

Preparing for a Labour Government







INTRODUCTION

A government led by Jeremy Corbyn would once have been unthinkable. Heading into the 2017 general election, political commentators thought it improbable. Today, Labour only needs a 3.57% swing to come to power.

With the timing of the next general election far from certain, every business, investor and organisation needs to be assessing and preparing for what a Corbyn-led government could mean for them.

Jeremy Corbyn's political principles are well-known, but it is important to appreciate that Corbynism as a governing ideology is still emerging and evolving. The party's 2017 manifesto was a trial run for 'something different'. Having won a ten-point increase in the party's share of the vote, Corbyn has a mandate to put a more radical manifesto to the country next time.

The dynamics within Corbyn's camp have also shifted since the general election. With left-wingers now firmly in control of the party machinery, differences between the unions, Momentum and the leader's office are coming to the fore. The balance of power between these three groups will help determine how radical Labour in office might be.

Cavendish Communications has compiled this note to help shape thinking on what a Labour government could mean in practical terms.



WHAT IS THE LABOUR PARTY?

The Labour Party isn't a single entity. Rather, it is an uneasy coalition on the left of British politics composed of party members, the trade unions, the party machine, councillors/mayors and Members of Parliament (in Europe, Westminster and the devolved administrations).

There is a constant battle for control within and between each of these arms with elections and selections for every tier – from local branches to the National Executive Committee – being the battleground. The history of Labour has been that the various wings of the party dominate for a time before the pendulum swings the other way, but the central mission of the left is to entrench their dominance for good.

The change since 2015 has been that the fringe left, with Jeremy Corbyn at its head, has slowly but consistently extended its control across these parts and is now using its position of controlling the membership, the biggest trade union and the party apparatus to change party rules. Under the banner of democracy, they are removing piece by piece the devices that MPs have used to set the direction of the party and are putting the members in charge.

This is a central feature of the Corbyn team's mission. They were pushed to the edges of the party for decades and see this as their opportunity to make sure it doesn't happen again. This is the prism through which the news on the Labour party developments should be seen and understood.



WHAT COULD A CORBYN GOVERNMENT LOOK LIKE?

With the party refashioned the Corbyn team can turn to changing the country.

At the heart of its appeal to many voters, Corbynism is a rejection of managerialism and incrementalism. Corbyn and his clique have not campaigned and persisted over 35 years in politics to tinker with the post-Thatcher settlement; they want to remake the economic and political order.

Corbyn questions the 'neo-liberal' dogma of placing trust in market solutions. His ideology seeks to rebalance the state's involvement in the economy and the relationship between employers and their workers.

If he is good at asking the big questions and painting a broad picture, Corbyn is less

interested in providing detailed policy answers.

His leadership style in opposition provides an indication of what sort of prime minister he would be.

Corbyn would set the guiding principles, leaving details and implementation to his advisers and government departments. The Treasury under John McDonnell would be in the ascendancy, taking the lead in domestic affairs.

Corbyn would indulge his life-long interest in foreign affairs, and continue to mobilise his supporters through public speeches, engagements and rallies – a not dissimilar model to Donald Trump's style of leadership.

FISCAL POLICY CURRENT SPENDING



Much of Labour's success since 2015 has come from Corbyn's willingness to offer the public a clear-cut alternative to Conservative 'austerity', and a Labour government would increase day-to-day spending by around an additional £50 billion a year.

This would represent a significant spending increase of around 7% a year and put the UK into line with Italy in terms of the proportion of GDP being spent by government.

It is possible that some of this increase could come into effect relatively quickly after the election of a Labour government, with a post-election budget. The remainder of the increase could be phased in over a three to four-year spending review period.

Labour in government would need to ensure that borrowing costs do not rise dramatically to cover day-to-day spending, not least because of the party's plans for capital expenditure.

In line with Corbyn's philosophy to redistribute wealth in society, a Labour government would lean away from increasing National Insurance, VAT or income tax for low to middle earners. Instead, the party will focus on increasing the financial contribution of larger businesses.

Corporation tax, reduced by the Conservatives, would gradually be restored to 26% - the party hopes this will pay for around 40% of its increased spending. A lower rate will be reinstated for companies with lower profits. Income tax rises for the wealthiest would be introduced, and a land tax could be implemented as well.

Increasing spending and taxation could prove difficult, with the OBR forecasting sluggish economic growth post-Brexit. Further

FISCAL POLICY

CAPITAL SPENDING

downgrades to growth forecasts could force Labour to readjust their spending commitments, with a greater emphasis put on capital spending to kickstart the economy.

