



Cameron's Trap

Lessons for Labour from the 1930s and 1980s

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policy network paper



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Contents

Executive summary	3
Introduction	6
1. What kind of Conservative is David Cameron?	7
2. The politics of austerity	10
3. Economic recovery under Conservative governments	13
4. The electoral prospect	18
Conclusion: what can Labour do?	22

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Executive Summary

Introduction

Conservative governments – and Conservative-Liberal coalitions – succeeded in winning elections in the 1930s and 1980s after making deep cuts in public spending. How did the Conservatives do it? Can they repeat the trick today? And what should Labour do?

1. What kind of Conservative is David Cameron?

- The accurate comparison for David Cameron is not Margaret Thatcher or Harold Macmillan, but Stanley Baldwin. In the 1930s, Baldwin's Conservatives agreed to coalition government – they understood that the economic austerity which they favoured for party political reasons could more effectively be sold to the public if undertaken by a coalition working in the 'national', not 'Conservative', interest.
- The Conservatives have often feared they are the natural party of the minority in Britain, a fear encouraged today by the shrinking of the Conservatives' core vote following Labour's victory in 1997.
- Cameron sought to address Conservative unpopularity by moving to the centre and pledging to match Labour's social democratic spending plans. But the financial crisis saw him revert to Conservative fiscal orthodoxy. The Conservatives returned to the electorate with a manifesto of retrenchment comparable to those that had lost it the 2001 and 2005 elections. It was coalition with the Liberal Democrats – not a significant change in policy or electoral strategy – that allowed David Cameron to become prime minister.

2. The politics of austerity

- From the post-war recession of 1920-21 to the financial crisis of 2008, the Conservatives have aggressively (and successfully) sought to colour public perceptions of economic crises in order to damage Labour and promote the electoral success of the Conservative Party. Their initial insistence that there was no alternative to eliminating the structural deficit by 2015, and their new determination to extend austerity to 2017 rather than change course now, is intended to achieve the same result.
- There is broad agreement on the need for medium-term fiscal consolidation, but there is nothing economically necessary about the speed and scale of the government's reductions in public expenditure. They are political in character and reflect the Conservatives' strategic objective: to convince the nation that Labour 'maxed out the nation's credit card' such that the UK was on 'the edge of bankruptcy' in May 2010.
- The political nature of the austerity programme explains the government's failure to contemplate a more flexible approach in response to changed conditions in the world economy. This would undermine the argument that Labour has spent too much and this spending has damaged the economy.
- Should the economy recover, however, the reductions in spending on public services will have performed another function, by creating the fiscal space for tax cuts beyond 2017. The aim is to trap Labour in the same position it occupied in the 1980s and early 1990s: Labour will be unable to promise improvements to public services or welfare without being accused of planning future tax rises to pay for them.

3. Economic recovery under Conservative governments

- Thatcher and Baldwin made deep cuts in spending while presiding over sluggish economic growth but neither was punished by the electorate. This is because, in spite of persistent high unemployment, living standards rose for the majority of the population in the 1930s and 1980s. These governments delivered enough prosperity for enough of the time to retain electoral support.
- But this success also depended on presenting Labour as ‘profligate’ and ‘incompetent’. The Conservatives won elections in the 1930s and 1980s by claiming relative rather than absolute governing competence: under Labour, they argued, things would be much worse. This line of attack need not depend on objective economic success – as the 1992 election showed.
- As the economic picture continues to deteriorate, therefore, it does not automatically follow that the Conservatives will lose electoral support. If the party does not succeed in returning the economy to strong growth, or even in reducing the deficit, then it could still win an election by delivering selective economic growth for certain regions and classes. Even in the absence of this selective growth, it could potentially still win if it were able to paint Labour as profligate and incompetent.
- This is why the Conservatives are not prepared to consider a more flexible fiscal stance – it would undermine their claim to economic competence relative to Labour.

4. The electoral prospect

- The traditional sources of economic recoveries – even partial ones – under Conservative governments in the past are weak or absent in the current economic context. There is little scope for a housing, finance or consumption boom. Meanwhile, attempts to ‘rebalance’ the economy towards manufacturing and exports are already faltering.
- Regardless of their success or otherwise in managing the economy, however, the Conservative Party could win the next election if Labour does not provide a convincing alternative. Labour must deny the Conservatives the ability to claim that, under Labour, conditions would be even worse. The Conservatives’ claim that ‘There Is No Alternative’ has, historically, in times of economic distress, proven itself to be an election winner.
- The Conservative Party still craves confrontation with unions. In the absence of larger, stronger or more militant unions, however, the ancestral Conservative rallying-cry against the vested interest of organised labour will need to be subsumed in a broader effort to divide public from private-sector workers. The Conservatives hope that Labour can be associated exclusively with the former, and seek to provoke a defensive response from Labour to their austerity programme and public sector reforms.

Conclusion: what should Labour do?

- Labour can sidestep the electoral trap being sprung by the Conservatives by refusing to be driven back to its core support. A patriotic appeal to the nation to improve growth and living standards, not a simple defence of the public sector and public spending, is crucial to foiling Conservative attempts to render Labour the party of a sectional minority.
- The incomes squeeze will be the central economic problem faced by Britain over the next four years.

- Labour must put forward a more convincing strategy for private sector growth than the Conservatives as the focus of its electoral pitch in 2015. Ed Miliband's conference speech announced this intention. A key element of a credible growth strategy would need to be a widely-supported active industrial policy. In this way Labour can evade the trap of the 'tax and spend' argument of 1992, by making the key measure of governing competence the creation of new and sustainable jobs that improve living standards. Labour is more comfortable than the Conservatives with the idea of an activist state: the Conservatives have reason to fear a political contest organised around which party can best promote growth rather than which party can best reduce spending.
- Through its policies on taxation, tuition fees, and welfare, the Conservatives are also developing a preference for flatter and more regressive charging mechanisms for funding public services and state benefits. Labour can counter this by offering more progressive funding mechanisms, and developing new welfare policies that reduce economic insecurity by pooling risk. Such welfare policies can themselves be presented as a necessary corollary of encouraging people to take the risk of investing in entrepreneurship and training. And these approaches need not necessarily require significant additional spending.
- Labour's electoral pitch should therefore contain echoes of three significant election victories: 1945, 1964 and 1997. Each of these elections involved an attack on a Conservative Party that had presided over a period of economic decay. 1964, with its focus on economic under-performance and relative decline, presided over by an out of touch Tory elite, is particularly resonant given the likely electoral battleground in 2015. A patriotic, national growth appeal is therefore essential to highlighting the inadequacy of Conservative political economy.

Introduction

What is the government up to, and why? Can the Conservatives secure a majority in 2015? These are questions of the utmost importance for the country, and for the Labour Party. As two historians of British politics, we are struck by the similarities between the Conservative-led government of 2010 and the Conservative or Conservative-led governments of the 1920s, 1930s and 1980s. Recognising these similarities, but also the differences between then and now, is critical if Labour is to serve only one term in Opposition.

Our starting point is that previous Conservative governments – and Conservative-Liberal coalitions – have won elections even while presiding over mass unemployment and deep cuts to public services. In the 1930s, the Conservatives led by Stanley Baldwin were electorally dominant in these circumstances. In the 1980s, Margaret Thatcher repeated the trick. It is vital that Labour learns the lessons from these Conservative successes if it is to prevent the Conservatives gaining a majority in 2015. How did the Conservatives do it? Can they do it again? And what should Labour do?

Our analysis leads to some striking conclusions:

- In spite of backbench griping and staged conflicts in the media, coalition is currently a natural and highly beneficial position for the Conservative Party to occupy, since it has allowed a divisive economic policy to be presented as 'national' in character. As such, David Cameron resembles neither Thatcher nor Macmillan, but Stanley Baldwin, the most electorally successful party leader in Conservative history.
- The Conservative Party suffers from a periodic crisis of confidence in which it fears itself to be the 'natural party of the minority' in a democratic United Kingdom. The New Labour years were one such period. The cuts offer a solution, since through them the party has redefined the economic debate on terms that are uniquely favourable to itself. The cuts are not simply ideological – they are political. They suit the Conservative Party's electoral interests.
- Notwithstanding dire warnings from Mervyn King and others about the prospects for a 2010-15 administration, public spending cuts or economic stagnation will not necessarily cost the Conservatives the next election. If they can rebuild the coalition of interests that supported the party in the 1930s and 1980s, then they could retain power through a politics of resentment, deflation and a claim to comparative competence. This can be achieved even if Osborne's plan 'fails' in economic terms. In these circumstances the Conservatives will claim that 'There Was No Alternative'. Labour needs to think carefully about how it will rebut such a negative Conservative campaign in 2015.
- Nonetheless, electoral opportunities exist for Labour. There are real differences between today's economic situation and the 1930s and 1980s. If Labour builds economic credibility it can mount an appeal that focuses on economic underperformance and squeezed incomes – and which, by focusing political argument around an activist state, forces the Conservative away from talking about public spending on to less hospitable political terrain. This can prevent the Conservatives from succeeding in confining Labour to its core geographical and class constituencies, and allow the party to fashion an optimistic national appeal — based on hope and economic modernisation as opposed to the Conservatives' division and economic stagnation.

