Golden rules

Labour is determined to show it cares about sound public finances. But to sustain its programme in government, it must show its vision for the future too, argues *Stephen Beer*

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"I agree that public services need more money, but why is it taking so long?" That was the question I addressed in a campaign leaflet when I was a parliamentary candidate in 2001. My answer? "We had to get the economy into shape first. Now local schools, hospitals, and transport services are getting the funding they need. That will only continue under Labour."

Such was the backdrop against which we fought that election, defending the huge majority won four years previously yet dealing with the frustration from the public at the slow pace of change. The campaign began inauspiciously. I remember listening to the news while driving between campaign sessions on the day of the manifesto launch. The prime minister, Tony Blair, had been challenged on NHS failures by a member of the public in front of cameras; the Home Secretary was slow handclapped at a Police Federation conference; and, to top it all off, the deputy prime minister punched a protester who had hit him with an egg. And these were the professionals. I admit I felt a bit better about my own campaign.

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The pressure to respond to public pressure for change was keenly felt. After years of restraint, Labour needed to show it had taken the necessary economic measures to enable higher public spending. Sometimes spending pledges were rolled up together, which soon sparked some cynicism. Labour's business manifesto highlighted a promised £180bn spending on transport, where the infrastructure was clearly failing. On closer inspection, this sum was spread over 10 years and included private investment. The effect on some voters was actually negative. Nevertheless, what mattered was that Labour was saying it was going to increase spending on vital public services. And, winning that vital second term, it did.

Labour's first term in office for 18 years had been characterised by following Conservative party spending plans at the beginning, subsequently keeping spending restrained, and following fiscal rules which only permitted additional borrowing for investment or, for current spending, balanced over the cycle. Labour had been determined to show it could be trusted on the economy. It beat the Conservatives on economic competence measures in opinion polls after the disastrous exit from the European Exchange Rate Mechanism and, for those times, high levels of government debt, but no one knew how durable that lead was. In the run-up to the 1997 election the question hung over the party – would it be prudent once actually in power? Everything was committed to demonstrating the answer was yes. Fail at that and Labour would fail to deliver its progressive vision for society.

Labour today is taking a similar approach. Spending pledges are kept to a minimum. So far, the progressive party is progressively outlining what it will not do. It will not, at first, invest £28bn a year in pursuit of net zero; it will not raise the burden of taxation beyond Conservative plans; it will not introduce a wealth tax. It will not, so to speak, scare the horses.

Central to Labour's economic message is a commitment to fiscal rules designed, in shadow chancellor Rachel Reeves's words, to "bind the next Labour government to ensure we always spend wisely and keep debt under control". These rules will include targeting a current budget surplus, with day-to-day spending at least covered by tax revenues, and, crucially, aiming to ensure that government debt is falling as a proportion of GDP

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by the end of one parliament. This latter constraint affects investment as well as current spending; Labour will borrow to invest in infrastructure only so long as it can simultaneously meet its target of falling net debt/GDP. There is a qualification – the targets get suspended if there is a fiscal shock, such as a financial crisis or deep recession. There is also an indication of future direction, with Labour stating it will consider government debt alongside public sector assets, to resist the temptation of a Thatcher-style fire sale of assets to push down debt.

The current government also has fiscal rules, which have been revised over the years. The key difference is that the borrowing target allows for a 3 per cent deficit by the fifth year of the forecast period, covering current and investment spending. This is a rolling target – just like tomorrow, five years hence never comes.

The reason for having fiscal rules is they can help establish economic credibility if people believe the government will at least attempt to abide by them. They help establish financial trust, keeping investors interested in buying government debt (bonds, known as gilts). If investors do not believe the government is much bothered about targets, borrowing costs will rise and so more tax will be spent on interest bills instead of health and education and other services. Sterling could fall against other currencies, helping drive inflation higher. Having won a reputation for prudence, Labour squandered it in opposition and needs to rebuild it, probably more so than does the government. Fiscal rules matter.

However, fiscal rules are not science. The state of the public finances is constantly changing. Twice a year the Office for Budget Responsibility (OBR) publishes new projections as it assesses government policy. This can see politicians and commentators arguing over (relatively) small differences in projections five years out, only to see their assertions wiped out by new forecasts and assumptions a few months later. Periodically, the Office for National Statistics substantially revises its GDP data for past years, as it has done recently for the pandemic period. Fiscal rules matter but the certainty they provide is less in the eventual outcome and more in the strength of the commitment to sensible economic policy.

