

A REBALANCING ACT? The Politics of the Autumn Statement

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Introduction

When was the last time there was a “slow news day”? Perhaps there was a time – before the Crash, say – when nothing much happened on a particular day. But it’s hard to remember one, and Tuesday 29 November certainly wasn’t short of developments. On any other day, the reports of a mob attacking the British Embassy in Tehran would have topped the news bulletins; or if not that, the allegation by a witness at the Leveson Inquiry that Andy Coulson knew about phone-hacking at the News of the World. But if the Chancellor had any hopes that his statement to MPs on the state of the economy would be drowned out by these other news items, they were soon to be dashed.

Despite a careful softening-up exercise, with news of the infrastructure fund, for example, leaked out ahead of the statement, the gloomy forecasts of the OBR, which still seem optimistic in comparison with others, defied spinning. Growth was to be much lower than previously predicted, and would not recover significantly until 2013. The structural deficit was larger than thought, and – combined with the weaker performance of the economy – would take longer to eliminate. As Evan Davis put it to the Chancellor on the Today Programme on the morning after the Statement, “one year into the austerity programme we re one year further away from completing it”.

The figures are too depressing – and by now probably too familiar – to bear repetition here. But watching the Chancellor deliver his Statement was a rather surreal experience. It is true that he had both to satisfy the markets that he would not flinch from “doing what it takes” to bring the deficit under control, and he had to satisfy the widespread demand (from all sides) that the government do more to encourage growth in the economy – especially in the light of the revised growth forecasts he presented to the House. The net effect, however, was that although the Chancellor claimed to be clawing back additional savings, for example through an extended cap on public sector pay and some adjustments to tax credits, as well as some savings in the aid budget, he treated the Commons to a longish list of apparent largesse. Some – perhaps many – of the measures he announced were sensible means of encouraging others to spend more; and some were designed, perhaps under Liberal Democrat influence, to protect the least well-off; but some seemed downright silly: how was giving customers of South West Water a £50 rebate – however laudable or fair in its own right – in any sense a response to the unfolding economic crisis? Small wonder that many commentators thought this a Statement that Gordon Brown could have made (albeit, when he was still enamoured of Prudence).

The air of unreality about proceedings in Parliament on Tuesday perhaps stemmed from two factors: first, that the real drama was taking place a couple of hundred miles to the East, where eurozone leaders were pondering – in the company of the new Italian Premier Mario Monti – how long Italy could afford to pay punitive rates of interest to recycle its debts; and secondly, and linked to the first, that if there were to be a sovereign default in the eurozone, there would be a potentially serious impact on the UK economy (and our public finances). To be fair to the Chancellor, he did not hide this fact in his speech. But perhaps this explains the persistent feeling that he might have given a very different Statement (and one which many Right-wing commentators, and MPs, wanted him to make). He might have struck a much more downbeat note; he might have prepared the country for even more draconian cuts in public spending; he might have warned that, as in some other countries, public

sector pay would not only be frozen, but actually cut; that benefits would be frozen, and not increased with inflation; that even the NHS would have to take a share of the spending reductions. And the reason he didn't give this speech on November 29? Perhaps because he may yet have to. This speech may not have been an easy one to write; but if the eurozone crisis deepens, his Budget Speech in March may be even harder.

The Political Reaction

In spite of some chuntering from the Labour backbenches, which earned Mr Speaker's (rather heavy-handed) rebuke, the statement was heard mostly in respectful, indeed sombre, silence. Perhaps the sense that the real decisions were being made elsewhere added to the rather lacklustre feel to the occasion (and the fact that the Chancellor sounded as if his voice might pack up at any moment). Of course, there is another reason why the Commons is relatively quiescent these days, especially on economic matters: with two parties in government, and Labour left defending its own less than glorious recent economic record, there is little scope for rumbustious grandstanding. Not that Ed Balls is one to let an opportunity go by.

Balls had a decent case to make, and did so with gusto – that he'd been right all along (or at least since May 2010). He'd warned that paying insufficient attention to growth would be self-defeating, and so (he says) it had proved. Whether one (anyone) believes him, and whether he is in fact right, is largely irrelevant; Labour is still not trusted to run the economy, and so Balls can protest as much as he likes (and it's his job to do so), it won't make any difference.

