

# Labour's Economic Path to Power

The politics of national recovery

By Patrick Diamond

policy network paper



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### About the Author

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## Executive summary

After three years of stagnation, the British economy is showing tentative signs of recovery. Growth may be unbalanced and anaemic, but the threat of a 'triple dip' recession has been averted. More voters agree that the British economy is on the road to recovery, a change of mood that is altering the terms of political argument in British politics. This pamphlet examines how the politics of economic recovery might play out in the run up to the 2015 election. While the recovery might potentially reinforce the Conservatives' argument that by taking tough decisions Britain is now on the path to sustainable prosperity, our research demonstrates that the recovery could actually strengthen Labour's appeal to the electorate:

- First, voters believe that the recovery is likely to favour the wealthy few rather than 'families like them', as the cost of living crisis remains pre-eminent.
- Second, in the wake of the financial crisis, the British electorate favours a tax system where those on high incomes make a greater contribution to fiscal consolidation.
- Third, faced with a choice between tax cuts and investment in public services, voters tend towards protecting key services like health and education.

If Labour is to define the politics of recovery on its own terms, however, it has to address two potentially crippling strategic weaknesses. The first is that Labour is generally not trusted to manage the economy, so there is a danger that its wider arguments are not heard by voters. Having conceded its reputation for economic competence in the wake of the financial crash, the party faces an uphill battle to convince a sceptical electorate that it can govern in hard times. Labour is regarded by voters as a party of fair distribution, not of production and economic growth – yet its entire governing prospectus is predicated on the party's capacity to return the British economy to expansion.

The second vulnerability is that voters believe that the Conservatives rather than Labour are somewhat more likely to ensure that Britain is a place 'where those who work hard can do well'. This is particularly pronounced among the 'affluent workers' of southern England who generally favour the Conservatives to advance their living standards. If the recovery is to be framed as favouring the privileged few in Britain while the many are struggling to make ends meet, Labour has to shore up its credentials on economic competence while continuing to project itself as a party of fairness. Even when times are tough and voters are concerned that the burdens should be borne fairly, being on the side of 'aspiration' still matters. Labour has to show that, as always, economic responsibility and social justice go hand in hand.

## Introduction

Over the last year, Labour has articulated a 'One Nation' strategy calculated to win the votes of 'Suburban Britain' by demonstrating that despite the economic recovery, those on middle and lower incomes are confronted by an unprecedented 'cost of living crisis' which Coalition policies have accentuated. The politics of living standards was the defining theme of the 2013 Conference season: Labour's leader, Ed Miliband, set out a bold approach to tackling rising energy prices which have led household bills to more than double in recent years, alongside a progressive 'supply-side' agenda intended to make labour markets and employment fairer. This publication draws on quantitative research conducted for Policy Network by Ipsos MORI to assess the likely impact of Labour's 'squeezed middle' strategy in the context of economic recovery.<sup>1</sup>

The pamphlet considers how far voters really believe that a sustained recovery is underway in Britain. It then assesses three dimensions of the recovery: whether the recovery is regarded as benefiting families like theirs; the perceived fairness of the tax system in ensuring the burdens of fiscal consolidation and the gains of prosperity are evenly shared across Britain; and the priorities of British voters in terms of a choice of investment in public services over tax cuts. The pamphlet then considers Labour's weak reputation for economic competence and as a party of growth, which has the potential to undermine the party's broader arguments on living standards and fairness. By fairness, we are referring to the imperative facing all centre-left parties to marry economic responsibility with social justice so the rewards of market capitalism are fairly shared, and vested interests are no longer allowed to set the rules of the game in society and politics.

The evidence from our research is that the Conservatives rather than Labour are seen as the party in Britain more likely to help those who want to work hard get on. What is required, then, is a bold policy agenda which underlines Labour's credentials as a party of growth and opportunity, while offering competent economic management in an era of unprecedented global uncertainty. Victory in 2015 will not happen merely because the Coalition government is increasingly unpopular and out-of-touch. For Labour to win, it will have to demonstrate that it is an electable, unified and principled party of government motivated by fresh thinking and new ideas, linked to concrete policies that articulate a coherent governing mission for the country.

## Is the recovery underway in Britain?

The mood among British voters is that the economic condition of the country as a whole is improving: 43 per cent think the economy will strengthen over the next 12 months; 28 per cent believe it will stay the same; only 26 per cent feel it will get worse. In October 2012, just 25 per cent of voters believed that the economy would improve, compared to 39 per cent who thought it would deteriorate, and 33 per cent who believed it would stay the same.

It is striking that women are less convinced about the durability of the recovery than men: only 37 per cent of women foresee an improvement in the overall state of the economy, against 50 per cent of men. Women are often in more insecure forms of employment, while the gendered division of domestic labour means that it is women who usually deal directly with the consequences of higher food prices and household bills. According to research recently published by the Fawcett Society, only 35% of women are in full time employment compared to 55% of men; 25% of women work part-time, compared to 8% of men.<sup>2</sup> It is also notable that younger voters (18-34 year olds) are less likely to believe that the economy is improving (36 per cent) compared to older (55 plus) voters, of whom 46 per cent think the economy is steadily getting better; whilst it is C2DE voters that are the least optimistic about the economic condition of Britain:

1. The fieldwork was conducted from 12-14 October 2014. Ipsos MORI interviewed 1,009 GB adults aged 18+, by telephone, between 12th – 14th October 2013. Data are weighted to match the profile of the population.

Ipsos MORI guide to social grade definitions:

A. Professionals such as doctors, surgeons, solicitors or dentists; chartered people like architects; fully qualified people with a large degree of responsibility such as senior editors, senior civil servants, town clerks, senior business executives and managers, and high ranking grades of the Services.

B. People with very responsible jobs such as university lecturers, hospital matrons, heads of local government departments, middle management in business, qualified scientists, bank managers, police inspectors, and upper grades of the Services.

C1. All others doing non-manual jobs: nurses, technicians, pharmacists, salesmen, publicans, people in clerical positions, police sergeants/constables, and middle ranks of the Services.

