

Britain: Labour's "re-launch" stymied by worsening economic forecast

Julie Hyland
17 May 2008

The Labour government brought forward a series of measures this week in a rearguard action to try to rescue its political fortunes in wake of the party's collapse into third place in the May 1 local elections.

With a by-election due on May 22, in which the Conservatives are currently tipped to overturn a 7,000 Labour majority, Prime Minister Gordon Brown sought to placate voters' wrath.

On Tuesday, Chancellor Alistair Darling announced what many described as an emergency "mini-budget" on taxation. The government's abolition of the 10 pence tax band has severely financially affected more than 5 million low-earners. While the measure had been announced last year, it only took effect last month.

In 2007, the move won applause from Labour's backbenches, not least because it had enabled the government to make cuts into corporation tax. But a lot has changed since then, particularly the sharp decline in living standards due to the global economic crisis.

Rising food prices sent the UK's official annual inflation rate to 3 percent in April—the sharpest increase in the cost of living in almost six years, rising 0.5 percent in just one month. Reports indicate that the real cost of living, however, is far greater, as food costs alone are increasing at an average of 15.5 percent a year. Rising costs in other essentials such as fuel and utilities mean that many families are already spending £1,000 a year more out of pocket—without taking into account spiralling mortgage costs.

In his mini-budget Darling announced that personal tax allowance would rise by £600. Those earning less than £40,000 per annum (the overwhelming majority) will gain up to £120 this year. The chancellor claimed that this would also compensate the majority of those who lost out from the scrapping of the 10 pence tax band.

Labour's attempt at a political re-launch was followed by Brown outlining planned legislation to be brought forward in the next Queen's speech, which he claimed would create a "more prosperous and fairer Britain."

He set out the further "reform" of schools, hospitals and the welfare benefit system. His government will grant new powers to local authorities to intervene against "failing schools," link hospital funding to performance, introduce tougher controls on immigration and more punitive measures against the long-term unemployed.

The government had given an indication of just what this amounted to in an earlier statement promising a radical shakeup of

England's social care system for the elderly. State support for elderly care is means-tested in England, with most having to pay for home help and assisted accommodation. Thousands have been forced to sell their homes to raise the finance as a consequence.

Health Secretary Alan Johnson said that the government was initiating a six-month consultation period to consider how people could be provided for in old age. He claimed that the government had set "no pre-determined answers," but went on to make clear that what was intended is a move away from universal state provision to an insurance-based scheme paid for by the individual. "If we are running out of so-called free personal care—which even the Liberal Democrats have dropped as a commitment—then you are looking at some kind of insurance that can be provided by the state or the individual," he said.

It is a measure of how far removed Labour is from the realities of millions of people's lives that it could consider such measures to be a popular re-launch. Moreover, while the government claims that these moves are necessary because of a £6 billion shortfall in provision, it has had no such qualms over using some £100 billion of taxpayers' money to shore up the banks, or the some £800 million per month being spent on the occupation of Iraq.

So right-wing are Labour's politics that the Conservatives are casting themselves as a "progressive" alternative, even while boasting that they are the only party prepared to "break open the monopoly" on state education and social welfare.

But as Brown was speaking in Parliament, asking the voters to "judge and test" him on the basis of his economic stewardship, his room for political manoeuvre was rapidly diminishing. Not only are some 1 million low-earners still out of pocket despite Darling's announcement, but hopes that tax changes will help re-stimulate the economy were almost immediately dashed by the Bank of England's quarterly inflation report.

Governor Mervyn King warned that the "the nice decade is behind us" and the economy was "travelling along a bumpy road."

"Real take-home pay has not risen by much in the past four years—by well below 1 percent a year. The next couple of years are going to see at least as great a squeeze on living standards that will erode purchasing power," he continued.

The report spelt out that millions of working people would be hit financially from all sides over the next period. According to the Bank, gas, electricity and food prices will continue to rise pushing inflation towards 4 percent while the housing market, which it stated has already worsened "markedly," is set to fall even further.

The banking crisis could continue well into 2009, the report stated, while economic growth is likely to slump toward 1 percent by the end of 2008, bringing the risk of recession.

The assessment made a mockery of the trade union bureaucracy's claims that the chancellor's tax allowance changes were sufficient to salvage Labour. Tony Woodley, joint leader of Unite, had pronounced that Darling's mini-budget meant the party was "reconnecting with Labour's social conscience" and "with voters generally," while GMB general secretary Paul Kenny congratulated Brown and Darling for "listening to the public and changing tack."