1. What kind of Conservative is David Cameron?

Most analysis of David Cameron views the prime minister through the lens of past Conservative leaders. For commentators on the right, Cameron is a 'one nation' prime minister in the tradition of Harold Macmillan, the conciliatory leader who championed full employment and the welfare state between 1957 and 1963. On this reading of his politics, Cameron is either accused of betraying Conservative principles in the name of electoral expediency – or praised for his canny centrism.² For observers on the left, he is an unreconstructed 'small-state Thatcherite'.³

We believe that the reality is more complex. From the outset, the distributional impact of the government's economic policies has been highly regressive.⁴ Yet Cameron's programme is not presented in Thatcherite terms as 'liberating' the economy and promoting incentives for entrepreneurs. For the time being at least, spending reductions have not been coupled with significant tax cuts. Instead, austerity is presented as a matter of necessity, undertaken with reluctance due to Labour's supposed incompetence rather than with Thatcherite zeal. The latter does lurk behind some prescriptions for supply-side 'growth' policies, such as drives to dilute employment law. Rhetorically, however, Cameron generally strikes the consensual tone of Macmillan while substantively governing along Thatcherite lines.

As such, Cameron resembles no-one so much as Stanley Baldwin, under whose leadership the Conservative Party won the largest number of seats it has ever held in the modern House of Commons at the 1931 and 1935 general elections. The focus on a reduction in public spending, allegedly necessary because of Labour's supposed 'incompetence' and 'profligacy', is strongly Baldwinite in character. Cameron's pluralist willingness to form a grand coalition with sympathetic Liberal Democrats, meanwhile, echoed the political manoeuvring leading to the formation of the National Government of the 1930s and even the Lloyd George Coalition of 1918-22. These coalitions marked the start of a long period in which the Conservatives adopted a conciliatory stance towards other parties. This conciliation was pursued in high politics but not in economic policy, since regionally concentrated mass unemployment continued to be tolerated. As such, Baldwin's rhetoric was inclusive but his political economy divisive.

The process of Tory 'detoxification' embarked upon by party 'modernisers' after 1997 consisted largely of rediscovering this rhetorical appeal to the centre ground, while hard-line economic policies were maintained. As David Cameron wrote shortly after his election as one of the diminished Conservative intake of 2001, the party needed 'to change its language, change its approach...there are no obvious areas of policy that need to be dropped'.⁵ There is a clear precedent for this change of 'approach'. Cameron has adopted the conciliatory rhetoric, coalition politics, and divisive political economy of Stanley Baldwin.

The natural party of the minority?

To understand Conservative leadership strategies today, it helps to analyse how Conservatives have historically thought about their position in British democracy. Debates about the Labour Party's electability are of course familiar. An analysis of Labour's shortcomings as a popular party across the twentieth century was an important part of New Labour's thinking in the mid-1990s. Less well-known is that the Conservatives, in spite of their many electoral successes in the era of universal suffrage, have likewise frequently doubted their own party's capacity to appeal broadly enough to win elections in a democratic Britain.

² Eg Heffer, S. 'Heed Margaret Thatcher, not sad old Supermac', *Daily Telegraph*, 31 December 2010; Wilson, G. 'Cameron "heir to Disraeli as a One Nation Tory"', *Daily Telegraph*, 28 December 2006.

³ Eg Eaton, G. 'Is Cameron a Thatcher or a Macmillan?', *The Staggers*, 30 December 2010, at [http://www.newstatesman.com/blogs/the-staggers/2010/12/ cameron-thatcher-macmillan](http://www.newstatesman.com/blogs/the-staggers/2010/12/cameron-thatcher-macmillan).

⁴ Browne, J. 'Distributional analysis of tax and benefit changes', IFS Briefing 21 October 2010, at <http://www.ifs.org.uk/publications/5313>.

⁵ *The Times Guide to the House of Commons 2010* (London, 2010), 40.

Long periods in Opposition encourage the Conservative Party's ancestral fear that it is the natural party of the minority, and therefore unelectable in a mass franchise democracy. Since the late Victorian expansion of the parliamentary franchise, Conservative politicians have dreaded the onset of class-based politics. As he grappled with the emergence of mass politics in 1882, the Conservative leader (and later prime minister) Lord Salisbury famously remarked that 'it will be interesting to be the last of the Conservatives.'⁶ Salisbury feared that if a non-Conservative Party was able to mobilise a clear majority of what was then a predominantly working-class electorate against the historic defenders of wealth and privilege, then the Conservatives would never govern again. Between the 1880s and the First World War an alliance between the Liberal Party and the working class was feared; since 1918, Labour has been the primary threat, and one against which all non-Labour forces in British politics should unite.⁷

In the early twentieth century, the Conservative Party responded to this existential threat with tariff reform. The party attempted to create an electoral alliance between farmers, manufacturers and those sections of the working class that would benefit from protection. Conservatives argued for protectionist import tariffs on the products of rival powers being imported into Britain, and for freedom of trade only within the British Empire.⁸ But this policy – which the Conservatives claimed would reduce unemployment and strengthen economic ties with the Empire – was vulnerable to accusations from the Liberals and Labour that tariffs constituted a 'bread tax': they would increase the price of food for ordinary people, and further enrich wealthy landowners and industrialists by allowing closed monopolies to develop.⁹ This attack proved fatal at the 1906 election, when the Liberal Party won a landslide majority. Another two electoral defeats in 1910 at the hands of the Liberal-Labour alliance followed, and franchise expansion in 1918 only increased Conservative apprehension about their electoral appeal in a democratic Britain. It took an economic crisis (the Great Depression), and coalition government (in 1931), for protectionist policies to win greater electoral support.

It is recognised that the shock of the 1945 election defeat led the Conservative Party to fundamentally reappraise its attitude to Labour's social reforms, and alter its political programme accordingly. But it is important to note that Thatcherism, too, was the product of a crisis of confidence in the Conservative Party's ability to appeal to the electorate, or to govern in line with accepted notions of competence. In the eyes of the electorate, a key function of British government between 1945 and 1979 became securing agreements between employers and unions to control wage demands in the face of rising prices so as to maintain full employment without excessive inflation. The inability of Edward Heath's Conservative government to make this 'corporatist' incomes policy work in 1972-74 – culminating in a prolonged miners' strike and a three day week – fatally undermined belief in the Heath government's governing competence. By October 1974, Labour had won four out of the previous five elections. In February 1974, Wilson's pitch to the voters was explicitly focused on the need to manage the trade unions effectively – a field in which Labour was then seen to have a distinct advantage over the Conservatives.¹⁰ The experience of industrial and political defeat led to a radical and momentous reappraisal of the Conservative Party's political strategy.

From this historical perspective, the crisis of confidence that afflicted the Conservative Party between 1997 and 2005 is one of a common and recurring kind in the party's history. Just as Edwardian Conservatives lacked an electorally appealing economic policy, and Heath's party the means to broker successful wage deals with unions and employers, so the Conservative Party of Hague, Duncan Smith and Howard was not trusted to manage public services or the economy effectively between 1997 and 2005. The party's most effective electoral weapon – the promise of tax cuts – had been blunted by Labour's counter-charge: that such tax cuts meant inferior public services.¹¹ The dilemma facing David Cameron when he took over in 2005 was therefore the latest in a long line of Conservative crises about the party's apparent unelectability.

⁶ Quoted by Adonis, A. 'The transformation of the Conservative Party in the 1980s', in Adonis, A. and Hames, T. (eds.) *A Conservative Revolution? The Thatcher-Reagan Decade in Perspective* (Manchester, 1994), 146.

⁷ Cowling, M. *The Impact of Labour, 1920-1924* (Cambridge, 1971).

⁸ Green, E. H. H. *The Crisis of Conservatism* (London, 1996), 11-23.