C2. Skilled manual workers/craftsmen who have served apprenticeships; foremen, manual workers with special qualifications such as long distance lorry drivers, security officers, and lower grades of Services.

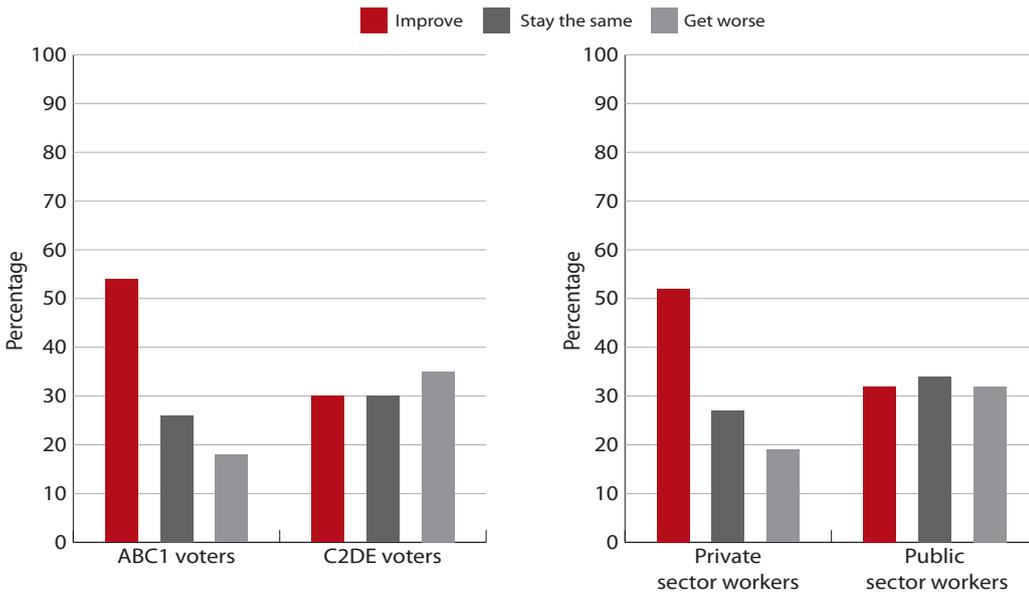
D. Semi-skilled and unskilled manual workers, including labourers and mates of occupations in the C2 grade and people serving apprenticeships; machine minders, farm labourers, bus and railway conductors, laboratory assistants, postmen, door-to-door and van salesmen.

E. Those on lowest levels of subsistence including pensioners, casual workers, and others with minimum levels of income.

Thanks are due to Policy Network's Olaf Gramme, Michael McTernan, Thomas Aubrey, Emma Kinloch and Seamus Nevin for their input to this paper.

2. The Fawcett Society, 'The changing labour market: delivering for women, delivering for growth', April 2013

**Do you think the economic condition of the country will improve, stay the same, or get worse over the next 12 months**



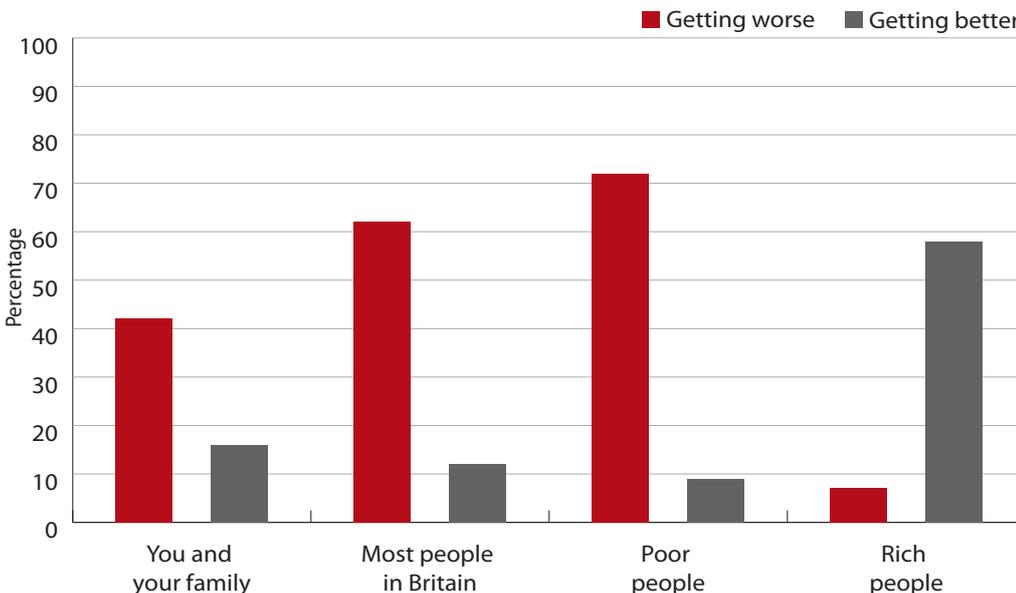
**What kind of recovery?**

Despite the overall perception of economic recovery, our Ipsos MORI poll reveals that voters remain deeply concerned about who is most likely to benefit, and are troubled about the lack of fairness underpinning the return to prosperity. There is a visceral sense that the recovery is likely to be structurally unbalanced, reinforcing existing income, wealth and regional inequalities in Britain which will ensure that ‘the rich get richer’, while those on lower and middle incomes see their living standards stagnate.

