Britain: the myth of Labour's economic success

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The British Labour Party's election campaign has been dominated by joint appearances of Prime Minister Tony Blair with Chancellor Gordon Brown. Despite their well-known mutual hatred and the acute division of the Labour Party elite into pro-Blair and pro-Brown camps, Labour's election strategists reportedly told the prime minister that he risked defeat if Brown wasn't placed at the centre of the campaign.

Polls have repeatedly shown that a majority favour Brown as Labour leader. Last weekend's *Times*/Yougov poll showed that 47 percent trusted Labour to run the economy, compared to 29 percent the Conservatives. The survey also found that 57 percent thought Blair couldn't be trusted to tell the truth, compared to a figure of 28 percent for Brown. The belief that Labour under Brown's chancellorship has been an economic success is one on which Blair has been forced to rely, calling him "probably the most successful chancellor for 100 years."

As well as Labour's supposed economic success, the perception that the Tories are more likely to cut back on health and education spending has tipped the polls towards Labour. In fact, the Tories dare not even suggest spending cuts because it is so unpopular—Conservative leader Michael Howard was forced to sack the party's deputy chairman Howard Flight after he suggested that spending cuts would be an "ongoing agenda" if the party was elected. The projected public spending the Tories are willing to own up to now hardly differs from Labour, and they have steered clear of economic policies in the election campaign—attempting to outdo Labour in whipping up xenophobic fears of immigrants and asylum seekers. The Institute for Fiscal Studies calculated the difference between Labour and Tory fiscal plans to be a mere 0.3 percent of national output by 2008.

Is there any truth in Labour's professions of economic success?

The growth levels achieved during the last eight years of a Labour government were the result of exceptional circumstances. In 1997, the decision by the incoming Labour government to make the Bank of England independent and give it control over UK monetary policy certainly pleased the financial markets. For its first period in office, Brown built up a reputation of "prudence" as public spending was tightly controlled. But, in the main, Britain was the most attractive economy in western Europe for investors because Labour could rely on a workforce that had suffered a major reduction in its wage rates and attacks on employment rights. This was achieved during 18 years of Tory rule, thanks to the betrayals carried out by the trade union bureaucracy. As the *Economist* put it in its coverage of the election: "Over time, this harsh medicine has resulted in a much more flexible labour market." Unemployment has been kept down to a record low of 4.7 percent by utilising the cut in welfare benefit levels brought in by the Tories and forcing workers into low-paid jobs.

There was no breakthrough in economic growth under Labour. As the *Economist* explained, the 2.4 percent annual per-capita growth in GDP from 1996 to 2003 was no different from the average rate between 1982 and 1996. But it gave the UK a competitive advantage over France and Germany, where GDP per person rose by 1.3 percent and 1.2 percent a year from 1990 to 2003.

By the time of Labour's second term, its inherited advantage in the global economy was already being undermined, and Brown only prevented Britain from going into recession by encouraging consumer spending, causing a huge growth of indebtedness and increasing public spending. The surge in house prices, which the International Monetary Fund estimates are now 50 percent overvalued, has, according to the *Economist*, given "support [to] consumer spending at a time when worries about pensions and the falling stock markets might otherwise have pushed up saving." As a result, the "consumer has been the mainstay of GDP growth in the past eight years."

The result of this is that consumer debt has increased to record levels, with total personal debt in the UK now approaching 1 trillion pounds.

The tight rein on government spending was relaxed in its

second term compared to its first, when a large surplus was built up to prove Labour's reliability to the financial markets. In 2004-2005, the deficit in public finances increased to £34 billion, 2.9 per cent of GDP, and was only surpassed by that of the United States amongst the major capitalist countries. Part of this debt was built up to finance the Iraq war, but it was also used in areas such as the health service in an attempt to damp down on the huge opposition amongst workers to Brown's tight spending in the first term of office.

The production side of the economy has seen a continuous decline in British manufacturing, with a loss of 1 million jobs since Labour came to power in 1997. This has only been compensated by the growth of unskilled, low-wage service sector employment. Productivity has also failed to improve. According to the *Economist*, "In 2003, output per hour worked was 25 percent higher in France, 16 percent higher in America and 8 percent higher in Germany. Labour productivity is lower in Britain because there is less capital invested per worker, businesses are less innovative and workers are less skilled."

The belief that Brown, through his clever management, is responsible for giving Britain a healthy economy is a Labour-cultivated myth. The true picture is of an economy driven by consumer debt, which faces a collapse in house prices that would send consumer spending into a tailspin and see a corresponding growth in poverty and unemployment.

It is not only the weakness of Britain's economy that Brown seeks to cover over in the image of sound management he has so carefully cultivated. As chairman of the International Monetary and Finance Committee (IMFC), he is well aware of the precarious state of the world economy on which Britain's future growth rate depends. (See "World markets expecting further falls".)

Yet, Brown has predicated his economic policies for the next period on a growth rate of between 3 and 3.5 percent for 2005 and continued growth into the future. He is predicting that tax revenues, which have declined over the last four years, will suddenly begin to increase again and pay off the government's deficit. According to the *Financial Times*, only 2 of the 41 economists surveyed by the UK Treasury think that Brown will meet his forecasts.

When the IMF issued a warning about the need for Britain to cut public spending, Brown attacked the fund's managing director, Rodrigo de Rato. At a press conference in Washington, he declared, "I must say, and I say this with respect to the staff of the IMF, they have been wrong before about British growth. We have achieved higher levels of British growth than have been projected, and I believe the figures are wrong again from the IMF. That is why I will not accept these recommendations."

Brown has clearly upset the United States elite with his economic direction. The *Wall Street Journal* has complained that both the Labour and Tory parties have virtually identical economic policies. The *Journal* pointed to the lack of investment in the UK and said, "The alternative of course would be to really cut spending, especially given how little the Blair government has to show for its spendthrift ways."

Due to his distaste for Labour's increased public spending, media magnate Rupert Murdoch has backed Labour once more in this election only with great reluctance. The *Sun* newspaper, under the heading "One Last Chance," praised Blair and Brown for "standing firm on Iraq," but supported them only because of "the lack of a real alternative." On government finances, it warned, "If the Government fails to push through reform and goes on feeding cash to this hungry, stumbling beast, it will be using our hard-earned money to pave the road to Britain's ruin."

In an interview on BBC Radio's "Today" programme, Murdoch's adviser Dr. Irwin Steltzer, director of economic policy studies at the Hudson Institute, complained that Labour public spending was now more than 40 percent of GDP. He echoed the criticisms of the *Wall Street Journal* and went further, arguing that it was not the deficit itself that was important, but Blair and Brown's reluctance to commit wholeheartedly to a "neo-conservative" policy. He recommended that the Tories "follow the neo-conservative line in America which is first to develop your policies then you do the bookkeeping—the obsession with black holes and deficits that the Tories seem to have—I think cripples them in selecting alternatives to high spending Labour policies."

Steltzer acts as Murdoch's go-between with the Labour government. He is effectively warning Blair and Brown that even though they may win the election, they cannot expect continued support merely because of their war-mongering foreign policy as junior partner of the United States. They will be expected to grasp the nettle domestically also, by smashing up all that remains of the welfare state, slashing corporate taxes and taking on any opposition this arouses in the working class head-on. Contrary to the anodyne statements in Labour's manifesto regarding its commitment to education, health and social services, this will constitute Labour's third-term agenda should it be re-elected.