⁹ Trentmann, F. *Free Trade Nation* (Oxford, 2008), 34-5.

¹⁰ Bulpitt, J. 'The discipline of the new democracy: Mrs. Thatcher's domestic statecraft', *Political Studies*, 43 (1986), 29-30.

¹¹ Kavanagh, D. and Cowley, P. *The British General Election of 2010* (Basingstoke, 2011), 74-5.

Cameron's response

Conservative strategy initially involved moving onto Labour's territory, thereby narrowing Labour's advantages on public services and economic management. Attempts were made to exploit perceived divisions within the Labour government over reforms to public services, with David Cameron 'lovebombing' prime minister Tony Blair during Commons debates on academy schools.¹² Subsequently, the shadow chancellor George Osborne committed his party to Labour's social democratic spending totals. As late as July 2008, David Cameron described these as 'tight'. The Conservative Party's goal, he asserted, was to slow down the growth in public spending by 'tackling family breakdown, crime, substance abuse and worklessness', rather than implementing radical reductions in services, personnel, or entitlements.¹³

This approach was abandoned in the wake of the 2008-9 financial crisis. The Conservatives' response to the private-sector failure of banking was initially confused. Coherence was recovered through a return to traditional Conservative political economy. The UK's rising deficit, the Conservatives argued, demanded a dramatic reduction in public spending, since reducing spending was the only way to restore private sector 'confidence'.¹⁴ While Keynesian deficit spending allegedly meant piling debt upon debt, spooking the markets and 'crowding out' private investment, reducing public spending would kick-start growth by fostering improved private sector confidence. This advocacy of 'expansionary fiscal contraction' is in the tradition of the Howe budget of 1981, which famously cut spending in the middle of a recession. Conservative economic policy now is similar to that advanced in the early 1980s, and to that which was on offer in 2001 and 2005. At the 2001 election, one of five 'guarantees' advocated by William Hague was that taxes would fall as a share of the nation's income in the ensuing parliament – a pledge which was attacked as requiring massive public spending cuts in the event of a recession.¹⁵ At the 2005 election, a diluted variant of this strategy was advanced, with then-shadow chancellor Oliver Letwin announcing a target to reduce the state's share of GDP from 42% to 40% over six years.¹⁶ Some analysts believe that the return to this more traditional Conservatism cost the party a majority in May 2010.¹⁷

And yet with the Liberal Democrats providing political cover, Cameron has succeeded not just in implementing an orthodox Conservative fiscal policy, but also in presenting such a policy as 'national' and its opponents as sectional or self-interested.¹⁸ This aspect of his political strategy is clearly Baldwinite. The obvious point of comparison is the National Government of the 1930s. In both the 1931-35 and the 1935-40 governments, the Conservative Party alone had vast majorities over the other parties in the House of Commons. Yet former Labour and Liberal politicians held office in these governments, because Conservative leaders understood that reducing public spending during the Great Depression – and, as a result, tolerating regionally concentrated mass unemployment – needed to be presented as 'national', not Conservative, policy.¹⁹

12 Richards, S. *Whatever It Takes: The Real Story of Gordon Brown and New Labour* (London, 2010), 222-3.

13 Cameron, D. speech to the CBI, 15 July 2008, at http://www.conservatives.com/News/Speeches/2008/07/David_Cameron_Speech_to_the_CBI.aspx.

14 Kavanagh and Cowley, *General Election*, 93.

15 Bale, T. *The Conservative Party From Thatcher to Cameron* (Cambridge, second edition, 2011), 104.

16 Bale, *Conservative Party*, 209-10.

17 Bale, *Conservative Party*, 392; Richards, S. 'Hail the dawn of a healthier democracy', *Independent*, 9 July 2011.

18 Laws, D. *22 Days in May* (London, 2010), 111.

19 Williamson, P. *National Crisis and National Government* (Cambridge, 1992), 484.

2. The politics of austerity

George Osborne claims that reducing public spending rapidly will restore business confidence – the essential precondition for restoring the economy to health. But if reductions to public spending come at the expense of economic growth, the chancellor will not meet his deficit and debt targets. In his Autumn statement, the chancellor was forced to extend austerity for two years longer than planned, dashing Conservative hopes for pre-election tax cuts. Economic growth was markedly weaker than in other advanced economies before the renewed crisis in the Eurozone. This crisis will compound the self-inflicted poor performance.²⁰ Support for the chancellor's policy is declining, even among international institutions that initially praised the boldness of his government's approach.²¹ Yet it seems unlikely that the chancellor will overtly modify or abandon his plan. Instead, he has decided to prolong it. Why do the government understand the political risks of inconsistency to be greater than those of low growth and high unemployment? The answer lies in the relationship between the austerity programme and the government's political strategy.

'Ideology' – or politics?

Reductions in public expenditure and the restructuring of public services are frequently attacked as 'ideological'. We do not believe that matters are this simple. The Conservative Party is certainly united by the conviction that a smaller state is morally and economically desirable, creating both greater prosperity and a more virtuous citizenry. This is allied to a resentment of egalitarianism, and a demand for lower and more regressive taxes.

But party advantage is also in play. 'Austerity' is attractive to the party's leadership as a more convincing solution to the historic fears of Conservative unelectability than the earlier insistence on paralleling New Labour's electoral offer. If the key political challenge facing the country over the long term becomes defined as cutting public spending, then the Conservatives are more likely to prosper. Prolonged austerity reinforces this perception, rather than undermining it. The Conservatives could potentially be in a win-win situation. If growth does ultimately return and an end to austerity heaves into view, then they can pledge tax cuts rather than a return to pre-crisis levels of spending. The Conservatives will seek to reverse the trap set by Tony Blair and Gordon Brown in the 1990s and 2000s, returning the Labour Party to the invidious position it occupied in the 1980s. Instead of Tory promises of tax cuts being translated successfully by Labour into the threat of deteriorating public services, Labour promises of improved public services will be converted successfully by the Conservatives into the threat of higher taxes. By 2015, the Conservatives hope that they will have created the fiscal space to promise tax reductions, at least at some point in the course of a second Conservative parliament.²² Meanwhile, the British electorate are to be accustomed to a lower level of public spending, and a more regressive balance between direct and indirect taxation.²³ The aim is to build a public preference for tax cuts over a return to higher levels of spending on public services. If growth is unforthcoming, then acceptable alternatives remain. Tax cuts can be advocated even earlier, as right-wing supporters of a more avowedly Thatcherite 'growth strategy' have long been demanding.²⁴ Or, perhaps equally attractively, low growth and high deficits will mean that reducing public spending will continue to be regarded as the primary economic imperative during the election of 2015. Even under the worst-case scenario that we seem to be entering, political debate could continue to be defined on terms highly favourable to the Conservatives. The Conservatives aim to prevent Labour from offering their election-winning recipe of 1997-2005 – economic responsibility coupled with social justice and high quality public services – in 2015. There are many routes to this outcome – not all of which involve successful economic management by a Conservative government.

20 OECD, 'Quarterly GDP: Percent change over previous quarter', 17 November 2011, at http://www.oecd-ilibrary.org/economics/quarterly-gross-domestic-product-change-over-previous-quarter_2074384x-table13.

21 'IMF cuts UK growth forecast and questions pace of cuts', *Guardian*, 20 September 2011.

22 'Osborne looking at scrapping 50p rate in 2013', *Financial Times*, 24 March 2010.

23 'New Year's VAT rise to be permanent', *Financial Times*, 16 December 2010; 'David Cameron warns public sector cuts will be permanent', *Guardian*, 10 August 2010.

24 Nelson, F. 'The levers that Osborne might pull', *Spectator Coffee House Blog*, 23 March 2011, at <http://www.spectator.co.uk/coffeehouse/6808328/the-levers-that-osborne-might-pull.shtml>.

Having adopted this political strategy, the Conservative Party is once again at ease with itself. This is nowhere more evident than in the House of Commons. The Conservative backbenches really do believe that 'there is no alternative', and that the Coalition's target of eliminating the structural budget deficit is a national imperative, which only the Conservative Party is capable of delivering. Conservatives speak with one voice, communicating a simple, consistent, repetitive message to the voters.