**Living standards**

We asked voters about their own economic prospects and how the living standards of key groups in society are likely to improve or get worse:

**For each of the following, do you think their living standards are getting better, getting worse, or staying the same?**

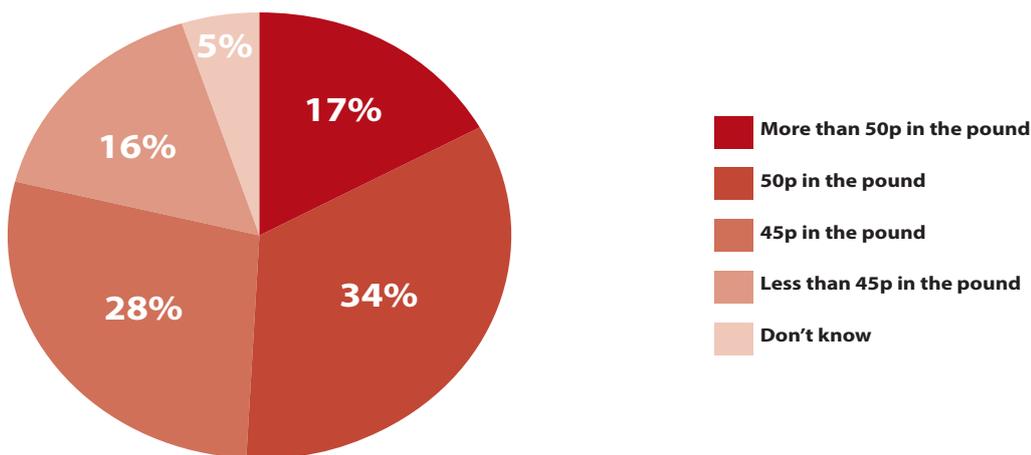


The extent of personal pessimism reinforces the argument that most British voters are not confident about their own living standards and those of average families, despite the promise of economic recovery. They believe that living standards are declining most for poorer groups and people like them, and rising fastest among the richest in Britain. According to our poll, 69 per cent of voters who think the economy is actually improving, and 75 per cent of women, still believe that living standards are declining steadily among the poorest sections of society. Voters suspect that a general improvement in economic performance is unlikely to boost their own living standards – reinforcing Ed Miliband’s argument that GDP growth has been detached from real growth in wages and earnings. However, there are indications that in particular sectors of the economy, the perception that real wages will continue to decline might change before the 2015 election, weakening Labour’s argument about the cost of living.

### Tax and fairness

The financial crisis has begun to reshape the distributional politics of the UK. We observe strong support for a higher rate of income tax for the relatively wealthy, including the restoration of the 50p rate of income tax on those earning over £150,000 a year. Overall, voters favour the return of the 50p rate over other tax rates on those who earn more than £150,000. There is a ‘progressive majority’ who endorse a fairer system of taxation in Britain. Voters support a higher rate of income tax than the current 45p rate by 51 to 44 per cent. C2DE voters are less supportive of the 50p rate than ABC1 voters by 31 to 36 per cent, since they favour a rate of more than 50p in the pound:

#### What rate of income tax do you think ought to be charged on people earning income over £150,000 a year?



The argument that the burden of austerity and fiscal consolidation ought to be borne by those with the broadest shoulders resonates strongly with British voters. Nonetheless, on the basis of previous research, most believe that the tax burden on average incomes in Britain is already high enough. There is a case for Labour to renew its commitment not to raise the basic rate of income tax, taking seriously the concerns of hard-pressed, lower and middle-income taxpayers where there is an appetite for additional tax relief. This should go alongside the Shadow Chancellor’s pledge to re-introduce the 10p starting-rate of income tax, funded by the imposition of a mansion tax on properties valued at more than £2 million.

### Tax cuts versus public services

Alongside the claim that the recovery favours the privileged few and the support for greater distributional fairness, Labour has an opportunity to frame a powerful post-crisis argument about the central importance of key public services in Britain such as health and education. These are universal services which neither low income nor middle class families can generally afford to purchase through private markets. The recession has served to remind voters of how public services

are a bulwark which protect middle class incomes at a time of economic adversity, as well as helping those most in need. According to the 2013 British Social Attitudes Survey, “public opinion toward taxation and spending has reacted thermostatically to changes in fiscal trends...when spending is cut back - perhaps with public services suffering as a result - so the public increasingly wants to see more money spent to alleviate the situation.”<sup>3</sup>

Not surprisingly, those certain to vote in 2015 prefer additional spending on public services over tax cuts by some margin: 60 per cent to 37 per cent. Support for public investment is especially strong among ABC1 voters who favour spending on education and health over tax cuts by 59 to 38 per cent, as against C2DE voters where the margin is currently 53 to 42 per cent. The preference for additional spending is weakest in London at 52-47 per cent, the region which currently has the youngest overall population.

The general level of support for public spending over tax cuts reflects the success of the post-1997 governments in demonstrating that additional money improves the performance and quality of schools and hospitals. Moreover, during the last decade there was an expansion of public provision which benefited all income groups, including more pre-school childcare places, an upgrading of social care provision, and the modernisation of Britain’s infrastructure. However, Labour needs a convincing future ‘reform’ agenda which demonstrates to voters that additional spending in the decade ahead will be translated into improved outcomes for citizens.

Indeed, decent public services are crucial in addressing the ‘cost of living’ crisis emphasised so forcefully by Ed Miliband. The party has to manage the rate of public spending in an era where demands are intensifying due to demographic changes brought on by an ageing population and a rising birth rate; all of which increase the pressure on public services to produce ‘more for less’. Labour must develop a convincing reform strategy precisely to enforce its credentials for economic competence: the notion that provision can continue to improve when public spending is flat or falling in real terms in the absence of reform is completely untenable. Part of the agenda will be about containing demand and drawing on assets and networks beyond the traditional state - raising ‘social productivity’ to meet the complex needs of an increasingly diverse society.

## Labour’s reputation for economic competence

This pamphlet indicates that Labour currently holds several potential ‘trump cards’ in the economic policy debate. First: the argument that the recovery is likely to favour the privileged few. Second: the claim to be able to secure greater fairness through reform of the tax system. And third: the party’s support for improving Britain’s public services that speaks to the interests of both lower and middle income families. However, none of these arguments are on their own sufficient for Labour to win a parliamentary majority in 2015.