The reaction on the Tory Right – potentially, at the moment, a more powerful seat of opposition to the government than the benches opposite – was equally predictable. They had been hoping for (but not expecting – this is after all a Coalition Government!) a draught of full-bodied Thatcher '81 (actually, Thatcher-Howe, lest we forget), and instead got what they no doubt felt was a weak and watery concoction more akin to a recent Brown vintage. But there were a few sops to the Right: the trimming of the aid budget to bring it back into line with its 0.7% of GDP target (it was in danger of overshooting because of lower growth); a few more swipes from the Chancellor's right hook at the environmental agenda; the public sector pay cap; and the freezing of fuel duty increases. And, some jam tomorrow (for the Right): as the austerity programme progresses, a greater proportion of fiscal consolidation will come from spending cuts rather than tax increases. And those cuts will have to be greater than originally planned, as the Parliament continues and as we approach the election.

The Political Implications

Watching the members of the "quad" – the Chief Secretary, Deputy PM and PM – supporting its fourth member, the Chancellor – during the Autumn Statement, one would not have imagined that there had been any behind-the-scenes battles over the content of the Chancellor's speech. The fact that there was no mention of the 50p tax rate and that benefits were fully updated, suggests that the Lib Dems had secured their main objectives in the internal negotiations over the package. Danny Alexander's reward for his persistence is having to find ever more severe public spending reductions as the Parliament progresses.

Looking ahead, the extension of the austerity programme into the next Parliament throws up some interesting political conundrums. To begin with, it's far from clear that this is bad news politically for the government; one left-wing commentator concluded on the day after the Statement that Labour was done for at the next election, since the electorate would be unlikely to trust Labour with running a vital austerity programme. But even if that was the case – and of course it's far too early to say – would the Conservatives or the Liberal Democrats benefit – or both? Could they conceivably even fight the election on some sort of "continuing coalition" basis? In theory they will both be committed to published spending plans for say at least the first two years of the next Parliament (though Lib Dem left-wingers such as Simon Hughes have been suggesting this is not the case), so why not indicate that – once the electorate has spoken – they would happily co-operate again, at least on

economic policy if not as a full Coalition? All of this is – in recent times at least – uncharted territory. But it's hard to avoid the conclusion that the extension of the austerity programme and the darkening economic outlook has brought the coalition partners closer together and made it less likely that there will be a divorce in the foreseeable future.

Nevertheless, unless there is an unforeseen turnaround in the Lib Dems' polling numbers (they could be overtaken by UKIP, especially as Euro-turmoil continues), at some point Nick Clegg is going to have to take a view on how he extricates his party from the threat of a potentially disastrous result in 2015.

Ed Miliband also has a medium-term challenge – being accepted as a plausible Prime Minister-in-waiting. It's difficult to see exactly what he needs to do to achieve this, but he does seem in recent weeks to have slipped back even as an effective Leader of the Opposition. That at least he must demonstrate that he can do. Having said that, Labour's poll ratings are encouraging, in the low 40s, and much will depend on local elections in 2012 and of course the London Mayoralty. Red Ed's future could yet depend on Red Ken.

Who Would Be Prime Minister?

As is only natural, however, the man with the biggest headaches is the Prime Minister. On some days he must think back to Friday May 7 2010 and ask himself why he made the "big, bold comprehensive offer" to the Lib Dems; not because the experience of Coalition has been challenging - it has been more successful than many thought possible – but because he has inherited (and in one instance at least, made for himself) such a mountain of troubles. In no particular order, these are:

- The bleak state of the UK economy
- The potential for disaster in the eurozone and the effect on the UK economy
- The political implications of a possible renegotiation of EU treaties and the almost certain need to redefine the UK's relationship with the EU if fiscal integration of the eurozone proceeds
- The unresolved issues from the "Hackgate" saga, and in particular the fate of Andy Coulson
- The growing problem of how to deal with Iran.

Added to this, he can look across Europe and see governments falling almost every week. Of the larger EU countries, Spain and Italy have already dispensed with their leaders; President Sarkozy faces an uphill struggle for re-election next May, and Chancellor Merkel is by no means assured of victory, most probably in autumn 2013. In the US, by this time next year there could be an unknown quantity as President-elect.

Whether David Cameron bucks this trend will depend on whether he can rise to the occasion of what seem very likely to be extremely testing times for him personally, for the Conservative Party and for the country. Apart from ultra-loyalists and implacable opponents, many people in Britain have yet to make up their minds about David Cameron. They may soon be given plenty of reasons to do so – one way or another.

For more information about the Chancellor's Autumn Statement or to find out more about Cavendish Communications, contact Alex Challoner at alex@cavendishpc.co.uk or 02031783580.