross Domestic Product (GDP).⁴ The Wilson government’s effort to cure the UK’s economic problems with indicative planning *à la française* was a failure but the government reformed laws on divorce and abortion, legalised homosexuality and abolished capital punishment. Attempts to reform trade union law also foundered but the government founded ACAS to mediate industrial disputes and passed laws against racial discrimination and legislation to promote health and safety at work. It also founded The Open University – Wilson’s favourite accomplishment.

The Blair government did good things while in office but it is striking how few of them survived even one Conservative-led administration. Spending on public services came under the hatchet and initiatives like Sure Start and a capital endowment for young people entering adulthood were

3 Beveridge W (1942) *Social Insurance and Allied Services*, The Stationery Office

4 www.ukpublicspending.co.uk/uknation_defence.php

scrapped. The only significant survivals were devolution and the minimum wage – both policies introduced by John Smith and maintained with a conspicuous lack of enthusiasm by Blair and Peter Mandelson in the interests of party management.

“it is striking how few of them survived even one Conservative-led administration”

LEAVING A MARK?

What explains this relative failure to leave a mark? It is partly to do with the zeitgeist, which is not under party-political control. The Attlee government rode a wave of belief in the power of government to improve people’s lives. After all, complete mobilisation and planning had won a world war. Socialism was fashionable and the military and industrial successes of the Soviet Union, though not its political repression, were admired. Though the electorate tired of post-war hardships, the Conservatives bowed to the temper of the times and maintained Labour’s innovations, reversing only the nationalisation of the steel industry.

Blair, by contrast, came to power when the neoliberal ideological wave was at the flood. Academic macroeconomics, often swept by fashion, had taken a reactionary turn to *laissez-faire*. Globalisation was seen as inevitable and all-powerful. The only answer to problems of efficiency was competition. Outsourcing public services and creating ersatz markets were generally seen as the solution. Schools underperforming? Private academies, free from local government ‘control’ and competing for pupils, must be the answer.

After four Conservative general election victories, the British public was perceived as being inherently conservative and persuaded of Thatcherite doctrines. The public and the Conservative media were not to be persuaded otherwise but propitiated. Any increased taxes had to be ‘stealth’ taxes to permit re-election.

That lack of confidence in the saleability of the Labour party’s own beliefs had a marked effect on policy. It meant policies were adopted for their symbolic significance – the ‘signal’ they sent about political positioning – rather than their expected effectiveness. ‘Public–private partnership’ was so much trendier than old-fashioned state borrowing to finance infrastructure so the state was saddled with long-term contracts based on extremely expensive private finance. The warnings of prescient academics were

drowned out by the applause of delighted financiers eyeing easy money. An example was the London Underground, where the borrowing plans of a hard-nosed American executive aiming to run an integrated network were scrapped in favour of long-term franchises for private suppliers on different lines, creating problems that persisted for years.

“The warnings of prescient academics were drowned out by the applause of delighted financiers eyeing easy money”

DEVELOPING A PROGRAMME FOR CHANGE

In a well-run company, the marketing department is influential but the production department is important too. Very often, the last Labour government did not ask: ‘We think this works. How can we sell it?’ Instead, it asked: ‘This is what has been selling so how can we make it work?’ That rather passive acceptance of the zeitgeist and its conventional beliefs, which to be fair were genuinely shared by many in the government, meant no serious effort was made to shift the grounds of debate. The government briefly toyed with more radical ideas like those of Will Hutton’s book *The State We’re In*⁵ but dropped them rapidly when it saw they had implications opposed by the powerful. Ideological passivity was then disguised with slogans like the ‘third way’, which were conveniently empty of any particular implications or the capacity to offend. With hindsight, it is not surprising that so few changes stuck.

“Ideological passivity was then disguised with slogans”

The circumstances in which the Blair government came to power were such that well-meaning managerialism seemed perfectly appropriate. Unnecessary ideological conflict was electorally counterproductive. The cracks in an over-financialised economy, gradually losing competitive advantage in many sectors, had yet to appear. The ecological crisis was not so evident.

Now we know better. The financial crisis of 2008 exposed flaws in the international financial system and the limitations of financial market idolatry. But the British economy has problems all of its own. British

5 Hutton W (1996) *The State We’re In*, Vintage

economic performance lagged that of continental Europe in the 1950s and 1960s, for good reasons. Other countries were rebuilding from a low base after wartime destruction. Their capital equipment was the newest and they mobilised agricultural populations for the rapid growth of industry. It was natural that they grew faster than Britain. By the 1980s, that surge was spent and most countries grew no faster than Britain. Thatcher's acolytes ascribed this relative change to a British renaissance, not noticing that British growth was actually slower than it had been in the 1960s.⁶ Excessive financialisation caught up with the UK after 2008 when it was hardest hit by retrenchment after the great recession and has underperformed its neighbours subsequently. That trend was exacerbated by a masochistically hard Brexit.