For one, the charge of unfairness is trumped by the accusation of economic incompetence. Labour gets credit from voters for having acted decisively in the wake of the global banking collapse in 2008-9. There is little evidence that the damage inflicted on the party’s economic credibility was as great as the impact of the Exchange Rate Mechanism (ERM) debacle on the Tories’ standing after 1992. Accusations of over-spending and lax regulation of the liberalised financial sector when Labour was last in office are contested, since all the major parties agreed at the time that ‘catch up’ investment was necessary given the poor condition of Britain’s public services. The Conservatives under David Cameron prior to the financial crisis had largely adopted Labour’s current spending plans, while they had no proposals of their own to re-regulate the UK financial services industry.

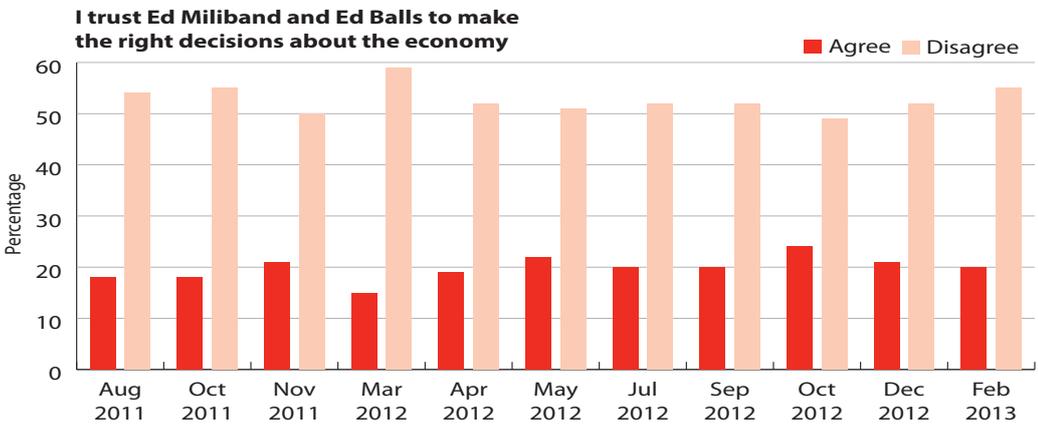
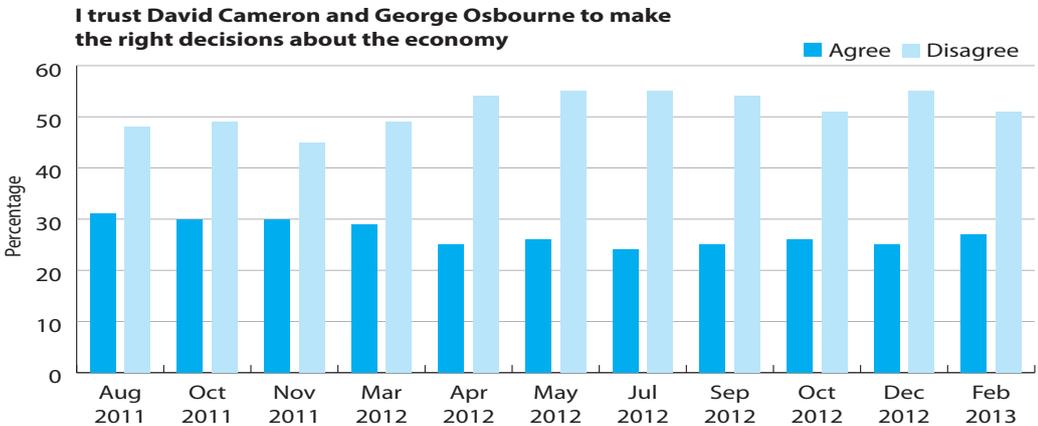
3. British Social Attitudes, 2013. Available at <http://www.bsa-30.natcen.ac.uk/>

Labour after 1997 had an economic record to be proud of; it has too often been unwilling to defend that record since the 2010 defeat: 64 consecutive quarters of economic growth, unprecedented investment in science and innovation, the emergence of globally-successful British companies, a renaissance of British cities such as Leeds, Newcastle, Manchester, and Birmingham, an explosion of small businesses and start-ups, record numbers of new jobs, and importantly, falling poverty and social exclusion throughout Britain. When the crisis struck in 2008-9, decisive intervention by the British government prevented the bank collapse from turning into catastrophic depression, offering global economic leadership praised by the Nobel prize-winning US economist, Paul Krugman.

Five years on from the crisis, however, Labour needs to accept that it has been unable to recapture the mantle of economic credibility, despite serious errors by the Coalition government. As a prospective party of power, it has to remember it is Labour that needs the voters, not the other way around. Since 2010, there has been a suspicion that the electorate has stopped listening to the party.<sup>4</sup> Labour was in charge when the crisis broke in 2008-9: the Conservative's accusation of fiscal profligacy, inept regulation of financial markets, and general mismanagement of the nation's affairs has, unfairly or not, struck a chord with the voters of 'middle Britain'.

Over the last three years, Labour has not done enough to address the basic charge of economic mismanagement; as a result, the damage has yet to be repaired. A recent You Gov poll found that voters trusted a 'Conservative government led by David Cameron' to manage the economy rather than a 'Labour government led by Ed Miliband' by a margin of 38 per cent to 25 per cent, despite Labour scoring higher on jobs, keeping prices low, and improving living standards 'for people like you'.<sup>5</sup> This has been a recurrent trend since the 2010 election; the government have continued to trump Labour on economic credibility, despite the threat of a 'triple-dip recession' and the 'omnishambles' of Budget 2012. While confidence in the coalition's economic management credentials has been far from unanimous, faith in Labour has generally been weaker still:

**Perceptions of economic competence**



Source: ComRes

4. John Curtice, 'Time for Labour to re establish economic credibility', Juncture, Institute for Public Policy Research, March 2013.