Manipulating crises

The Conservative Party has a long history of aggressively shaping public perceptions of economic and political crisis in ways that improve its chances of gaining power and achieving its ambitions of lower taxes and lower public spending. The Geddes Committee cuts of 1921-22, which imposed sharp reductions in school places, abandoned social housing projects, and introduced the means test for unemployment benefit for the first time, proceeded in an atmosphere of profound political crisis.²⁵ Leading figures in the governing coalition accused striking railwaymen and coalminers of 'anarchist conspiracies'; Winston Churchill accused the Labour leadership of indulging in 'the baboonery of Bolshevism'. Ministerial rhetoric reinforced the socially divisive economic policies deployed during the post-war depression. Unemployment rapidly increased to 17% of the insured workforce, thanks to an increase in interest rates and cuts to public expenditure.²⁶ Meanwhile, the government found itself under considerable pressure from Daily Mail newspaper magnate Lord Rothermere, whose 'Anti-Waste League' opposing 'high' taxes and public spending fielded successful by-election candidates in 1921. United by its hostility to the Labour Party, and under considerable pressure to cut taxes from its core supporters in the middle and upper classes, the coalition government had perfect political cover to abandon the construction of a post-war Britain 'fit for heroes to live in', and institute policies that began a long period of high unemployment, low taxes, and low social expenditure.

The 1931 financial crisis cemented the dominance of this Conservative political economy. Leading City of London financiers formed an influential pressure group called the Friends of Economy, with the involvement of the Bank of England. The Bank's governor, Montagu Norman, was instrumental in the removal of MacDonald's Labour government and the establishment of the National Government in its place.²⁷ In the election campaign of that year, Conservative leader Stanley Baldwin demanded a mandate for a National Government to undertake all steps it considered necessary to resolve the crisis, and argued that Labour had led the country to the brink of 'financial ruin'.²⁸ In place of today's comparisons to Ireland, Portugal and Spain, the declinist rhetoric of the early 1930s based the call for public spending cuts on comparisons with ancient Rome, imperial Spain, and Tsarist Russia.²⁹ The effect was comparable to that of ten years earlier. High unemployment was accepted as a fact of national life for the next decade.³⁰

Thatcher's opportunity arrived with the serious industrial unrest that was dubbed the 'Winter of Discontent'. But the manner in which the events of 1978-79 were subsequently understood to represent a more profound national crisis, requiring the abandonment of a balanced economic policy in favour of one which took the reduction of public spending and taxes as its only consistent goals, was the result of skilful political framing. Responding to Jim Callaghan's announcement of the 1979 election date, Thatcher zeroed in on the 'Winter of Discontent', in particular the popular trope of the 'dead going unburied'. This became the Conservatives' 'winning card'.³¹ Once in office, the accusation that the economic problems of the 1970s were both uniquely severe and uniquely the fault of the Labour Party was a vital support to the argument that there was 'no alternative' to Thatcherism in governing Britain during the 1980s.³²

It was unsurprising, therefore, that the Conservative Party resorted to the language of national crisis in 2010, and sought to define the crisis in terms of deficits and debt. In January 2009, as the UK endured

25 Morgan, K. *Consensus and Disunity: The Lloyd George Coalition Government 1918-22* (Oxford, 1986), 281-2, 290-3.

26 Chick, V. and Pettifor, A. *Fiscal Consolidation: Lessons From a Century of UK Macroeconomic Statistics* (London, 2011), 5.

27 Williamson, *National Crisis*, 200.

28 Conservative election broadcast, 1931: <http://www.youtube.com/watch?v=0UL5AOgqWLQ>.

29 Williamson, *National Crisis*, 135.

30 Williamson, *National Crisis*, 495.

31 Butler, D. and Kavanagh, T. *The British General Election of 1979* (London, 1980), 167.

32 McKibbin, R. 'Homage to Wilson and Callaghan', *London Review of Books*, 24 October 1991; Hay, C. 'Chronicles of a death foretold: the Winter of Discontent and construction of the crisis of British Keynesianism', *Parliamentary Affairs*, 63 (2010), 446-70.

the deepest recession in its post-war history, the Conservatives launched an advertising campaign that targeted not collapsing output or rising unemployment but 'Gordon Brown's debt'. The emphasis in the poster campaign signalled an early attempt to focus the public argument about Britain's economic problems not on the 'real economy' of living standards, jobs, and output, but purely in terms of public spending – terrain the Conservatives found easier to navigate.

Characteristic of the manipulation of the crisis is an attempt to convince the public that it has arisen solely as a result of Labour 'irresponsibility'. This reduces economic problems to a binary choice between political parties: 'there is no alternative'. The current crisis, however, is complex and global in nature, with the UK deficit the consequence of a major world recession brought on by the collapse of the global financial system. The consequences of this collapse are still unfolding. In narrowly constructing the economic crisis and its causes in party-political terms, the Conservative Party risks inflexibility in its responses to an unprecedented global situation – inflexibility that may cost it the economic recovery needed to return it to power in 2015.

For as we shall see in the next section, legitimating Conservative political economy is only half of the Conservative recipe. To prosper beyond a crisis, Conservative governments have also historically delivered rising prosperity for sufficient numbers of people to maintain electoral support.

3. Economic recovery under Conservative governments

While memories of crisis have been important in legitimating Conservative economic policies, so too has the character of economic recovery in extending and consolidating the party's electoral support. Mervyn King might have argued that the austerity required of any party winning the 2010 election would ensure they were out of power 'for a generation,'³³ but there is no historical evidence to suggest that Conservative governments are punished by the electorate for undertaking fiscal consolidations. Following the spending reductions undertaken under the auspices of the Geddes Committee in 1921-22, the Conservatives won the 1922 general election; following the austerity budgets of the early 1930s, the party won one of the largest majorities in its history in 1935. The record of the 1980s, meanwhile, suggests that this success was not purely an inter-war phenomenon.

Why have the Conservatives been so electorally successful after imposing austerity? Large Conservative majorities were made possible historically by sectional tax, economic and welfare policies. The flipside of these was geographically concentrated growth – largely generated by housing booms – and high, geographically concentrated unemployment. This enabled the construction of a viable political order on lines favourable to the Conservative Party, even if large areas of the country barely recovered from depression. It is likely that elements of this approach will reappear in the course of the next four years. In this section, we will therefore examine the dynamics that enabled Conservative victories following the public spending cuts of the 1920s, 1930s and 1980s.

The politics of inter-war unemployment

Politics between the wars was dominated by the Conservatives and Liberals, who succeeded in building an electoral coalition of non-unionised workers, the propertied, and the City of London. This coalition was mobilised in an electoral contest with organised labour and the unemployed. Labour was confined to representation of the latter groups, and thus kept out of power. This explains, in part, the unwillingness of British governments to take anything like the action against unemployment that was seen in the US during the 1930s. The refusal to act against unemployment was central to the political identities of the governing parties, and guaranteed the continued support of the electoral coalition they had constructed.³⁴

To explain this political dynamic, we must look at the origins of this electoral coalition. This lay in the years during and immediately after the First World War. Britain's first experience of total war led to severe inflationary pressures and full employment, since any spare capacity in the economy was devoted to the war effort. The shortage of labour placed trade unions in a strong economic position to demand higher wages. The resulting rise in incomes significantly improved working-class living standards. A minority who held property or other investments saw their relative value diminished. Non-unionized wage-earners were unable to bargain collectively, and push up their wages in response to rising prices. Consequently, they both envied and feared union agitation. Crucially, salaried white-collar workers – whose earnings were determined at less regular intervals than those of weekly or monthly wage-earners, and were hence less responsive to inflation – found that their incomes were rapidly devalued during wartime. The City of London, meanwhile, was keen to achieve a high exchange rate for the pound, which was believed to be central to its status as the premier location for global financial services.

The post-war coalition therefore faced a dilemma. It was elected, in a spirit of post-war national unity, on a programme of reconstruction and fair treatment for war veterans. But the government's electoral support came from groups who desired deflation and lower taxes, to restore their real incomes to pre-war levels. Once recession struck in 1920, however, it became impossible for the Coalition government to reconcile these competing interests. When push came to shove, it decided to satisfy its core vote,

³³ Mervyn King warned that election victor will be out of power for a generation, claims economist; *Guardian*, 29 April 2010.

³⁴ McKibbin, R. 'Class and conventional wisdom: the Conservative Party and the "public" in inter-war Britain', in his *Ideologies of Class* (Oxford, 1990), 259-93.

restoring their economic position by pursuing deflation. This they did successfully through further spending cuts, a rise in interest rates, and an end to social reform. The price to be paid was regionally concentrated mass unemployment and greater poverty. This was the basis of the social and political order that lasted until the Second World War.