Today, the economic backdrop is discouraging. High inflation remains, for now. It was kickstarted by higher energy prices linked to the war in Ukraine and supply bottlenecks as the world recovered from the pandemic. It was fuelled by loose monetary policy from the Bank of England and other central banks. Its persistence has meant households could not absorb the hit to real incomes without pushing for higher pay rises, especially since savings accumulated during Covid years are running down. With a confused Bank of England raising interest rates and winter approaching, the outlook is uncertain even if it is currently likely that inflation will be lower next year. Longer term projections for public finances are grim.

The economy is in the doldrums, and even if growth picks up, higher growth cannot be sustained without higher productivity, which has so far failed to appear. Lack of business investment, partly linked to corporate pay structures, the lack of a meaningful industrial strategy for years, and the ongoing damage from Brexit are key culprits. The economic mismanagement and absence of long-term thinking has led to negative feedback loops. Lower growth means lower tax revenue and lower economic potential, meaning fewer resources for investment, further depressing growth, and fewer resources to spend on education, health, and other public services, leading to drags on the economy and increasing need. While political games were played, the UK economy was busily travelling on a downward spiral.

As in the 1990s, our public services are suffering, despite the best efforts of those within them. Health outcomes are deteriorating, with long waiting lists, exacerbated by strikes, which means of course more suffering for many and reduced life expectancy for some. Education services are variable and insufficient. Our justice system is underfunded and inefficient, leading to all sorts of problems in society. There is a long list of other services desperately in need of more funding too. It is no wonder the closure of schools and other buildings at risk of collapse seems symbolic.

And something curious has happened. Lower public spending, 'unserious' politics, and unknown other factors have led to a general malaise in our institutions, public and private. Almost every week we are discovering our services have hidden and facilitated bad behaviour, poor practices, wasteful procurement, and a sort of political myopia when it comes to understanding what the public expects of them. People will always make mistakes, that is natural, but there is something else going on; a sort of infectious institutional incapability.

It will therefore be no surprise if people conclude that with a Labour victory "things can only get better". Enthusiasm and expectations could be high. And it is likely that the reorientation of power will change perspectives on what is possible. A decent majority, which needs to be hard fought for, could in itself promote a longer term mindset in the machineries of government. Yet the flip side of running a 1997 election playbook could be a 1998–2001 government playbook – MPs crying in the lobbies as they have to support hard choices and angry voters blaming Labour.

Labour needs to be clear about what kind of country we can be. Before the 1997 election, Labour shook off some of its statist, corporatist, and Marxist mentality and rediscovered its ethical socialist roots. It emphasised the value of the individual, thriving in a vibrant community. Such a narrative today should be about more than simply describing desirable policies. It should speak to people's experience and hopes and it is necessary not only because it is rooted in attractive values but also to sustain the party's project in government. It should describe the political and economic journey on which Labour wants to guide the country and remind us all of where we are starting from.

Such a narrative needs to go some way beyond a commitment to sound finances, which – although essential – does not help voters understand how difficult decisions are being made. Sound finances should not be seen as a prudent means to more spending but an important component of a progressive economic policy which understands we live in a dynamic market economy.

In government, Labour will need a framework around which to make decisions about spending priorities, built around Keir Starmer's "Five missions for a better Britain". The pull of managerialism will be strong; Labour succumbed to this at times when last in power. Ministers find themselves taking reasonable but all-very-difficult decisions on individual issues, aligned with the perspective of public institutions but detached from the perspective and expectations of the electorate. The result can come across as patronising hand-wringing.

Furthermore, while public sector reform does have accompanying costs – both financial and (at first) political – Labour should not wait. There is a mood for change. Driving reform takes firm political commitment, a clear sense of the destination, and a theory of change about why it is necessary and how it will work. Bold announcements at the beginning of a term of office are essential to set the tone and pace. In addition, such are the needs in health and other sectors that special purpose task forces should be established to drive outcomes and show what is possible – for example getting waiting lists down, sorting out social care to free hospital capacity, and boosting access to tutors in schools. Finally, the only way ahead long term is to improve investment spending.

Hard decisions cannot be wished away and to make them Labour needs to be in power. Being very clear that Labour cares about sound public finances is essential. Being clear about our vision for the future and resolute in our determination to get there is vital too. And, of course, having made its case and been disciplined with the public finances, Labour did win the 2001 election overwhelmingly. F