5. [http://d25d2506sfb94s.cloudfront.net/cumulus\\_uploads/document/pmqsq2ke0/YouGov\\_Times\\_Results\\_131009.pdf](http://d25d2506sfb94s.cloudfront.net/cumulus_uploads/document/pmqsq2ke0/YouGov_Times_Results_131009.pdf)

A further poll conducted by Ipsos MORI on the eve of Labour conference in 2013 indicated that the Conservatives had an 18 point lead over Labour on which party was believed to have the best policies for managing the economy (38 to 20 per cent), reflecting increasing levels of economic optimism in the UK.<sup>6</sup>

Of course, speeches by Ed Miliband and Ed Balls in June 2013 which acknowledged that a Labour government would need to make cuts in public expenditure have gone some way to addressing the credibility deficit. Miliband stated on 23rd June: 'Our starting point for 2015-16 is that we won't be able to reverse the cuts in day-to-day current spending unless it is fully funded from savings elsewhere or extra revenue, not from more borrowing.'<sup>7</sup> There is an acceptance in the party that Labour will not commit to increased borrowing in order to avoid making cuts in public expenditure. It had been obvious to many voters that governments have simply 'run out of money', as countries are buffeted by unprecedented instability in the Euro-zone: borrowing to fund a conventional stimulus appeared unwise, playing to popular notions of the 'public household' where the answer to higher national debt cannot be to borrow more.

Instead of merely shouting louder about its commitment to fiscal orthodoxy and economic responsibility, Labour has to show that it has a credible strategy for governing in an era when there will be 'less new money' around: good economic policy is always good politics. The British state will be spending around 41 per cent of GDP even by 2017-18 (greater than for most of the Labour years after 1997), although the pre-crisis model of investing the proceeds of growth in public services will be harder to achieve given the need to reduce net UK public debt. Labour has to make an argument about managing public expenditure in a world where growth rates may be permanently lower, alongside added long-term pressures on public spending:

- First, there is nothing inherently 'progressive' about higher levels of public debt: the UK state is spending 3 per cent of GDP in interest payments, far higher than a decade ago. Debt interest payments will in all likelihood increase further given Bank of England warnings about higher interest rates by the fourth quarter of 2014. This diverts resources from investment in social programmes that help the most disadvantaged groups, as well as much needed support for public infrastructure which is vital for future growth. Higher debt interest payments through current consumption, rather than long-term capital investment, imposes an unfair burden on future generations.
- Moreover, it is facile to equate higher public spending with social justice: it is the quality and effectiveness of public expenditure that matters, rather than the net level. What counts are measures which improve social justice, not slavish adherence to spending more money in the hope that it will improve egalitarian outcomes. There are added pressures on state spending given population ageing, alongside new demands on public services.<sup>8</sup> In this climate, pushing the proportion of public spending below 40 per cent as the Conservative Party recommends would be a grave error. Nonetheless, additional sources of revenue will need to be found to ensure necessary future investment through Public-Private Partnerships, mechanisms of financing public goods such as social impact bonds, alongside progressive user charging for care services. Labour has to be part of the debate about the long-term financing of public services, redefining the debate on progressive terms, rather than treating such questions as an ideological heresy.
- Third, since by 2017-18 the proportion of public spending in the UK as a percentage of GDP will be around 41 per cent under George Osborne's current plans, depicting this as an economic and social Armageddon is misleading. In fact, it is as much the *composition* of public spending which is perpetuating inequalities under the Coalition government, as the Institute of Fiscal Studies has recently demonstrated.<sup>9</sup> Spending on health since 2003-4 has

6. <http://www.channel4.com/news/politics/ipsos-mori-polling-labour-lib-dem-conservative>

7. <http://www.bbc.co.uk/news/uk-politics-23010073>

8. Fabian review of public spending 2013

9. <http://www.ifs.org.uk/publications/6642>

risen from 18 to 20 per cent of total public spending; pensioner benefits from 14 to 16 per cent; and debt interest payments have risen from 5 to 9 per cent. These spending priorities reflect a particular set of electoral preferences, as the table below sets out.<sup>10</sup> This amounts to a significant shift in the overall shape of the UK state, which is already advantaging older groups relative to the young.

The ‘ring-fencing’ of public expenditure on health and pensions has meant relative cuts in social investment: Sure Start, early years’ provision, family support, Education Maintenance Allowances (EMAs), local government initiatives that help the most disadvantaged, and so on. This exacerbates inter-generational inequalities at a time when younger families and children are suffering the worst effects of austerity. By opposing cuts across the board and by continuing to focus on the overall level of public spending, Labour has limited its room for manoeuvre in exposing how the Coalition government is making distributional choices that favour its ‘core’ electorate, neglecting investment in Britain’s future productive potential. The political challenge for Labour is to make inter-generational inequality a matter of collective concern, creating legitimacy for redistributive measures that boost social mobility and widen opportunity for all.

### Welfare states after the crisis

Which areas of the welfare state merit greater funding in light of restrictions elsewhere?



Labour will achieve credibility not only by developing a plausible stance on public spending, devising its own fiscal rules that limit discretion in relation to public borrowing and the structural deficit. It has to demonstrate that the Conservative-led coalition is incompetent, as well as unfair. The most glaring illustration is George Osborne’s intervention in the housing market, announced in Budget 2013. The coalition’s policies are reinforcing the imbalances that led to the financial crash five years ago: asset price bubbles, over-dependence on the liberalised financial sector, conglomerate banks that are ‘too big to fail’, alongside enormous regional inequalities which have grown starker since the 2008 crisis, according to recent data from the University of Manchester.<sup>11</sup>

At the same time, the government’s housing policies will lead to rising prices in the south of England, making it harder for aspirational families and young people to get on the first rung of the housing ladder. Were the government’s ‘Help to Buy’ scheme to further stoke house price inflation, the consequences would be higher interest rates with severe consequences for the public finances,

10. P. Diamond and G.Lodge, “Welfare States after the Crisis”, London: Policy Network, 2013

11. <http://www.theguardian.com/business/2013/oct/23/london-south-east-economic-boom>

as well as household and bank solvency. More stable and balanced economic growth would be in the interests of Britain as a whole.