The National Government

The 'Great Depression' of the 1930s had a less dramatic impact in Britain than in some countries, largely because the economy was already depressed as a result of an overvalued pound.³⁵ Politically, though, the global depression created opportunities for the Conservative-dominated coalition government that took office in summer 1931. The National Government was elected to maintain the gold standard, and failed strikingly in those terms – the pound was allowed to float freely within weeks of the government taking office. Yet the previously unthinkable abandonment of free trade and the gold standard gave the government greater room for manoeuvre, and enabled the consolidation of Conservative political dominance.³⁶ Low interest rates contributed to an expansion in house-building and home ownership. Further falls in consumer prices, and cuts to the (already very low) income tax in the early 1930s, boosted living standards for those same salaried professionals who had supported austerity and deflation during the early 1920s. The abandonment of free trade ensured that this increase in consumer demand was overwhelmingly catered for by domestic industry. These were the years of the 'sunlight industries' in the Midlands and south, focused on automobiles, chemicals, electronics, processed foodstuffs, and the distributive trades. Consequently, this prosperity was geographically concentrated. Between 1932 and 1937, four-fifths of all new factories and two-thirds of new jobs were created in the London metropolitan area.³⁷ The expansion of housing was concentrated in a similar area, and involved the construction of the majority of London's modern suburbs. Four and a half million new homes were built between the wars.³⁸

Meanwhile, the Conservative-led government stuck with the modest levels of taxation that had existed in Britain since before the First World War. The 1931 budget introduced small increases in the income tax, but the additional burden was eased for the vast majority of middle and upper middle-class families due to 'abatements' offered for children. Even these modest income taxes were returned to pre-1931 levels in the budgets of 1934 and 1935. These tax cuts were a higher priority for the government than reflating the economy to reduce the mass unemployment blighting Labour's industrial heartlands, or even (at this stage) re-armament in the face of the developing Nazi threat.³⁹

As such, improving living standards for those in work was purchased at the expense of the unemployed and their families, with perhaps as many as 12 million people affected by unemployment between 1920 and 1939.⁴⁰ The Conservative-Liberal government persisted in the view that financial markets would not tolerate the deficit-financed, reflationary public expenditure desperately needed to reduce unemployment in regions dominated by older staple export industries. The National Government maintained this objection despite the abandonment of the gold standard, and a considerable decline in the mobility of international capital – developments which made a more flexible fiscal policy more viable.

This fundamental problem of mass, regionally concentrated unemployment was left unaddressed for political reasons. An expansion in demand capable of bringing unemployed workers back into the labour market, in the context of an international trade recession, would have necessitated increased public expenditure and borrowing. This would have aroused hostility from those who gained from the inter-war economic order, since it threatened higher taxes and an end to the deflation that was benefiting holders of property and wealth. High employment and prosperity for some areas and some classes therefore depended upon low employment and poverty for others. Serious action to reduce unemployment was politically unpalatable for a National Government comprised of Conservatives and

35 Middleton, R. 'British monetary and fiscal policy in the 1930s', *Oxford Review of Economic Policy*, 26 (2010), 416.

36 Glynn, S. and Oxborrow, J. *Inter-war Britain: A Social and Economic History* (London, 1976), 134.

37 Stevenson, J. and Cook, C. *Britain in the Depression: Society and Politics, 1929-39* (London, 1994), 21-7.

38 O'Brien, P. 'Britain's economy between the wars', *Past and Present*, 115 (1987), 125.

39 McKibbin, R. *Classes and Cultures: England 1918-51* (Oxford, 1998), 60-1.

40 Glynn, S. and Booth, A. 'Unemployment in inter-war Britain: a case for relearning the lessons of the 1930s?', *Economic History Review*, 36 (1983), 333; Glynn, S. and Booth, A. *Modern Britain: An Economic and Social History* (London, 1996), 88.

Liberals. In the end, it was not a desire to reduce unemployment, but the urgent need to rearm for a second war with Germany that finally led to a reflation of the economy through deficit spending, and a reduction of hardship in the North, Wales and Scotland through the creation of new jobs. War finance constituted a large and effective economic stimulus.⁴¹

Back to the future: the 1980s

The elimination of unemployment as Britain mobilised for total war, and the successful prosecution of the war effort by a coalition government that involved Labour, meant that the Conservative offer to return to 'business as usual' in 1945 was rejected at the ballot box. It took the successful exploitation of the economic difficulties provoked by two oil crises in the 1970s to undermine the post-war consensus that unemployment was not a price worth paying.

It is no coincidence that, in seeking to overturn post-war economic orthodoxies, Keith Joseph chose to mount a defence of the economic record of the Conservative governments of the 1930s: 'It is often forgotten that the thirties was a period of growth, expanding employment, rising living standards for a majority of manual workers.'⁴² The policies pursued by the Thatcher governments resulted in a remarkably similar pattern of regional unemployment and circumscribed growth to that which had developed in the 1930s, disrupted only by an unusually severe recession in the south-east following the housing slump of the early 1990s. During the recession deepened by the first Thatcher government's fiscal and monetary policies, unemployment rose further and faster than in previous or subsequent recessions. It was concentrated in those areas of the country with a historical propensity towards higher unemployment, and amongst those workers with the fewest skills. On a national basis, unemployment remained above 10% in every year until 1987.⁴³ In the North, Scotland, Wales and much of the Midlands, it remained higher for longer. In 1989, at the height of the 'Lawson boom', unemployment in Crawley was 1.4%. In Newcastle, it was 14%.⁴⁴

Real incomes grew more slowly for the poorest households than they did for the richest, since low-skilled workers in economic sectors with high unemployment rates are less able to command good wages than their richer and better educated peers. At every level, those who began the period higher up the income scale found that their incomes rose faster and further than those beneath them.⁴⁵ The highest paid groups – dominated by employers, shareholders and managers – saw their incomes grow fastest.

Conservative governments in the 1980s also exacerbated unfavourable macroeconomic circumstances for poorer unskilled workers by introducing tax policies that were specifically designed to redistribute to the better-off. Personal direct taxes fell as a proportion of total tax revenues from 46.6% to 40.8% during the 1980s, while indirect taxes increased from 26% to 30%.⁴⁶ In particular, the taxation of high incomes was dramatically reduced, most notably in Geoffrey Howe's budget of 1979 and Nigel Lawson's budget of 1988. Already, by 1987, the poorest fifth of households were paying a greater proportion of their income in tax than the richest.⁴⁷ Shifting the balance of taxation away from personal income taxes and onto indirect duties like VAT politically put the onus on the Labour opposition either to argue explicitly for higher income taxes to fund improved public services, or to raise regressive indirect taxes.

The centrality of housing

The 1930s and 1980s in fact had a great deal in common. Growth was roughly equal in both: at an average annual rate of 3.28% in the 1930s recovery as compared to 3.24% in the 1980s, the National Government had a slightly better record on growth than the Thatcher governments, even if we flatter the latter by excluding the recession of 1990-91.⁴⁸ The record on unemployment is harder to compare, but is also broadly similar, averaging an estimated 9.5% in 1932-8 and 11% on the OECD measure in

41 O'Brien, 'Britain's economy', 127-8; Middleton, 'British monetary and fiscal policy', 430.

42 Joseph, K. *Monetarism is Not Enough* (London, 1976), at <http://www.margaretthatcher.org/document/110796>.

43 Johnson, C. *The Economy under Mrs Thatcher* (Harmondsworth, 1991), table 50.

44 Green, A., Gregg, P. and Wadsworth, J. 'Regional unemployment changes in Britain', in Lawless, P., Martin, R. and Hardy, S. (eds.) *Unemployment and Social Exclusion: Landscapes of Labour Inequality* (London, 1998), 69.

45 Waldfoegel, J. *Britain's War on Poverty* (New York, 2010), table 6.2.

46 Johnson, *Economy*, table 29.

47 Johnson, *Economy*, table 28.

48 Johnson, *Economy*, table 2; Chick and Pettifor, *Fiscal Consolidation*, table 3F.

1982-8.⁴⁹ But perhaps the most striking similarity between the two periods is the reliance on rising home-ownership to sustain recovery. In the 1920s and 1930s, expansion of housing was driven by the increased availability of land due to improved transport links, especially in the south east.⁵⁰ In the 1980s, housing was transferred from the public sector to the private sector via the government's sale of council houses. Later in the decade, prices rocketed due to a credit-fuelled expansion in demand, and a spike in equity withdrawal on more expensive houses.⁵¹ While it was falling prices and increased investment in homebuilding that brought recovery to some in the 1930s, it was rising house-prices, a decline in the provision of social housing, and debt-fuelled consumption that rode to the government's rescue in the 1980s.⁵²

The current government is clearly aware of the potential significance of the housing market to economic recovery and electoral success. This is why it has been prepared to risk political conflict with some of its own backbenchers to push through planning reform, and is reviving and strengthening existing 'right to buy' policies.⁵³ Meanwhile, the most likely source of government intervention in the economy involves assistance and incentives for banks to lend more, in part to revive the mortgage market. Even partial success in these endeavours could be central to the reconstruction of a Conservative electoral coalition.

