Where No Labour Government Has Gone Before

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Labour governments have often struggled to maintain popularity in challenging economic circumstances. Can Keir Starmer buck the trend by securing not just election but re-election in the face of a dysfunctional economy? ***Ben Jackson*** *investigates.*

These are strange days for the Labour Party. As the expectation builds that the Conservatives will not be able to recover from their current unpopularity, Labour are now the favourites to form the next government. Yet this optimism about Labour's electoral prospects increasingly co-exists with growing apprehension in the party about how difficult an economic inheritance the Conservatives will bequeath to their successors.

Although history can only offer rough analogies rather than precise conclusions, the track record of Labour in office suggests that party leaders and members are right to be worried about how an incoming Labour government will cope with the severe economic headwinds now buffeting the British economy. Put bluntly, there is no previous example of a Labour government steering the country through tough economic times and then holding together its electoral coalition to win another full term in office. Whenever Labour governments have encountered economic turbulence, they have lost support and then office shortly thereafter. The contrast with the Conservatives is marked - Conservative victories in 1983, 1992 and 2015 were all achieved in the wake of economic downturns and/or periods of public spending restraint.

Labour in office

In the post-war period we only have three broad periods of Labour government to compare but the pattern is quite clear: Labour struggles after inheriting difficult economic conditions. The first majority Labour government, led by Clement Attlee, was elected in 1945 and as is well known it achieved most of its objectives: the creation of the National Health Service, the expansion of unemployment insurance and pensions, the nationalisation of key industries and so on. While there is still a lot that Labour could learn from this government, the Attlee years don't offer clear-cut lessons about how Labour can stay in power in trying economic times. The landslide of 1945 became the narrow victory of 1950 and then the narrow defeat of 1951. While it might seem puzzling that a government of such creativity could be ejected from office after only six years, Labour's 1945 electoral coalition was disrupted by the severe constraints on living standards necessitated by the transformation of the war economy into an export-oriented industrial one. This prioritisation of investment over consumption, combined with currency crises in 1947 and 1949, eroded the government's standing among a small, electorally decisive group of voters and led to its narrow defeat in 1951.

The Wilson and Callaghan governments of 1964-70 and 1974-79 are the quintessential examples of Labour's struggles in government with economic hard times. Elected with high hopes in 1964, and then much more convincingly in 1966, the Wilson government encountered a series of economic tribulations that derailed its economic plans. Facing considerable pressure from financial markets over unfavourable balance of payment figures, the government initially pursued deflationary economic measures to avoid devaluing the

currency. This strategy failed, leading to devaluation in 1967, but devaluation in turn placed new deflationary measures at the top of the government's agenda to ensure that devaluation would successfully boost Britain's export position rather than domestic consumption.

As with the 1945 government, Wilson's Labour found itself in the unenviable position of offering voters cuts to public expenditure and pay restraint, stances which in turn led to tensions with the trade unions and fractious industrial relations. Left with a demoralised base and facing a revitalised opposition, Labour lost power in 1970. Although subsequently re-elected in 1974, the fate of the subsequent Wilson-Callaghan government is famous enough to have embedded itself in political folk wisdom as a parable about Labour's problems as a party of government in the 1970s. Grappling with inflationary shocks, rising unemployment and frankly acrimonious industrial relations, Jim Callaghan's short tenure as Prime Minister was famously ended in 1979 after a winter of strikes over the government's counter-inflationary pay caps that had undermined the government's reputation for economic competence. Since the 1990s many historians have written more sympathetically about the Wilson and Callaghan governments, making the case that they faced extremely difficult economic circumstances and had many notable policy achievements to their credit. While this is true, these governments nonetheless still failed by the unforgiving metric of retaining power at a general election, receiving little electoral credit for their progressive reforms and economic firefighting.

The Labour government of 1997-2010 was by contrast fortunate in its economic inheritance. Tony Blair's time as Prime Minister coincided with strong economic growth and booming tax receipts, which led to relatively smooth re-elections in 2001 and 2005. But after the financial crisis of 2007-8, a more unpalatable set of political choices emerged during Gordon Brown's Prime Ministership, as the framing of political debate shifted away from how to spend tax revenue to how to pick the economy off the floor and distribute the costs of fighting the economic downturn. This debate did not resolve itself in Labour's favour, either in 2010 or 2015, with the Conservatives, and much of the media, cementing in the public consciousness the nostrum that cutting back on spending was the best path to a more sustainable economic recovery.

Why does Labour struggle?

The obvious question that arises from these cases is why have Labour governments found it harder than Conservative ones to defray the electoral costs of economic problems? One reason is surely that the media in Britain administers much sterner punishment to Labour than to the Conservatives, so that it is harder for Labour to perform economic competence to the electorate. Economic headwinds for Labour are amplified by a print media that is much more pro-Conservative (with the tone of the press in turn shaping the angle taken by the broadcast coverage). When things go wrong for Labour governments, they become visible to the electorate more quickly. Labour governments are also probably placed under greater internal pressure by these economic headwinds. Factional alignments rise to the surface more readily within Labour, as different interest groups within the party face political incentives to signal their dissent to their followers or to the public. This in turn feeds further unsympathetic media coverage.