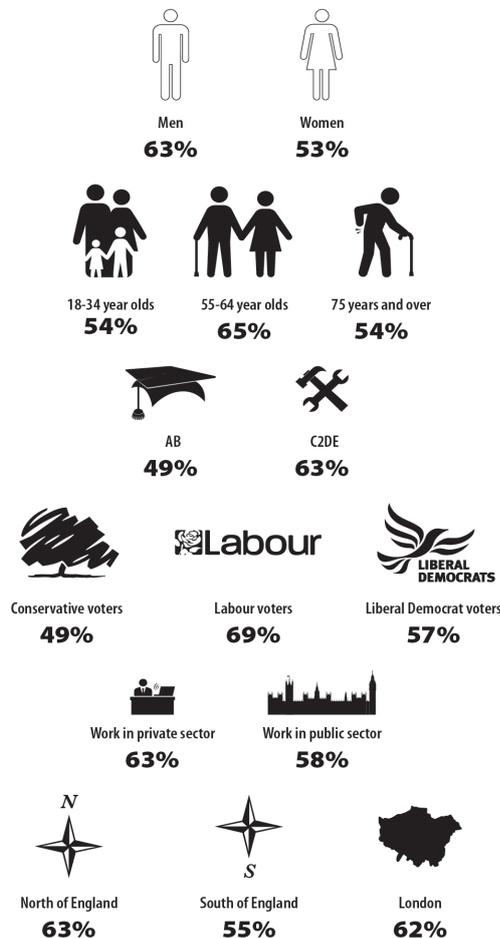
## Making Britain a fair place to work hard and do well

### Labour: preaching to the converted?

Having developed a persuasive critique of coalition politics, the political challenge for Labour is that its 'living standards' message on the economy still resonates most strongly among the 'already persuaded', Labour-inclined segment of the electorate. Only 27 per cent of those who voted Labour in the 2010 election believe that the economy is likely to improve in the next 12 months, compared to 67 per cent who voted Conservative. 68 per cent of 2010 Labour voters think that living standards are improving for the richest in society, but just 4 per cent believe they are getting better 'for most people in Britain'.

Those living in northern England are most likely to agree the recovery is benefiting 'the few', and that there ought to be tax rises on the better-off. 34 per cent of voters in public sector employment favour Labour as the party that will make Britain 'a fair place to work hard, earn a living, and do well for yourself', against 18 per cent who favour the Conservatives. Moreover, just 30 per cent of C2DE voters believe that general economic conditions in the UK will improve over the next 12 months, against 35 per cent who believe they will get worse, despite the general mood among the electorate that the British economy is healing. 62 per cent of these voters believe that the recovery will be better for the rich, a view shared by 63 per cent of those living in the north of England:

### Those who believe the living standards of the rich are getting better



It remains questionable as to whether this living standards argument will enable Labour to make incursions into the electorate where the party's appeal has so far been limited, in particular among those who voted Labour in 1997, 2001 and 2005, but who defected in 2010. It is striking that private sector workers (who data suggests are more likely to live in southern and midlands' constituencies) believe the economy is set to improve by 52 per cent to 19 per cent, a much wider margin than for the electorate as a whole. The voters Labour has to win over to achieve a convincing victory in 2015 appear far less persuaded about its core arguments on living standards, and are generally optimistic about the general state of the economy. Previous *Southern Discomfort* research demonstrated that there is not a fundamental divide between northern and southern England in social and economic attitudes; however, there is a divergence of values making it harder for Labour to win in southern seats.

In the south outside London, voters favour the Conservatives to advance their living standards by 33 to 20 per cent. This differential performance is derived from fundamental perceptions of what the Labour Party is for: unfairly or not, many voters in southern England view Labour as too ideologically 'left-wing', promoting the interests of welfare recipients alongside special interests. In a recent poll, voters in the south thought that Labour compared to the Conservatives were 'incompetent' (43 per cent to 35 per cent), and 'old-fashioned' (28 per cent to 21 per cent).<sup>12</sup> The memory of Labour as a responsible party of government, the springboard of record-breaking victories in 1997, 2001 and 2005, seems far away.

### The Conservatives and living standards

Nonetheless, it remains the case that voters do not trust the Conservatives to deliver a fair and balanced recovery. The accusation that the government is in the pockets of vested interests and the rich has credibility among an electorate which has experienced falling real incomes and relative austerity – as John Major's remarks about the Conservative Party's lack of empathy with the less fortunate has served to underline.<sup>13</sup> Since winning the leadership in 2010, Miliband's decision to focus on 'the cost of living crisis' and the daily pressures facing 'hard-working families' has been vindicated by the evidence of a dramatic squeeze in earnings.

This position was reinforced by the Labour leader's pledge at Party Conference 2013 to freeze energy prices for twenty months while pro-competition reforms are imposed on energy markets, striking a chord with an increasingly resentful electorate. The argument that this represented an unjustified attack on free markets fell apart when it was pointed out that the Chancellor of the Exchequer's intervention in the housing market helping first time buyers was precisely intended to interfere with market forces.

Nevertheless, the Labour leadership cannot afford to rely on the cost of living agenda trumping the Tories ahead of a general election in 2015. For one, the Conservatives are rapidly assembling their own 'retail offer' on the cost of living with the help of thoughtful figures in their own ranks such as the Harrow MP Robert Halfon, and David Skelton from the think-tank Policy Exchange. This package is focusing on the promise of prospective tax cuts including raising the personal allowance to £12,500, further cuts in petrol prices, lower interest rates through prudent economic management, and, no doubt, more initiatives designed to cut energy prices by reducing the 'burden' of green taxation and regulation. The Chancellor's 'Home Buy' scheme, however economically irresponsible, will also be portrayed as supporting the aspirations of Britain's 'hard-working families'.