The economic problem is clearly indicated by work at the Growth Lab at Harvard University. By careful analysis of very detailed trade statistics, Ricardo Hausman and colleagues there identify each country's comparative advantage. They find that countries do not specialise as they develop. In fact they acquire more and more know-how and capabilities that enable them to expand their range of profitable activities.⁷ The extent of this range the Harvard academics term 'complexity'. Countries with the most complex economies are the most successful and complexity is a good leading indicator of development potential.

“complexity is a good leading indicator of development potential”

FIXING THE FUNDAMENTALS

The UK is still one of the world's most developed countries economically, although it has slipped to 18th in terms of income per head. In the complexity league table it has slid from number 4 in 2000 to number 10 now, behind Japan, Switzerland and Germany and even Hungary and the Czech Republic.⁸ A country that built the world's first civilian nuclear power station, now relies on France, Japan or China for replacements. From having the world's second largest automotive industry and third

6 Office for National Statistics (2022a) 'Gross Domestic Product: year on year growth: CVM SA %' (database). <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyp/pn2>

7 Harvard University (2022) 'Growth Lab' (database). <https://growthlab.cid.harvard.edu/>

8 Atlas (2022) 'Atlas of economic complexity: United Kingdom', country profile. <https://atlas.cid.harvard.edu/countries/81>

largest aeronautical industry, the UK has gone to also-ran in both. And what remains is largely foreign-owned. Pharmaceuticals are still a strength but can we be confident they will not go the same way? We cling on to a steel industry but when the military, for example, wants specialist steels it gets them from Sweden. Still, there are sunrise industries and there is always finance.

Faced with a crisis in public services, the ecological crisis and clear evidence that the British economic model is running out of road, it should be obvious that benign managerialism will not do. If Labour is really to rise to what Aneurin Bevan called “the imperious needs of the times”, it requires a plan and it needs to be bold. It must believe that the British electorate can be roused to understand the need for radical action.

“It must believe that the British electorate can be roused to understand the need for radical action”

If each of the areas of public decay were audited and the bill for rectifying the situation over a decade was totted up, what would the sums look like? If the incentives needed for a true green revolution and the required participation of public investment were estimated, how much more would that cost? Add in the welfare requirements for the relief of poverty and the training and research costs of trying to rebuild British economic complexity and the results would no doubt be eye-watering. Given reasonable projections of economic activity, avoiding wishful thinking, what are the tax implications?

Those implications will no doubt require substantial reform of the UK tax system. Since the 1980s, profits have grown as a share of GDP at the expense of wages. That has not triggered a noticeable boom in business investment. Moreover, wage payments have become much more unequal, with chief executives earning not tens of times the average wage of their employees but hundreds of times. A reformed tax system has to tackle that imbalance without destroying incentives to work and enterprise. Some tax bases – motor fuel duty for example – will be lost to technical change and replacements must be found. A carbon tax will be essential, preferably as part of an international settlement but going it alone if necessary. The last Labour government, following work by Stephen Tindale at the IPPR, looked to introduce an energy tax and to reduce payroll taxes but their design and purpose were subverted by the Treasury for mere revenue-raising.

The scale of this task will strike fear into many politicians. They will prevaricate, citing electoral necessity. But grotesque Conservative failure could present Labour with both huge responsibility and an historic opportunity. If Labour came to power it must not waste it by trying to please everyone, especially vested interests, in search of a second and a third term. Those may or may not be achieved but look at the lessons of history. Identify the problems, set priorities and make and cost your plans. Face up to the tax implications and embark boldly, indeed ruthlessly, on reform. Pay the electorate some respect. Do not assume they are not or cannot be made aware of the need for decisive action. If at the end of the day you cannot persuade them, remember: all worthwhile politicians make their gamble with history. The key is to do the worthwhile things that need to be done and to change the weather so they cannot be undone.

“all worthwhile politicians make their gamble with history”

BOLD PROGRESSIVE CHANGE

Blair was a brilliant politician, fortunate in his timing, who might have achieved more. Attlee was a less brilliant politician who could scarcely have had a harder hand to play but got out of it as much as he could. His secret was a determination to do the right thing as he saw it and let the dice fall as they may. In the eye of history, who cares that one had six years in power and the other 13?”

Georges Danton told the French: “*L’audace, encore l’audace et toujours l’audace at la révolution sera sauvée.*” To save our ecology, to secure our economic future and to nurture a fairer society that affords more hope to the less advantaged, Britain needs extraordinary boldness now. If Labour is to obtain power and achieve real change, it must not falter and fail and it must embark on a programme of ambitious government.

Gerry Holtham was director of the IPPR from 1994 to 1998. He is currently managing partner of Cadwyn Capital, an investment boutique, and is visiting professor at Cardiff Metropolitan University, UK.