The single most expensive current spending measure pledged by Labour would be the abolition of university tuition fees. This is seen as a key weapon in Corbyn's electoral arsenal, but could be implemented in stages in order to manage spending.

Public sector pay increases would be delivered upon swiftly, and funding for health and education increased. Welfare spending will also go up, with the 'bedroom tax' scrapped, housing benefit reinstated for under 21s and various cuts to benefits reversed.

John McDonnell has also announced that the party is reviewing whether the next manifesto should include a trial period of a Universal Basic Income in a bid to radically overhaul the welfare system.

Labour in government would increase capital spending, taking it from 2% to 3% of GDP. A 'National Transformation Fund' will be created to invest £250 billion over ten years. This will be supported through the issuing of government bonds.

Much of the increase in capital spending will be directed towards the North, with a focus on strengthening regional transport networks. As Chancellor, John McDonnell may change how Treasury assesses value for money in order to achieve this rebalancing.

Low-carbon energy infrastructure and super-fast broadband are also likely to be prioritised. A massive government investment in housing will take place, with an emphasis on partnering with housing associations – this will have the potential advantage of bringing down the housing benefit bill.

This capital programme could boost the productive capacity of the economy – but much will depend on how a Labour Treasury assesses value for money and takes investment decisions.

The party could find itself constrained depending on how far it clamps down on private partnerships. There is now a consensus across the political spectrum that private finance initiatives (PFI) represent poor value for money.

A wider attack on public-private partnerships (PPP) for capital purposes is unlikely, given the scale of investment that Labour wishes to undertake and the better value for money that forms of PPP outside of PFI represent. Instead, Labour will impose further requirements around wages, employment rights and potentially sustainability on bidders.



MONETARY POLICY

Jeremy Corbyn and John McDonnell have moved away from their proposals to print money and redistribute wealth through a “people’s quantitative easing” programme.

Instead, we can expect the Bank of England’s mandate to be broadened to take employment

into account, alongside inflation. Labour also wants to move the Bank to Birmingham – this could be partially achieved by shifting back-office operations from London.

WORKERS’ RIGHTS AND PAY

Ed Miliband’s prescription of a ‘cost of living crisis’ hit a chord with the electorate, but his policy solutions were considered to be disjointed and underwhelming. It is on workers’ rights and pay policy in particular that Corbyn offers a more cohesive and radical vision.

Labour will offer a more activist and interventionist approach to rebalance the relationship between employers and workers. Zero-hours contracts will be curtailed, with workers being given the option to avail of a minimum number of hours instead. Company takeovers would be subject to stricter regulations, with protections for workers and their pensions beefed up.

Rights will be equalised between permanent, full-time workers and temporary/part-time workers. The status of “self-employed workers” would be abolished, with workers given greater rights in line with those of formal employees.

Trade unions will be given greater freedom to organise in workplaces and collective bargaining on a sectoral basis could return, overseen by a Ministry for Labour. This would see employers, unions and government coming together to agree on wage policies on a sector-by-sector basis, placing wage pressures on traditionally lower-paid sectors.

The Low Pay Commission would be set more ambitious terms of reference that will accelerate wage growth towards a minimum £10 an hour rate. Lower minimum wage rates for workers aged between 18 and 25 will be abolished. Companies with a ratio between their lowest and highest paid workers of more than 20:1 will be forced to pay a levy.

NATIONALISING UTILITIES

One of the most radical pledges made by Jeremy Corbyn and John McDonnell has been to renationalise water, energy and rail provision.

Rail franchises could be brought back into public ownership with relative ease. Whether Labour would want to commit to spending money to renationalise water and energy companies is more questionable. As an alternative, competition

could be stimulated in the regional water markets.

Not-for-profit energy providers could be established with public backing, as Nottingham City Council have already experimented with. Regulators Ofwat and Ofgem would be beefed up and given a greater role to ensure the benefits of competition are felt by consumers.

AT A GLANCE

Education

- Existing academies and free schools to be allowed continue, but under greater government control and with a requirement to adhere to the national curriculum.
- Free childcare entitlement expanded for 2 to 4-year olds.
- Reform of the apprenticeship levy, with businesses having more flexibility on spending funds.

Health

- The NHS will be made the preferred provider for services, limiting the internal market.
- Increased tax on private health insurance.
- Higher spending, funded by a levy on high income earners.
- Roll out of a 'National Care Service'.

Housing

- Coordinating new housing delivery, including joining up infrastructure and backing housing association investment.
- Higher minimum space standards for new homes.
- Promotion of longer-term tenancies and consumer rights for tenants.

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