The Resolution Foundation has demonstrated that raising the personal allowance will disproportionately benefit higher income voters; nonetheless, the political symbolism of cutting income tax for hard-pressed families is obvious enough.<sup>14</sup> This is reinforced by the politics of welfare in the UK: the Conservative leadership calculate that while voters in middle Britain resent bankers'

12. Patrick Diamond & Giles Radice, 'Southern Discomfort Again', London: Policy Network, 2011.

13. <http://www.telegraph.co.uk/news/politics/conservative/10439303/Truly-shocking-that-the-private-school-educated-and-affluent-middle-class-still-run-Britain-says-Sir-John-Major.html>

14. <http://www.resolutionfoundation.org/blog/2013/oct/14/its-time-be-honest-about-who-gains-tax-cuts/>

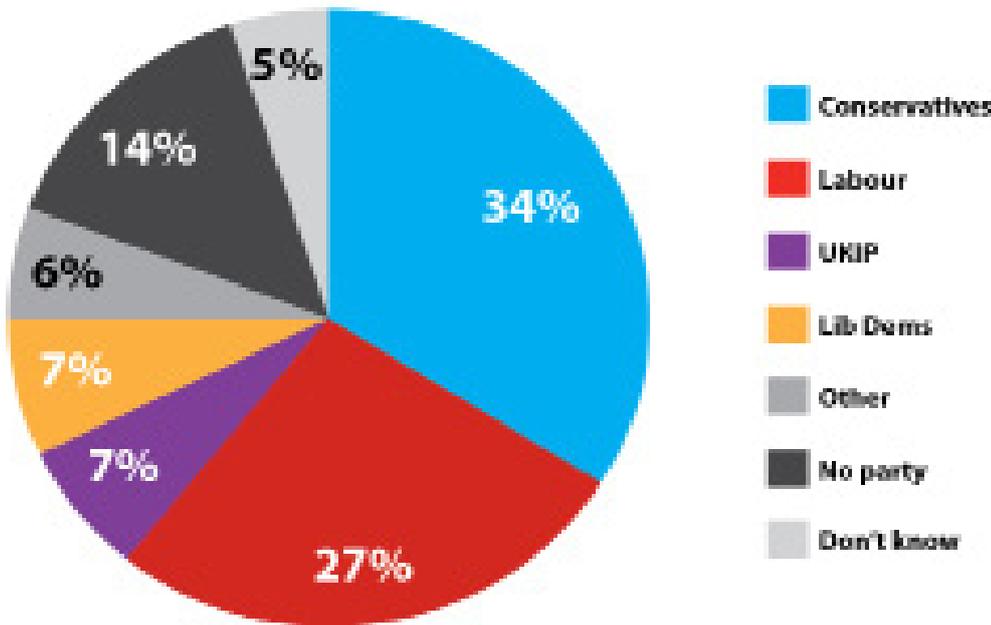
bonuses, they are just as angry about perceived abuses of the welfare system, as well as the impact of ‘uncontrolled immigration’.

This has, in turn, fuelled support for the United Kingdom Independence Party (UKIP) as a party of populist protest: in our poll, 50 per cent of UKIP voters believe that living standards are ‘getting worse’ for them and their family – demonstrating a link between UKIP voting and rising social pessimism. Recent polls have indicated that UKIP have the potential to damage Labour’s electoral prospects, as well as those of the Conservatives.<sup>15</sup> Moreover, a £26,000 a year benefit cap will produce few actual cost savings to the Exchequer, yet it is a large sum of money to most families, regarded as an effective way of ‘curbing welfare’.

For that reason, Labour cannot afford to assume that by the 2015 election, voters will hold uniformly to the perception of the Tories as merely concerned with the privileged few. Our polling tested the following proposition: ‘which party, if any, do you trust to make Britain a fair place to work hard, make a living, and do well for yourself?’ Overall, among those certain to vote, 34 per cent favour the Conservatives; only 27 per cent believe Labour is best placed to advance their standard of living and access to opportunity, with 7 per cent for both the Liberal Democrats and UKIP. Labour’s position is more favourable among women than men by 32 to 23 per cent. This reflects the party’s commitment to investment in policies that support working parents, underlined by the recent promise of 8-6pm ‘wrap-around’ childcare for school-age children. Women should be a prime target of Labour’s 2015 election strategy, just as women voters were key to Labour’s victories in 1997, 2001 and 2005.

**The politics of fair distribution**

Which party do you trust to make Britain a fair place to work hard, make a living, and do well?



Nevertheless, it is striking that while Labour is ahead among voters in the C2DE category, the margin is not great given the emphasis since 2010 on the politics of fair distribution: a differential of 31 to 23 per cent. Labour is preferred on making Britain ‘a fair place to work hard’ by only 38 per cent of voters who live in socially rented housing, and 35 per cent of voters who live in the north of England. The Conservatives, in contrast, enjoy their strongest support in ‘enabling people to make a living’ in Britain among the over 65s (42 per cent), AB voters (39 per cent), and those in the midlands and south of England (35-33 per cent).

15. <http://www.independent.co.uk/news/uk/politics/the-reason-labours-lead-is-shrinking-its-losing-battle-to-keep-hold-of-voters-gained-from-lib-dems-after-formation-of-coalition-8925043.html>

## What should Labour do?

Labour has to recapture the territory of economic competence not merely by out-flanking the Conservatives, but by seeking to redefine the political terms of trade on the economy. The party has to strengthen its credentials as a prospective government by demonstrating that it will grow the British economy, not only how it will share out the proceeds more fairly.

Aside from perceptions of unfairness, the Conservatives have no 'future-orientated' strategy for ensuring that Britain makes the successful transition towards a high-value knowledge-based economy centred on higher productivity, manufacturing industry, better wages and skills. The UK still spends significantly below the European average on capabilities that promote ICT-orientated innovation: science, technology, infrastructure including regional rail networks and airports, research and development, investment in 'manuservices', as well as higher education. The United States, Japan and the Nordic countries have raced ahead relative to the UK, which is slipping further behind in the knowledge 'race' according to the OECD. This is an opportunity for Labour to reclaim the politics of production as Harold Wilson did fifty years ago, invoking the 'white heat of technological revolution', as well as the politics of fair distribution. This is necessary if the party wants to regain the cherished political asset of economic credibility, without which no party in British politics has ever formed a majority government.