But underlying both these considerations is the fundamental truth that an electorally successful social democratic politics rests on an expanding economy and rising living standards. While the 1945 government did deliver economic growth, it also sought to restrain

private consumption so that resources could instead be invested in industrial development. And despite the government's image as the founders of the welfare state, social spending under Attlee was also carefully constrained.

In the 1960s and 1970s low growth, rising unemployment and high inflation combined to provide a particularly toxic environment for Labour, resulting in public spending restraint and attempts to hold down wage increases. While the economy had returned to growth by 2010, living standards had taken a significant hit and public debate had become preoccupied with how to reign in state spending and pay down the national debt. Although each of these scenarios was different from one another, they shared a political upshot, which is that in each case the credibility of the government was undermined by economic crisis, and the bleak economic outlook compelled a new political focus on restraining public expenditure and/or wages (or at least, in the case of New Labour, to promise expenditure restraint were they to be re-elected). Such a focus is obviously challenging for Labour's electoral coalition, which is painstakingly assembled by a Labour leader on the very basis that public action can improve the economic outlook, and deliver better public services and rising living standards for more people than the Tory formula of giving greater space to the private sector.

Starmer's path

Given Labour's history, it is not surprising that Keir Starmer has placed such an emphasis on a revival of economic growth in his nascent electoral prospectus. Getting the economy moving again would open up many more options for a Labour government to sustain its election-winning coalition in office. But how easy will it be for an incoming Starmer government to increase economic growth in the short-run? Some of the easier levers to pull when it comes to boosting the economy - such as membership of the European single market or increasing immigration - are probably politically too challenging for Starmer and his Shadow Chancellor Rachel Reeves to even contemplate. There must be a decent chance that the first few years of a Labour government, perhaps even the entire first term, will be consumed by firefighting bad or indifferent economic news without much in the way of extra recurrent public spending to act as a salve to Labour's supporters. What options will then be open to Labour to rally support in the face of such a parlous economic situation?

The helpful parallel in the minds of many within Labour's inner circle is the impressive new industrial strategy undertaken by the Biden administration in the United States. Biden has set out to build support for the Democrats by undertaking major government investment in infrastructure, green energy and technological innovation. Although the rationale for such measures is in one sense economic, it is also underpinned by an electoral wager: that the working-class voters lured into the Republican camp by Donald Trump can be weaned off toxic populism by a state that delivers a more interventionist and indeed protectionist economic policy. There is perhaps also a useful parallel here with the 1945-51 Labour government. Given the sheer economic hardship of those years, the vote retention achieved by that government is striking. Labour's highest ever vote share was in fact in 1951, when it took 48.8 per cent and received over 200 000 more votes than the Conservatives, but lost out narrowly in the number of parliamentary seats. The economic security the Attlee government delivered to its voters, even as it held down wages and continued with rationing, provided it with at least some electoral insulation.

We will see next year if the Biden electoral gambit bears fruit in the United States - there are certainly some reasons to doubt that a substantive record of policy achievement will in itself

be sufficient to mobilise support in a political culture riven by deep differences over morality and identity. But the Biden strategy undoubtedly offers a tempting example for Labour to draw on in the UK. If it goes down this road, though, Labour will be forced to confront a crucial question: is it possible for a country the size of the UK to undertake as ambitious a programme of government investment as in the United States without being aligned to one of the major trading blocs in the global economy?

A second, complementary strategy open to Labour would be to address the UK's centralised, winner takes all political culture. Some moves in this direction were outlined by Gordon Brown in the report of his Commission on the UK's Future (2022), which accepted that the inequality and regional polarisation that characterises the British economy is in part the product of an overly centralised system of government. As with industrial strategy, the aim here would be to win back those voters tempted by the siren song of Brexit by dispersing prosperity more widely around the UK. A secondary aim, though, would be to attenuate the winner takes all nature of British general elections. Looking back at the New Labour years, the party did not think strategically enough about what would happen once the Conservatives returned to office. A reformed political system could have anticipated the revival of Conservatism by diminishing the capacity of one party to push through radical reforms without wider support. Greater regional decentralisation offers one route for political reform, others, such as electoral reform for Westminster elections and a more legitimate second chamber, deserve serious consideration.

Given the internal balance of forces within the Parliamentary Labour Party it is unlikely that there will be much enthusiasm for a Starmer government to undertake wide-ranging constitutional reform, although House of Lords reform is at least notionally on the party's to do list. Recent briefings from within Labour's inner counsels also suggest some scepticism about the party's commitment to large-scale public investment in decarbonising the economy. Yet given the scale of the challenges that are mounting up for Britain, the party leadership should reflect on the grim historical record I have recounted in this article. The question they should be asking is not just how to get across the line in a general election but how can a Starmer administration go where no Labour government has gone before by securing not just election but re-election in the face of a dysfunctional economy?

Biographies

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