

Why does the Labour leadership support austerity?

Rachel Reeves straight-jacket for a future Labour government

Writing in the Financial Times Adam Tooze asks whether “western elites have learnt anything from the last decade and a half?”

“In an age of populism and mounting calls for racial justice, can marginal reductions in inflation take priority over youth and minority unemployment? If we favour trade unions as defenders of democracy and a powerful countervailing force against inequality, should we not be backing them rather than denouncing wage-price spirals? If we are serious about rebuilding the fabric of our common life with public investment, how far can we subordinate fiscal policy to the demands of financial stability? And if you understand the extreme urgency of the climate problem, can we risk throttling green investment with austerity, as we did in the 2010s?”

Tooze was saying that the 2% inflation target was not sacrosanct. So why is the Labour leadership supporting the Bank of England and its disastrous policy of raising interest rates, taking us down the road to another round of austerity? Essentially they are sticking to the bankrupt ideology of New Labour which set up the system of Bank of England 'independence' with its entirely arbitrary 2% inflation target. That target was somewhat fraudulent because it excluded housing prices. So under New Labour the target was kept to but house prices nearly tripled! The decision of Brown to take away the supervision of banks from the Bank of England and hand it over to the Financial Standards Authority led, amongst other things, to the collapse of Northern Rock, threatening to bring other banks down. They were allowed to take on reckless levels of debt and to issue up to 125% mortgages. The crisis in 2007-8 was not just the result of events in the USA but New Labour's 'light touch regulation' and its promotion of the interests of the finance sector based on speculation and securitisation.

James Medway is right when he says

“The decision to deprive the Bank of England of its regulatory powers over finance, made at the same time as independence was granted, and to create a new, toothless and emaciated regulatory body, the Financial Standards Authority (FSA), of course bears a major part of the blame. [Britain was left with an institutionally weak regulator that allowed the rapid expansion of consumer borrowing](#) on one side, and the proliferation of increasingly complex (and therefore increasingly risky) ways to manage and profit from the surging debt on the other. Britain was, as a result, among the worst hit by the financial crisis, the economy shrinking by 4 % in 2009.”

Today, in a situation where even the IMF has laid bare that the responsibility for the current level of inflation lies, in large part, with profiteering by the big corporations, **why is Labour supporting action which will worsen the economic circumstances of the people they want to vote for them?** Rachel Reeves, when asked about the interest rate increase to 5% said “I can't possibly comment”. That would “undermine the independence of the Bank of England”. She can't comment on a decision that will further drive up interest rates for people with mortgages, which has driven up rents of tenants unfortunate enough to rent from buy to let landlords, and driven up interest rates for councils still suffering the consequences of a decade of austerity? Her position beggars belief. In fact the Bank of England Act of 1998 has 'reserve powers' whereby the government can overrule or direct the Bank “with respect to monetary policy”¹.

The message from the Labour leadership is that the economic situation that the Tories will bequeath to them is “the worst since the second world war” and they will not be able to do all

¹ Section 19 says: The Treasury, after consultation with the Governor of the Bank, may by order give the Bank directions with respect to monetary policy if they are satisfied that the directions are required in the public interest and by extreme economic circumstances.

they would like as quickly as they like. **Rachel Reeves has already designed the straight-jacket into which she will place a future Labour government.** Her fiscal rules accept the architecture designed by Brown. She accepts the 2% inflation rate and says that a Labour government will aim to reduce the debt by the end of their first term.

For all the talk of learning from those Labour leaders who were 'winners' the Labour leadership only picks what suits their argument. If a debt to GDP ratio of 100% will make them circumspect about what they can do, ask yourself the question **how did the Atlee government manage to launch the NHS and fund the building of a million council homes with a debt to GDP ratio of 270%?** If we could transport Reeves back to that time you would bet that she would say that such policies were fiscally irresponsible.

There is no more money said Wes Streeting, recently. There is plenty of money only it is concentrated in a few hands. Echoing James Callaghan from a 1976² speech when the Labour leadership effectively declared its conversion to monetarism, Streeting recently said "you can't spend your way out of a recession".

