Revision: Labour’s Economic Record – An Evaluation

A personal evaluation of the Labour government’s macroeconomic record since 1997

There are many indicators of macroeconomic performance – among them are the following:

1. Rate of economic growth / increases in per capita national income
2. Consumer price inflation / maintaining the internal value of money
3. Unemployment / job creation in the economy
4. International trade performance / balance of payments record
5. Supply-side indicators including growth of productivity and record on innovation
6. The state of the government’s own finances and quality of public services

One can look at our absolute performance compared to past times or our record relative to that of other countries

Positives and Achievements on the Balance Sheet

A. Growth: The economy has grown in each of the last 16 years and the UK has achieved the low volatility for growth among leading economies

B. Trend growth: There is evidence that supply-side policies have raised the trend rate of growth to close to 3% per annum. Partly this is due to the effects of strong net inward migration and also the success of policies such as improved child care in getting more people into work

C. Efficiency: Productivity growth has improved relative to previous economic cycles

D. Jobs: Employment is now at a record high (nearly 30 million) and unemployment remains low both in comparison to the 1970s-1990s and also relative to other countries inside the EU

E. Prices: Inflation has remained low despite a number of severe external inflationary shocks

F. NAIRU: The fall in unemployment combined with low inflation is evidence of a fall in the NAIRU

G. Industry: There are signs that manufacturing industry has revived despite the challenges of globalisation and long-run deindustrialisation. There has been a switch to higher value-added industries producing specialised manufactured goods which are less sensitive to exchange rate fluctuations

H. FDI: The UK economy has continued to be a favoured venue for foreign direct investment

I. World class industries: Industries such as creative services and the City have flourished helped in part by light touch regulation

J. Sol: Our relative living standards (GDP per capital, PPP adjusted) within the EU have improved

K. Inequality: There has been some limited progress in reducing the scale of child poverty and in halting the process towards greater inequality

L. Profits: Business profitability has reached record levels (even adjusting for high profits in the oil sector) – this will be an important buffer during the current domestic / global economic slowdown

M. Investment: Capital spending by the private and public sector as a share of GDP has increased

N. Competition: The government has successfully toughened up the competition policy regime in the UK and an increasingly pro-active Office for Fair Trading has been particularly busy in investigating allegations of anti-competitive behaviour such as price fixing.

O. Monetary Policy: Interest rates have remained relatively stable (despite the problems created by the credit crunch since the summer of 2007.) The Bank of England has maintained credibility – independence for the Bank has been perhaps Labour’s most important decision. But that credibility is under threat at the moment.
Weaknesses and Failures on the Balance Sheet

A. **Unbalanced economy:** The government has allowed the UK economy to become unbalanced – with too much consumption and imports and not enough saving and exports.

B. **Favourable external trends:** Much of the sustained growth in the UK has been the result of favourable international macroeconomic trends including strong growth in the USA and the impact of the super-fast growth in emerging market countries.

C. **Trade deficits:** In 2007 the economy experienced a record trade deficit in goods (£87bn) and a very higher current account deficit (£53bn) – this will have to be corrected at some point and will require a period of slower economic growth and weaker consumer spending.

D. **Structural unemployment:** Growth has been good but structural unemployment remains a problem especially in those regions where key industries are in long term decline and where workers have poor vocational skills.

E. **Public finances:** The government has lost control of fiscal policy – the national debt is way over £500bn; the budget deficit is over 3% of GDP and the tax burden is rising – threatening competitiveness and jobs going forward. The Chancellor’s “Golden Rules” have all but lost any remaining credibility and the government has little room for using fiscal policy further if the current slowdown gets worse.

F. **Public spending:** Huge increases in real-terms spending on health and education have not brought about the social return that was expected. Much of the extra spending has been wasted with productivity in many state sectors rising less quickly than the economy as a whole.

G. **Poor productivity:** There remains a large productivity gap with countries such as the USA. And labour productivity in emerging market countries including many in Eastern Europe is catching up fast.

H. **Weak research and innovation:** Despite numerous policies including tax incentives, levels of research and development remain low – (less than 2% of GDP) – we only have 3 UK firms in the global top 50 for R&D spending.

I. **Housing shortages:** Government policies have done little to stimulate increased housing supply and the current housing recession will do little to help this as home-builders withdraw from the market and shelve developments.

J. **Poverty:** Some aspects of poverty have got worse under Labour rather than better. Pensioner poverty and fuel and food poverty are key issues for hundreds of thousands of lower-income households.

K. **Enterprise:** The government has not done enough to reduce barriers to enterprise – the burdens of red tape continue to act as a disincentive to start new businesses and employ extra staff.

L. **Pension time bomb:** The Chancellor’s £5bn raid on the pension funds in the late 1990s set the tone for a failure of policy towards occupational pensions. Millions of people face poverty in old age because they don’t have sufficient saving in occupational pension schemes. This has encourage speculative activity in the housing market.

M. **Financial regulation** has been seen to fail in the wake of the Northern Rock crisis.

N. **Inflation:** The government’s chosen inflation measure is flawed and does not correspond to the experiences of most households. RPI inflation is much higher and among the highest within the EU. There are dangers of a return to stagflation and a jump in inflationary expectations. Low inflation did not start in 1997 and the election of New Labour – it predates this by at least five years.

O. **The credit crunch:** The difficulties facing the UK economy at the moment are in part the result of government economic policies which have for over a decade encouraged excessive consumer borrowing and dependence on debt to finance spending.