The importance of rhetoric

Yet winning elections is not simply a matter of delivering objective benefits to sufficient numbers of voters. In both the 1930s and the 1980s, Conservative electoral success was underwritten by allying improvements in living standards for some with the persuasive rhetoric of Conservative 'prudence' and 'economy', as opposed to Labour's supposed 'profligacy' and 'incompetence'. This built a coalition of Conservative voters far broader than those who were objectively benefiting from the economic policies of either the National Government or the Thatcher governments.

In the 1930s, action to combat unemployment could be portrayed as 'incompetent', by arguing that it would lead to a financial crisis like 1931. Lloyd George, the principal exponent of reflation, was tarnished through association with wartime 'profiteering' and the sale of peerages – reputational problems which terminally discredited the policies he began to espouse once freed from Tory coalition.⁵⁴ An important subtext, however, was that spending money to reduce unemployment was fundamentally wrong or even unpatriotic, since it would benefit a range of 'sectional' interests – dole scroungers, 'grasping' trade unionists, 'profiteers' on wartime loans, the 'goat' Lloyd George – at the expense of the 'public' and the 'nation'. A deeply sectional government, presiding over a polarised society, was therefore able to convince most of the electorate that it was 'National' in character. Stanley Baldwin remains the most electorally successful Conservative leader in British history.

A variant of this strategy was evident in the 1980s. Central to the attack on Labour was a relentless focus on household budgets – either as the place where Labour's tax rises to fund public services and back-to-work programmes would have a devastating impact, or as an explanatory metaphor for why it was wrong to spend money creating jobs. The discipline and prudence of Thatcher was set against the 'profligacy' and selfishness of Labour and the unions. 'There are one or two people who want reflation', Thatcher told *The Sun* in 1985, but 'everyone, whether it's a housewife or a business, has to learn to live within a budget.'⁵⁵

Accompanying this strategy in both periods was the claim that unemployment was voluntary. The imposition of means-testing in unemployment benefits in the early 1920s, and its extension in the 1930s, stoked the resentment of those who were still in work towards 'scroungers' on the take from public funds.⁵⁶ Similarly, the revival of neo-classical economics in the 1970s and 1980s led to a radical reappraisal of the nature of unemployment. This was no longer seen to be caused by deficient demand,

49 Johnson, *Economy*, table 50; Maddison, A. *Economic Growth in the West* (New York, 1964), table E.1.

50 O'Brien, 'Britain's economy', 125.

51 Froud, J., Sukhdev, J., Law, J., Leaver, A., and Williams, K. 'Rebalancing the economy', *CRESC Working Paper No. 87* (Milton Keynes, 2011).

52 Stewart, J. *Building a Crisis* (London, 2002), 11, at <http://www.audacity.org/downloads/HBF-02a-Building-a-Crisis.pdf>.

53 'Cameron in jobs and homes vow', BBC News, 2 October 2011, at <http://www.bbc.co.uk/news/uk-politics-15140573>; 'Tory members oppose government on HS2 and planning reforms', *Daily Telegraph*, 27 August 2011.

54 McKibbin, *Classes and Cultures*, 55.

55 Reprinted at <http://www.margarettatcher.org/document/105828>.

56 McKibbin, 'Class and conventional wisdom', 280-1.

as Keynesians shaped by the experience of the 1930s had believed. It was argued instead that workers 'priced themselves out of a job' by demanding excessive wages, or that welfare benefits were too high, thereby rendering work unattractive to individuals who were inherently lazy.⁵⁷

The sponsors of such theories neglected to explain why wages were now so low as to render work less attractive than modest state hand-outs, when this had not been the case during the 1960s or, indeed, the 1970s, when unemployment never rose above 5.4%. This neo-classical view of unemployment, however, offered ample rhetorical opportunities to politicians who knew how to exploit it. The unemployed were lazy and undeserving, and they were stealing resources from 'ordinary working families'. The Conservative Party thrived in the face of an unemployment rate that, according to the immediate post-war conventional political wisdom, would have been high enough for long enough to render any government unelectable.

The most salutary lesson for Labour now, however, is the importance of the Conservative tactic of claiming relative, rather than absolute, economic competence. As Maurice Saatchi explained in a private memo on the eve of the Conservatives' election campaign in 1992:

In retrospect, at least, 1979, 1983 and 1987 appeared very simple elections to win. The choice was clear: "efficient but cruel" Tories versus "caring and incompetent" Labour. The difficulty for the Conservatives in 1991 was that the recession had killed the "efficient" tag – leaving only "cruel"...They would therefore have to demonstrate that under Labour, conditions would be even worse.⁵⁸

As we contemplate an election where the economic record of the current government is unlikely to offer many voters a material incentive to vote Conservative, Labour would do well to anticipate this sort of attack in 2015.

57 Lawless, Martin and Hardy (eds.) *Unemployment and Social Exclusion*, 49-50.

58 Bale, *Conservative Party*, 40.

4. The electoral prospect

Our analysis has shown that the electoral success of Conservative governments after periods of economic crisis and fiscal retrenchment conforms to a broad historical pattern. This section will examine the extent to which the current Conservative-led government is likely to fit this pattern.

Rebalancing the economy?

If the Conservatives are to construct a political coalition similar to that which sustained its victories in the 1930s and 1980s, then it needs to promote at least a partial economic recovery. The Coalition's rhetoric of 'rebalancing' the economy suggests a desire to abandon the growth model adopted by previous Conservative-led governments, and to promote a manufacturing and export-led recovery. But is the Coalition really serious about 'rebalancing' the economy?

The Conservative chair of the Treasury Select Committee describes the government's commitment to rebalancing as 'incoherent...verging on codswallop'.⁵⁹ The Treasury is criticised by environmental groups and investors for the timidity of the Green Investment Bank, which currently lacks borrowing powers or the start-up capital required to contribute to a serious rebalancing.⁶⁰ The abolition of Regional Development Agencies, too, is heavily criticised by business groups for disrupting regional policy.⁶¹ The government's favoured policy for increasing business investment is a generic reduction in corporation tax, which is already far lower than the rates prevailing in successful manufacturing economies such as that of Germany.⁶² Furthermore, this corporation tax cut – expected to be of the greatest benefit to banks and other financial institutions – is funded by slashing capital investment allowances that benefit manufacturing firms. Universities – essential to Britain's competitiveness in the knowledge economy and high-end manufacturing – are subjected to vastly disproportionate cuts in their teaching and capital budgets, in the hope that students will step into the void with the aid of government loans. As for promoting exports, the principal policy prescription seems to be to use the prime minister and the Royal Family to charm Chinese businessmen. This is the vision of an export-led recovery offered in a book authored by Nick Boles, a leading Conservative ally of David Cameron.⁶³ Meanwhile, academics warn that Britain is now operating with a 'broken business model', with chronic long-term problems in manufacturing capacity and broken supply chains, stretching back to the Conservative recession of 1980-81.⁶⁴

Given that the government is unwilling to adopt a less aggressive deficit reduction plan, or to adopt more serious measures to 'rebalance' the economy away from financial services and consumer spending, it seems likely it will need to fall back on the sources of growth that assisted Conservative victories in the 1930s and 1980s. But is this possible? Do these same growth drivers exist in 2011? Economic recovery in the 1930s and 1980s depended on rising living standards and expanding home ownership. In the 1930s, new sectors emerged in the economy and there was a genuine construction boom founded on infrastructure investment and an expansion in available land. In the 1980s, cuts to interest rates, council house sales, and the liberalisation of consumer credit facilitated a boom founded on housing equity withdrawal. While it is impossible to make cast-iron predictions, it seems clear that conditions are different today.

Britain's broken growth model

Unlike the 1930s or after the recession of the early 1980s, Britain is not seeking to recover simply from an international trade depression, or to overcome embedded levels of high inflation. There has been a major financial crisis that has rendered monetary policy largely ineffective in boosting demand further,

59 'UK economy plans branded incoherent', *Financial Times*, 29 May 2011.