No doubt the trade union leaders hoped that Darling's measures would be enough to prevent the party imploding in an orgy of unprincipled factionalism.

Labour's latest drubbing in the polls coincided with the publication of memoirs by Tony Blair's wife, Cherie, former Deputy Prime Minister John Prescott and Blair's Middle East envoy, Lord Levy.

All seized the opportunity to settle personal scores with Brown directly—and to make some money in the process. Prescott described Brown as "prickly," saying that he could "go off like a volcano" while Levy, who was arrested twice during the cash-for-honours inquiry before being cleared of any wrongdoing, told the BBC that it was "inconceivable" that the former chancellor had not known about the party's financial arrangements.

Darling's announcement proved to be enough to silence a potential rebellion by sections of Labour backbenchers who are afraid they will lose their seats. Frank Field, who had led threats to vote down the government's budget and who had said he would be "very surprised" if Brown were still Labour leader at the next election, pronounced his satisfaction with the changes and publicly apologised to the prime minister.

But outside of Labour's immediate environs, criticism of Brown and the government in ruling circles rages unabated. Under banner headlines on the day Brown spoke, the *Independent* reported that the "spectre of 'stagflation'" associated with the 1970s was back on the agenda. "The 15 percent decline in the value of sterling—as steep as when the pound was forced out of the ERM on 'Black Wednesday' in 1992—has exacerbated inflationary pressures," it said, "hitting living standards, especially for pensioners and the poorest," hardest. There was little leeway for policymakers, it continued, "as they are pulled between the need to fight inflation and avoid a slump."

Against this background, economists complained that Darling's compensation package would push public borrowing towards £50 billion this year, jeopardizing the government's fiscal rules. The *Financial Times* said that Darling's measure smacked of "desperation," as the government failed to make tax policy "with an eye to the long-term health of the public finances and a coherent fiscal philosophy." It had "shattered any residual idea that Mr. Brown's administration can run an orderly fiscal policy," the newspaper pronounced.

Such comments were intended to serve notice that big business will not tolerate any palliative measures, no matter how pitiful, even at the expense of the government's fall.

More significant for Brown's political survival was the savaging

he received in Rupert Murdoch's *Sun* newspaper. Describing Darling's tax changes as a "gamble" with taxpayer's money, it complained that it was "not the first time Gordon Brown has panicked in the face of the polls."

Having backed out of calling an early general election in November it had "rewritten a Budget just over two months old ... if he can be persuaded to rip up a Budget, what's to stop Labour's union paymasters and the public sector demanding pay rises this summer?" the newspaper thundered.

There is already widespread discontent across the public sector at the government's imposition of a below-inflation pay award. The *Sun* is only too aware that this will grow significantly over the next months and does not believe Brown has the mettle to face down the opposition. In a particularly hostile piece the next day, associate editor Trevor Kavanagh wrote that the local elections had "torpedoed this Government beneath the waterline."

"As Gordon Brown prowled the TV studios saying sorry yesterday, we were watching a dead man drowning. I give him six months.

"Labour has burst asunder from stem to stern, its timbers rotten to the core," he continued, as the "Blair/Brown Government has been sussed as the incompetent, interfering and wasteful political con-trick it was from May 1, 1997."

Given that Rupert Murdoch and his tabloid have been one of the main political backers of New Labour and have played a major role in shaping its policies, such supposedly newfound wisdom is deserving only of contempt.

In a comment in the *Guardian* designed to bolster Brown by laying New Labour's failings at Blair's door, Robert Harris revealed the substance of the party's meltdown more tellingly than he had perhaps intended. Complaining that the former prime minister had cut and run, leaving New Labour high and dry, Harris then opined that the current crisis in Labour was not so much one "of leadership as a crisis of purpose—of existence, in fact..."

"What is this thing called the Labour party for, exactly? One can see why the Tories exist, and why the Liberals have endured. But Labour—this friend of global corporations, this ally of the neocons in Washington, this raiser of income tax on the poor—where is its place supposed to be in the political firmament?"

For the likes of Murdoch, et al the answer appears to be clear. The "political con-trick" of New Labour completely exhausted, they are now looking at the Tories to repackage the same pro-business agenda. For working people, however, Labour's right-wing putrefaction must underscore the necessity for the construction of a new workers party based on socialist policies.



To contact the WSWs and the Socialist Equality Party visit:

wsws.org/contact