

# ESSAY

## What is economic trust in politics? A strategy for Labour

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**E**conomic trust is key to election victories in Britain. But what does it mean, and how can Labour win it back? Three things are key to a successful strategy: telling an optimistic story about creating a more equal society with more opportunity for all, tackling the question of immigration, and owning the future, rather than harking back to a disappeared world.

Just before his death, the historian Tony Judt wrote:

We have entered an age of fear. Insecurity is once again an active ingredient of political life in Western democracies. Insecurity born of terrorism, of course; but also, and more insidiously, fear of the uncontrollable speed of change, fear of the loss of employment, fear of losing ground to others in an increasingly unequal distribution of resources, fear of losing control of the circumstances and routines of our daily life. And, perhaps above all, fear that it is not just we who can no longer shape our lives, but that those in authority have also lost control, to forces beyond their reach.<sup>1</sup>

Judt was writing in 2010, two years after the financial crisis and shortly before Labour lost the general election after thirteen years in power. Though he did not live to see it, Judt could just as well have been describing the 2015 general election campaign, which was based as much as anything on fear, or the Scottish Independence referendum or indeed the referendum on our membership of the European Union. Fear lies at the heart of twenty-first century politics, not because politicians prey on people's prejudices, but because modern life feels increasingly insecure and unstable.

For Judt, the greatest fear of all is not a fear of immigration, or of economic crises, or of anything specific at all. It is a fear that those with authority, those we trust

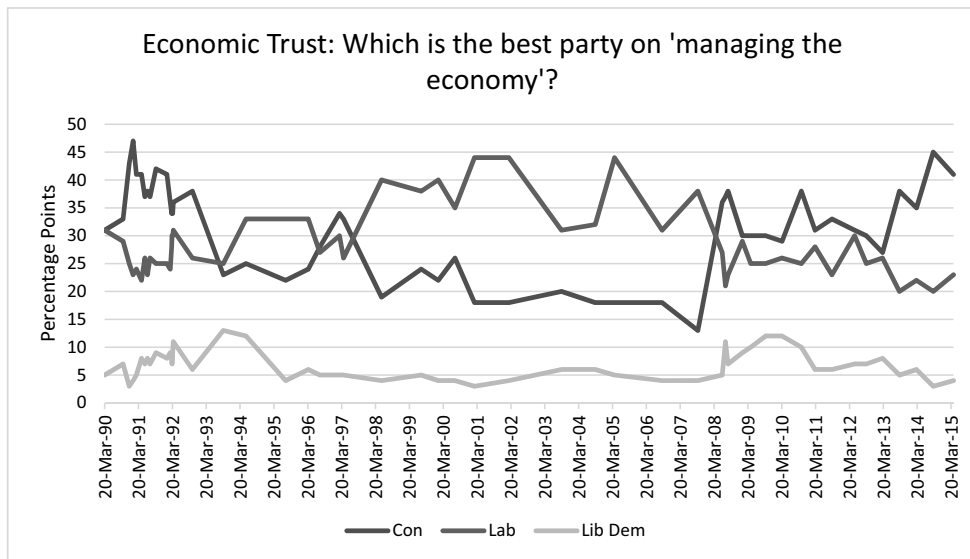
with positions of power, can no longer control any of these things. Many of the extraordinary political struggles we have seen this year can be explained in these terms. Trump and Sanders have had such unexpected success in part because they have promised to control the effect of trade on working class Americans. The very slogan of the Leave campaign – ‘take back control’ – promises that control of trade, legislation and above all immigration is not beyond the power of politicians and that, if only we left the EU, we would once again have control over our own destiny.

If voters in established democracies doubt whether their leaders are truly in control, it should be no surprise that they place such a premium on competence or trust. This conclusion is not new. Bill Clinton’s chief strategist famously told staff in his successful 1992 election campaign, ‘It’s the economy, stupid.’ In fact, it is an axiom of modern politics that without economic trust, it is almost impossible for any prospective party of government to win an election.<sup>2</sup> However, since the optimism of the 1990s about globalisation now appears to be the exception rather than the rule, we should expect electorates to demand convincing economic leadership in the future. If the core economic challenges of the coming decades – continuing financial instability, rising inequality, technological changes to the nature of work – demand radical policy solutions, any party that seeks to win elections can only do so by first establishing economic trust.

The consequences of this for our own Party are critical, perhaps even existential. According to YouGov, the Conservatives now have a seventeen-point lead over Labour in terms of trust on the economy. Our colleagues in the Labour Party, along with political pundits of all stripes, agree that restoring economic trust is a central challenge. But what is economic trust and how does a political party go about establishing it?

To answer this question, we have to reach further back than the debate about fiscal austerity which dominated the last election, and beyond the immediate future too. The first place to look is IPSOS Mori’s historical polling on economic management, which tells a broadly unsurprising but significant story.