Of course, if "there is no more money" it would only be because of the Labour leadership's refusal to increase tax except in a marginal way, such as 'carried interest' on private equity, and their refusal to tax capital gains at the same level as general tax.

Labour's austerity for local government?

What help would a Labour government give to local authorities that are struggling with the consequences of austerity? In what was ostensibly a local election campaign prior to May the national party had virtually nothing to say about the financial crisis of local government. They treated it like a general election. Local authority finances, which are insufficient for the social needs of the local populations, have been destabilised further by inflation. SIGOMA (the Special Interest Group of Municipal Authorities) which represents 47 urban authorities just did a survey of them. It showed that 55% of them were no longer certain they would be able to meet their 2023/4 budgets set just four months ago. On average, to set legal budgets, they will have to make £15 million of savings making £700 million overall. Adult social care and foster care services increased by 10% this year. 60% of SIGOMA councils are also being forced to cut capital spending. Almost 45% have already delayed capital projects while 35% have axed projects that they can no longer afford to finance.

Local authorities generally borrow from the Public Works Loans Board. At the time of writing a 30 year maturity loan (you repay at the end of the loan period) is 5.43%. A Year before it was 3.46% and in December 2021 it was 1.93%. The interest on a loan of £10 million would be £543,000 as compared to £193,000. No wonder they are cutting back on projects. The Labour leadership, in supporting the Bank of England is accepting this extra cost on councils that are being hammered by inflation.

There is still no sign of the Fair Funding Review which was supposed to take place in 2020. As yet there are no concrete commitments to increase funding under a Labour government. The editor of Local Government Chronicle recently complained of "Labour's refusal to share any of their plans for government". To address the crisis of local government we need a commitment to funding based on annual assessments of need. Yet Labour's fiscal rules are likely to limit what is on offer to local authorities. As the Chair of SIGOMA has said "[Labour must reverse council cuts, and base funding on need, not local wealth](#)". His assertion that this can be done within Labour's 'fiscal rules' is doubtful, but at least he is saying what is necessary.

Climate action, if we can afford it

In relation to the announcement that Labour would not be able to stick to its commitment of £28 billion a year for 10 years, an unnamed advisor to Starmer said that if the Green Prosperity Plan

² The Callaghan government borrowed \$3.9 billion dollars from the IMF with the intention of maintaining the value of sterling. In His memoirs, *The Time of My Life*, Dennis Healey, the Chancellor said that the Treasury had got its estimates wrong and that the loan had not been necessary.

conflicted with the fiscal rules then the latter would trump the former. In effect this means that we can only tackle global warming if we can “afford it”! Contrast that with this view from the Financial Times Energy Source newsletter, which says “Capitalism won't deliver the energy transition fast enough...”.

“There's too much to do, and given the urgency and the need to get the solution right, this isn't a task for your favourite ESG-focused portfolio manager or the tech bros. The sheer scale of the physical infrastructure that must be revamped, demolished or replaced is almost beyond comprehension. Governments, not BlackRock, will have to lead this new Marshall Plan. And keep doing it. The western nations that did so much of the damage will have to finance the transition in the developing world — it is astonishing that this idea is still debated. Massive deficit spending will be necessary, not a new ETF. For all the cleantech advances and renewable deployment in recent decades, fossil fuels' share of total global energy use was 86 per cent in 2000 and 82 per cent last year.”

“The next few years will be messy. Either we ignore the consensus of the world's best scientists and accept an ever-deteriorating climate, or we upend a multitrillion-dollar fossil fuel-based energy system created over decades. For obvious reasons it would be better to decarbonise and clean the energy system, avoiding the trauma of a ever-heating world, while trying to manage the political fallout. But powerful petrostates such as Saudi Arabia and the UAE — in charge of this year's COP climate conference — won't go quietly. The transition could put weak petrostates like Iraq in peril. *Big Oil lobbyists will fight tooth and nail to stop change and influence elections* (my emphasis).”

In contrast with that last sentence Keir Starmer says that “business is a force for good in society”. As is suggested by the leaked email from the Severn Trent boss, as the Labour leadership is desperate to fight off suggestions of nationalisation, they appear to be discussing an accommodation with the water companies that are polluting our rivers and seas. Starmer and Reeves are looking for 'partnership' with these vultures.