60 'Osborne's green bank attacked from all sides', *Guardian*, 23 March 2011.

61 'Fund a "sticking plaster" for job cuts', *Financial Times*, 20 January 2011.

62 OECD figures, available at www.oecd.org/dataoecd/26/56/33717459.xls.

63 Boles, N. *Which Way's Up?* (London, 2010), 10-12.

64 Froud et al., 'Rebalancing the economy'.

even as inflationary pressure builds due to rising commodity prices. Unemployment is forecast by the OBR to remain above pre-crisis levels until 2017.⁶⁵

In these circumstances, an explosion of consumer spending and consumer credit sufficient to create the 'winners' needed to sustain a sectional political economy is unlikely to occur. Credit markets can hardly be liberalised further, and such liberalisation would not necessarily improve either the willingness of lenders to lend or of borrowers to borrow. In spite of a chronic shortage of housing, low demand and poor access to credit is likely to preclude another house-price boom, while politically damaging numbers of young and middle-aged voters will continue to be unable to get on the housing ladder. Meanwhile, higher indirect taxation, stagnant wages and higher commodity prices, particularly in energy and fuel, are leading to a prolonged squeeze on real incomes.⁶⁶ The squeeze on incomes is already worse than that which fatally damaged the Callaghan government.⁶⁷ It is true that, in the absence of the contentious incomes policies of the 1970s, it is harder for income cuts to be pinned on the government. But nor is it likely that voters will be grateful to any government for making them worse off – particularly once significant reductions to in-work benefits begin to take effect in key voter demographics.

Are there costs for failure?

The Coalition's economic strategy is therefore a gamble. The government is effectively refusing to tackle significant problems in the national economy because it sees excessive public spending as the only problem worth tackling. We have highlighted the importance of reduced public spending to the Conservative Party's perception of its own electability and governing competence. If growth remains feeble or non-existent, tax revenues remain depressed, and continuing unemployment necessitates higher benefits payments, then the government will lose control of public spending. One might think this would pose the most significant political problem of all, since it would indicate failure on the government's own terms.

Yet such a failure would not automatically be fatal. In the first place, it would be hard to definitively establish it as such, since, even if spending targets are missed, any progress in reducing the deficit would be claimed as a victory. If the deficit were to expand further over the medium term in spite of austerity measures, then this would represent a historic reversal in the history of British economic policy, comparable with Wilson's devaluation of the pound in 1967 or Major's abandonment of the Exchange Rate Mechanism in 1992. The examples of Wilson in 1970 and Major in 1997 might suggest that electoral recovery from such economic reversals is impossible. Yet there is a counter-example that suggests otherwise. The National Government of the 1930s entered office in 1931 to keep Britain on the gold standard, accompanied by dire warnings that abandoning it would lead to dangerous currency fluctuations that would play havoc with import prices, and therefore with family budgets. Yet under the new government Britain left the gold standard within weeks. The projected instability did not arise, the economy rapidly revived, and the government prospered at the ballot box.

Could today's coalition government countenance such a U-turn? We have already highlighted the importance of consistency to the government's political identity. An acceptance that there are circumstances where increased public spending can be good for the economy would undermine the Conservative Party's central attack on Labour, even if spending increases and tax reductions to promote economic growth were only temporary. Prolonged slow growth and the persistence of the deficit, by contrast, might allow the government to rely on blaming Labour and the Eurozone for the country's economic problems instead. The Osborne plan was designed to get the fiscal pain out of the way early, to make way for a positive Tory prospectus in 2015. But since the party is already concerned it lacks a visible political purpose beyond reducing public expenditure, it might not be such a bad thing after all

⁶⁵ Office for Budget Responsibility, *Economic and Fiscal Outlook* (London, November 2011), Chart 3.30.

⁶⁶ Kelly, G. 'After the recession, the real pain begins', *New Statesman*, 13 January 2011.

⁶⁷ Office for Budget Responsibility, *Economic and Fiscal Outlook* (London, November 2011), 73.

if there were still a 'mess' to 'clean up' by 2015. Polling shows that the deteriorating economy has thus far done little to improve Labour's economic competence ratings.⁶⁸

We must therefore inure ourselves to the possibility that even the most dramatic 'downside' scenarios for the Coalition's plan could still allow an effective electoral pitch. Meanwhile, the government still has the option to change course, on its terms and at a time of its choosing. Whether or not it does so, an election campaign along the lines suggested by Maurice Saatchi in 1992 is still possible: 'Under Labour, conditions would be even worse.'

The anti-Labour vote

We have argued that it was not simply the delivery of objective material benefits to some voters that guaranteed Tory success in the 1930s and 1980s. It was also necessary – indeed crucial – to have a rationale not to vote Labour. Thanks to its divisions and ideological excursions in the 1930s and 1980s, Labour offered many reasons of its own. But the Conservatives offered many more. In both periods we have seen that a vote against Labour was a vote against so-called 'profligacy' and its ally, inflation, in favour of Conservative 'responsibility'. A vote against Labour was a vote against the 'irresponsibility' of the trade unions that were seen to cause (or benefit from) inflation at the expense of the middle-classes and non-unionized workers. Is this vote against the unions and against inflation still there to be mobilised? We suspect it is not. But if Labour allows itself to be defined solely as the party of the public sector and of public spending, then Conservative charges of sectionalism are likely to stick.

Bank of England independence was a strategic masterstroke for Labour – it closed down the major line of Conservative attack on the Labour Party. Management of inflation has been outsourced to an independent body. But while the Conservatives no longer possess the trump card of 'inflation', a vote against Labour might still be mobilised, as it was in the 1930s and 1980s, as a vote against supposed 'profligacy'. The Conservatives obviously recognise this. To make this claim fly requires a more tenuous rhetorical excursion. It is necessary for the government to blame the continuing decline in living standards on Labour, by representing it as the necessary consequence of Labour's 'profligacy'. This exercise has not previously been attempted by a Conservative government, however. During the 1930s and 1980s, real incomes rose for those who remained in work. In the 1980s in particular, Conservative politicians could appeal to the memory of the squeeze on real incomes, and the erosion of pay differentials between skilled and unskilled workers, that took place in the 1970s under Labour. 'Britain's better off with the Conservatives' was an effective slogan in such a context.

Polling shows that a significant proportion of the public continue to blame Labour for the cuts being instituted by the current government.⁶⁹ There remains scope, therefore, for the Conservatives to attempt to blame the squeeze on incomes on Labour's so-called 'profligacy'. But should economic insecurity persist over the entire course of the parliament, then this argument is likely to encounter diminishing returns. As Lord Ashcroft's most recent polling exercise demonstrates, 'growth and jobs', not the deficit, is now the public's lead concern on the economy.⁷⁰

As for trade unions, the Conservative Party wants to believe that they remain fearsome and powerful bogeymen. Michael Gove's overwrought depiction, during the 2010 election campaign, of the Unite union as 'a new Militant Tendency' is a case in point.⁷¹ The Conservative Party craves confrontation with unions. However, British unions have not been militant now for twenty-five years. It is likely, therefore, that the ancestral rallying-cry against the vested interest of organised labour will need to be subsumed in a broader effort to divide public from private-sector workers, and to associate Labour exclusively with the former. This aspect of the Conservatives' political strategy is advanced by reductions in spending on public services, welfare, and public sector employment.

68 *Economist/Ipsos MORI Budget Poll*, at <http://www.ipsos-mori.com/researchpublications/researcharchive/2740/EconomistIpsos-MORI-Budget-Poll.aspx>.

69 *Economist/Ipsos MORI Budget Poll*, at <http://www.ipsos-mori.com/researchpublications/researcharchive/2740/EconomistIpsos-MORI-Budget-Poll.aspx>.

70 Lord Ashcroft, *Project Blueprint: Winning a Conservative Majority in 2015* (May 2011), 10.

71 Gove, M., speech, 16 March 2010, at http://www.conservatives.com/News/Speeches/2010/03/Michael_Gove_Charlie_Whelans_new_militant_tendency.aspx.

Austerity programmes are difficult to implement for any government, but they can be damaging for Labour even when the party is in opposition. This is because the construction of the welfare state has historically formed a powerful part of Labour's identity, and those employed by the public sector form a significant part of the party's core support. Cuts to public sector employment, declining investment in public services, and conflicts with trade unions have historically tended to force the party into a purely defensive posture, speaking only for organised labour and unable to challenge the economic priorities of Conservative governments or to represent the nation as a whole. This was the position Labour found itself in following the 1931 crisis, and during the 1980s. The Conservatives would like Labour to fall back to such a position today.