The challenge for Labour is to complement its initiatives on the cost of living crisis with a bold move to seize the mantle of economic trust. To underline the party's commitment to economic competence, Labour should go into the election with proposals to shore up its credibility and belief in Britain's ability to earn its living. Rather than squandering the proceeds of a fire-sale of the Royal Bank of Scotland and Lloyds Bank on indiscriminate tax cuts targeted at the wealthy, as the Conservatives are currently proposing, **Labour should commit that half of the proceeds of sale will be used immediately to pay down the national debt.**

**The other half of the revenues from the bank sale should be invested in a National Growth Fund designed to support improvements in Britain's economic potential:** infrastructure spending, science, innovation, industrial policy, strategic investment in growth sectors, alongside universities, new technologies and venture capital. In addition, there needs to be a laser-like focus on boosting growth and employment in regions outside the South-East of England. The National Growth Fund is far more ambitious than the £1 billion National Investment Bank advocated until recently both by the Conservatives and Labour. The initial sale of 6 per cent of the government's stake in Lloyds has already raised £3.2 billion for the Exchequer, so the potential here is enormous.<sup>16</sup> The growth fund should be boosted by further measures to tax the conspicuous consumption of the London-based super-rich, generating additional revenues that can be invested in the UK's industrial base especially in northern England, 'rebalancing' the British economy. This is the politics of rebalancing not the politics of envy. In its alternative autumn statement, Labour should propose to:

- Raise the stamp duty rate on luxury homes worth more than £2 million, mainly concentrated in London and the south-east, to 10 per cent – generating additional revenues of £300 million per annum by 2016-17 on current forecasts.
- Increase vehicle excise duty on 'luxury' cars – vehicle excise duty already raises more than £5.5 billion per annum for the UK Exchequer.
- Commit in the long-term to the imposition of a Land Value Tax (LVT) so the proceeds of

<sup>16</sup> <http://www.bbc.co.uk/news/business-24122713>

assets, equity income, and property acquisition among the wealthy are invested in upgrading the productive potential of the British economy.

This strategy seeks to make production the organising principle of economic reform by investing the proceeds of unearned income and wealth in strengthening the UK's competitive edge – the high road to global success. These proposals reinforce the argument that Labour is prepared to take tough decisions to reduce debt in the short-term, while ensuring the burden of restructuring falls on those most able to contribute following a period in which wealth inequalities in the industrialised economies have grown dramatically. The general principle of tax reform in an open economy such as Britain should be to focus on taxation of fixed assets, property and wealth - especially among the richest section of society - rather than inherently mobile market incomes. In addition, the taxation of wealth will help to strengthen the sustainability of the UK tax base.

Moreover, the elimination of the structural deficit is most likely to be achieved by raising the long-term rate of growth in the British economy. That requires active intervention and investment by government, not the laissez-faire approach that for so long neglected future competitiveness. *A National Growth Fund resourced through the proceeds of sale of the nationalised banks and through targeted wealth taxes on the super-rich, combined with the commitment to pay down the national debt, should form the centrepiece of Labour's alternative 'autumn statement'.* The ability to increase the productive potential of the economy, enabling Britain to pay its way in the world, offers hope in an era where pessimism is growing, as many families believe that children growing up today are likely to face tougher prospects than their parents' generation.

## Conclusion

Our polling shows that the battleground for the 2015 election is already being framed around the politics of economic recovery. The challenge for the Conservatives is to combine their perceived strength in offering effective stewardship of the economy with the elimination of negatives around the electorate's mistrust of their fairness credentials. The task for Labour, on the other hand, is to reinforce their claim as the party of 'the many' by demonstrating that they can be trusted to manage the economy responsibly at a time of worldwide economic uncertainty. Labour has several potent arguments to prosecute in its favour: the recovery is benefiting the already well-off; the tax system should ensure those with the broadest shoulders pay a greater share; and the priority for Britain is to improve public services, not to proffer indiscriminate tax cuts for the rich.

Any message about addressing the 'cost of living crisis' has to be underscored by the achievement of a credible stance on monetary and fiscal policy, enhancing the party's reputation for prudent economic management. There is something to be gained by seeking to shift the debate into areas where Labour is more trusted, such as living standards and jobs. Nonetheless, any redefinition is unlikely to result in an electoral breakthrough unless Labour can find a means of re-establishing economic credibility among sceptical voters.

That underlines the point that the challenge for Labour is not only to win power, but to govern successfully in the toughest circumstances for at least a generation. The party would be ill-advised to put so great an emphasis on the living standards agenda, since there are limits to how far national governments can affect fundamental movements of prices in globally interdependent energy, housing and retail markets. Moreover, the freedom of manoeuvre available to any government will inevitably be circumscribed: it is possible that further tax rises and spending cuts might be necessary depending on the sustainability of the recovery. If Labour is to address the strategic weaknesses in

its position, it has to reinforce its credentials as an economically competent party with a coherent growth strategy for the UK economy which does not falsely raise expectations about what Labour can achieve in office.

Labour ought to remember that suspicion of the party's motives still runs deep within the British electorate, only temporarily alleviated by Tony Blair and Gordon Brown in the 1990s and 2000s. The charge that Labour governments always run out of money evokes powerful historical memories of past crises in 1931, 1947, 1967, and 1976, for which the party was allegedly responsible. Labour cannot afford for the electorate to have a hazy view of its credentials for judicious economic management. In truth, Labour will not win power unless voters trust the party to manage the economy competently, spend responsibly, and tax fairly.

In conclusion, the challenge is to demonstrate to the British electorate that Labour has an economic vision of a dynamic and productive economy underpinned by fiscal responsibility, alongside a social vision based on equal opportunity, distributional fairness, and a decent standard of living for all those who work hard. Even in tough times, a strong commitment to prudence and fiscal discipline need not undermine the party's historic belief in a fairer, more equal society.