I have explained elsewhere why Starmer's attempt to follow the path of New Labour is [a mission impossible](#). The global crisis is the result of the very corporations which are responsible for rampant exploitation of the workforce and ripping them off as customers. The message of Starmer-Reeves to the ruling class and the big corporations is don't worry, you have nothing to fear from a Labour government. Yet there can be no transition from carbon without stopping them maximising their profits at the expense of the population and the environment and driving back the boundaries of the market. It is not only the big oil lobbyists who will fight tooth and nail.

Growth, but not yet?

The Labour leadership's position is entirely contradictory. On the one hand Rachel Reeves said that Britain needs its economy “firing on all cylinders” yet she supports action by the Bank of England which is designed to shrink economic activity, *taking money out of the pockets of millions of people*. For the Labour leadership 'growth' is seen as *the* panacea for all our problems. Yet it can have negative social and environmental consequences. For instance, the leadership has declared that it won't oppose new drilling for oil, at least until it gets into government.

Some things we definitely don't want to grow. What use is the sort of growth resulting from the big house builders increasing house building at extortionate prices which few can afford? We need to cut energy use significantly, which will obviously impact on the profits of the energy companies. Tough. We need an emergency programme of retro-fitting and decarbonisation of housing. Yet just £6 billion of the £28 billion committed to (but now put back to the second half of the next Parliament) is for housing. This is supposed to be for 19 million homes which works out at barely more than £3,000 each! Contrast that with the probable cost of £60 billion just to

retrofit and install heat pumps in England's council housing³.

The Labour leadership does not grasp that the economic and social crisis cannot be resolved without de-commodifying sectors of the economy, for instance ending competition within the NHS; stopping private companies extracting profit from it. Just as healthcare should not be a commodity, neither should water. The privatised water companies have extracted billions in dividends at a huge environmental cost. Even Andrew Marr questioning Ed Miliband said he would not compensate the current owners of *our* water.

One other thing to be drawn from the Atlee government is that, having decided that council housing was a priority because of the over-crowding and the slums, they restricted the building of homes for sale to 1 in 5. Private builders had to get a permit to build. Whilst such outrageous interference into the sacred market is probably beyond the pale today, a Labour government could set a target for council house building, adequately funded, which would impact on the market, both sales and rent, and would likely push down prices, as hundreds of thousands of households gained council tenancies. For those buying or renting from the private sector, the market would be less of a sellers market.

Contrary to Lisa Nandy's assertion that the housing crisis is the result of not building enough homes, it is the result of house building being dominated by commodity production and the huge loss of council homes from Right to Buy. Labour first housing priority should be council housing, not home ownership super-charged by some Labour version of Help to Buy, bolstering the profits of the big builders.

Austerity is a social disaster, and it would be under Labour

There is a generalised crisis of public services as a result of austerity. Staff shortages put the remaining staff under intolerable pressure to cope with a burgeoning workload. Declining value of wages is a key factor in retention difficulties together with increasing stress. The pandemic highlighted the burn-out of NHS staff, but similar pressures apply throughout the public services.

Labour can have all the workforce plans it wants but unless workers have a living wage and a less exploitative work experience then new recruits will not be sufficient to stem the loss of staff. As the head of the probation service explained recently they are recruiting quite successfully but they are still losing experienced staff. Long hours such as 14 hour NHS shifts are injurious to the staff and unsafe for the patients. Working hours need to be cut, which necessitates recruiting more staff.

Ending this crisis requires an end to austerity. If the Atlee government could launch the NHS and build a million council homes under worse economic circumstances resulting from a world war, then there is no reason why a government today cannot tackle the 'poly-crisis' we are living through. But the 'transformation' that Labour has referred to cannot be accomplished without challenging the wealth and power of the 'business oligopolies', as Adam Tooze calls them (of which more in a future article).

Martin Wicks
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³ That assumes an average cost of £40,000. Sheffield council recently retro-fitted 190 homes for around £47,000 per property. In Reading it costs around £40,000.