It is this political need that the Conservatives are seeking to satisfy by provoking industrial disputes over public sector pensions. The government's policy goes beyond that advocated by the Hutton report, targeting immediate contribution increases on public sector workers before the completion of negotiations. The Conservative are seeking to reduce Labour to a party of the public sector alone by forcing Labour to defend public sector workers in confrontations where they are portrayed as a sectional interest, contrary to that of the 'public'. While polling evidence is mixed, the Conservatives hope and expect that strikes by public sector unions will damage Labour more than the government. Over time, and should these cause significant inconvenience to service users, strikes may diminish public sympathy for public sector workers who are losing their jobs. Moreover, if Labour allows itself to be portrayed by the Conservatives as solely a force for the defence of the public sector and public spending, it will be undermined in its attempts to rebuild a broad national appeal.

Conclusion: what can Labour do?

Austerity has delivered Conservative governments re-election in the past by creating a political economy of winners and losers, in which Labour is solely associated with the losers. But it is far from clear that there will be enough winners in the British economy over the next four years to make this strategy work. Particularly if Labour sidesteps the electoral trap set by the Conservatives, it could base a credible appeal on a pledge to improve economic growth and living standards. The Conservatives will have no alternative but to base their 2015 campaign on a claim to comparative governing competence, since it is unlikely that sufficient voters will feel sufficiently well-off as a result of Tory government to re-elect it out of gratitude. We will conclude by considering how Labour could exploit this weakness in Cameron's strategy, while protecting itself from the inevitable negative Conservative counter-attack.

Labour has already cleared one hurdle. It has not lapsed into a period of fixation on ideological purity, as occurred immediately after governing in the 1930s, 1950s, 1970s and 1980s. There is little sign, either, of the party forming a purely defensive stance on reductions in public sector spending. Criticism of the government's austerity programme is centred on the damage it is doing to the economy, while the party has taken a tough and nuanced position on welfare reform. Furthermore, Ed Miliband has been astute in highlighting the incomes squeeze as a central economic problem faced by the country. The old political battleground of the previous decade, based on whether the 'proceeds of growth' are best spent on tax cuts or increases to public service funding, is gone. Replacing it is a new awareness of economic insecurity, stoked by an expansion of unemployment and underemployment, a renewed diminution in secure middle-income positions in the private sector, and higher levels of commodity price inflation linked to the transition away from a carbon-intensive economy. Ending this threefold squeeze will require much more than the gimmickry of pre-election tax cuts. We see two major strands to a Labour response.

First, Labour needs to become the party of economic renewal and growth – a position it successfully occupied in 1945, 1964 and 1997. Ed Miliband's conference speech made clear that a future Labour government will begin to make active judgements about the sorts of economic activity we need to promote sustainable growth, jobs, investment and innovation.⁷² One element of this differentiation between companies should be an active industrial policy. Now that a political consensus exists around the need to 'rebalance' the economy away from financial services, there exists a space for Labour to make a better fist of this agenda than the Coalition are willing or able to. The Conservative Party, as we have documented, is instinctively hostile to intervention in the economy, not only because of an ideological commitment to *laissez-faire* but also because it fears such intervention sets the terms of political contest around which party can best organise an activist state. Labour should seek to pull debate in this direction since it reframes the macroeconomic debate more widely in terms of delivering growth rather than simply reducing cost. Labour needs to fill out its proposals and ensure that it gains the support of a wide range of stakeholders so that it can claim to represent the nation with its forward-looking economic policy. Labour's announcement that it is considering the case for the creation of a National Investment Bank, a proposal that emulates the successful experience of the European Investment Bank and expands on Coalition proposals for a Green Investment Bank, is an important contribution to the debate on growth. Labour is being urged to consider a National Investment Bank on the grounds that it could (if adequately empowered and capitalised) leverage significant investment in infrastructure, new technologies and the regions, and as an independent body would be insulated against traditional accusations of politically-motivated lending or 'picking winners'.⁷³

Second, Labour should also aggressively highlight the Coalition's preference for regressive charging mechanisms to fund public services, a long-term policy objective announced by Osborne in 2005.⁷⁴ Labour is likely to seek ways of countering this by focusing on more progressive funding mechanisms,

72 Miliband, E. speech to Labour Party Conference, 27 September 2011, at <http://www.labour.org.uk/ed-milibands-speech-to-labour-party-conference>.

73 Skidelsky, R. and Martin, F. 'A way out of Britain's growth dilemma', *Financial Times*, 20 March 2011.

74 'Flat tax is bold way to go, says Osborne', *Daily Telegraph*, 29 June 2005.

and outlining an approach to welfare policy that reduces economic insecurity by pooling risk. Crucially, these approaches need not require significant additional spending. For instance, the government's policy on higher education funding constitutes a spectacularly regressive graduate tax, set at 9% of income over £21,000. This considerable burden will weigh heaviest on skilled workers on middle incomes. For the majority of graduates who will not pay off the full value of their loans before the payment period expires, it will constitute a 30-year graduate tax. In this light, proposals for a fairer graduate contribution could be electorally attractive. Ed Miliband's proposal to cut fees to £6000 begins to answer this need. Extending the repayment period for the highest-earning graduates allows risk to be more effectively pooled, but leaves all except the top 10% better off.⁷⁵

Improved support for families or the elderly in specific areas can also achieve a great deal of social benefit, potentially without requiring significant expenditure. Such support, targeted on specific areas, would be significantly less expensive than broad-based tax cuts. If economic performance remains as poor as it is now predicted to be, the government will be unable to fund meaningful reductions in taxes in advance of the election, or for some time afterwards. The Treasury estimate the recurring annual cost of a 1p reduction in the basic rate to be some £4.5 billion per year.⁷⁶ In contrast, targeted measures to address specific insecurities, such as child care, unemployment, and social care in old age, may be more achievable. Proposals such as IPPR's National Salary Insurance scheme, which would make available subsidised loans to help individuals through unemployment, repaid once they are back in work, offer useful contributions to the debate on a modern welfare state.⁷⁷

Labour's electoral pitch should therefore contain echoes of three significant election victories: 1945, 1964, and 1997. Each of these elections involved an attack on a Conservative Party that had presided over a period of economic decay. While at the 1945 and 1997 elections Labour offered a politics of national unity and hope to a country exhausted by earlier periods of deflationary, divisive government, 1964 focussed on economic underperformance and the need for an active state policy to improve productivity, growth and incomes. Both approaches are needed now. Patriotism lay at the heart of these national appeals. In 1964, this was effectively tied to anxiety about the relative decline in Britain's economic performance when compared with other European countries. Comparison with Germany and France, not Greece or Portugal, is meaningful for Britain; and on these comparisons the Conservatives' growth record is already dangerously poor. Harold Wilson had reason to blame the Conservatives for thirteen 'wasted years' in office by 1964; Labour is likely to be able to make a similar charge as early as 2015. The squeezed middle, according to the IFS, will have endured more than a decade of stagnating living standards by the time of the next election. Unprecedented in modern times, the squeeze on incomes is redefining British politics. A credible Labour offer on economic growth can meet the aspirations of the middle income voters needed to win the 2015 election.⁷⁸

One recurring theme in twentieth century British political history has been the success of the Conservatives in portraying partisan policies as national imperatives. Labour's national policies, meanwhile, have been portrayed by the Conservatives as merely partisan. Labour must make a national appeal in 2015, an appeal that offers hope and projects optimism about the promise of Britain. Labour succeeds when it convinces the electorate that it can deliver efficiency and social justice via successful economic modernisation – in the interests of the many, not the few. The 2015 election presents the opportunity to stand on such a platform.

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⁷⁵ New figures show only top 10% will pay more under Labour's plan for tuition fees, Labour Party website, 6 October 2011, at <http://www.labour.org.uk/labours-plan-for-tuition-fees>.

⁷⁶ Direct effects of illustrative tax changes, at http://www.hmrc.gov.uk/stats/tax_expenditures/table1-6.pdf.

⁷⁷ Cooke, G. *National Savings Insurance: Reforming the Welfare State to Provide Real Protection* (IPPR, 2011), at http://www.ippr.org/images/media/files/publication/2011/07/national-savings-insurance_110726_7775.pdf.

⁷⁸ Britons Enduring 13-Year Squeeze on Living Standards, IFS Says, Bloomberg, 30 November 2011, at <http://www.bloomberg.com/news/2011-11-30/britons-enduring-13-year-squeeze-on-living-standards-ifs-says.html>.