**Table 1**



Since 1990, when voters believe Labour is better at managing the economy, Labour tended to win elections. The picture is slightly more complicated, since it matters not only whether voters consider a party or leadership to be economically competent, but also whether they are optimistic about the state of the economy. As Professor David Sanders argues, ‘If the public is optimistic about the economy and a government has a reputation for economic competence, the opposition has its work cut out to win power’.<sup>3</sup>

Thatcher won in 1987 and Blair in 2001 and 2005 largely because voters were optimistic about the economy and believed their government to be effective economic stewards. However, although voters were pessimistic about the economy in 1992, John Major won because he was seen as a safer pair of hands in economic management. In 1997, although economic confidence was broadly high after four years of recovery, voters would not trust Major with the economy after he was forced to withdraw the pound from the ERM after Black Wednesday.

There is a more interesting point to be gleaned by looking even further back. Ian McAllister argues that in prolonged periods of economic dissatisfaction, for instance in advanced economies after the 1973 oil embargo, voters tend to lose confidence not just in their government, but in institutions of economic governance.<sup>4</sup> In these periods – such as by 1979 after the Winter of Discontent, or the 2010 and 2015 elections after the financial crisis – voters tend to feel they can trust the Conservative

Party to end an economic crisis and protect their security. In other words, the Conservatives tend to gain from periods of insecurity; whilst Labour tend to gain from periods of optimism. Like any broad thesis, this one comes with exceptions and considerable caveats.

Nevertheless, this should worry our Party. If Tony Judt is correct that the coming decades will be characterised by a sense of insecurity and fear, then the challenge for Labour is not only to establish economic trust for the 2020 election, but to show that we are the natural party of government, capable not just of growing Britain's economy but of steering Britain through times of crisis and economic instability.

That is one reason why Labour's record in government matters. We do not intend to offer a comprehensive defence of that record here, since this is neither the time nor the place, but we do want to show why it matters. If Labour's longest period in power, from 1997 to 2010, goes down in history as an abject economic failure – setting aside Iraq and other questions of legacy – then the conclusion voters will rightly draw is that Labour are likely to turn an unprecedented period of economic growth into an unprecedented economic crisis. However untrue that conclusion may be, we cannot blame voters for reaching it, or indeed the Conservative Party for propagating it – after all, that message has been among the most successful of the past decade. We must blame ourselves for failing to tell a compelling story about our most successful period in Government. Nor should we expect to be able to draw a line under the past and move on. If we try to evade our Party's record, no matter who is in charge, it will be us who lose out.

There are three further lessons we believe we must draw. First, Labour must display an energy and enthusiasm for those on middle and low incomes, rather than a resentment of the rich. The politics of inequality are perhaps the best illustration of this. You only have to read Picketty's analysis of economic inequality, and notice the reception it received, to understand the increasing importance of inequality in our politics. Although it is true that the phenomenal wealth of the one per cent provokes widespread outrage, outrage does not win elections. Instead, we must tell a story about how to help people achieve from birth to death. Supporting working people with childcare costs, not penalising the young with higher tuition fees, placing home ownership within everyone's grasp, shaping more secure and lasting employment, ensuring the elderly can grow old with dignity. The level of inequality in Britain today is outrageous, but to be trusted with government, you must give an optimistic account of what can be done about it.

Second, Labour must deal with immigration as an economic issue. Mainstream economists like Summers, Krugman and Roderik now agree that the movement of

people, capital and goods does have an impact on wages and security of employment in certain sectors.<sup>5</sup> The Bank of England's finding that immigration may have a small negative impact on wages in certain sectors is among the most cited statistics in the recent EU referendum.<sup>6</sup> Though it is true that, overall, immigration fuels economic growth, the benefits are not spread evenly. The aim here is not for Labour to be the most trusted party on immigration, it is to reassure voters that we do not treat their concerns about the economic impact of immigration with flippant disregard. As Judt argues, we cannot allow the embedding of a perception that immigration and its impacts are simply outside the control of elected politicians. Policies like Migration Impact Funds may help, but as in all matters of economic trust, effective policies are a start but they are not enough. Our rhetoric and narrative matter just as much.

Third, we have to focus on the future, not the past. A promise to recreate the more equal post-war world will not work, since Britain today is not the same as Britain in 1945. We have to explain how we will drive innovation and growth, not just distribute the proceeds of growth more fairly, especially since voters already see the latter as Labour's territory. This means that the debate about investment versus cuts, though substantive and important, will not be enough; nor will the rich versus poor narrative work. Indeed, one lesson that can be drawn from the Liberals' recent victory in Canada (especially when compared with the NDP's fate), or from the Democrats' 2012 strategy in America, is that social democratic parties cannot allow themselves to be boxed in by the austerity question. They have to focus relentlessly and tirelessly on describing the future to voters and showing how they will shape it for the better.

These are ambitious tasks. It may sound strange to demand them at this moment in Labour's history, but if we are to be ambitious about ensuring our Party governs with regularity in the next century, then they are tasks we must complete; all the more so because the future looks and feels uncertain and insecure. A sense of fear about the future can make for ugly politics. We in Labour have a responsibility not just to ourselves, but to the country, to persuade voters we can be trusted not just to be fairer in economic governance, but to be safer stewards of our economic future too.

In a forthcoming issue of *Renewal*, the authors will outline economic policies that might underpin the strategy outlined here.

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## Notes

- 1 T. Judt, *Ill fares the land*, Penguin, London 2010, p217.
- 2 See e.g., I.McAllister, 'The Economic Performance of Governments' in P.Norris, (ed.), *Critical citizens: global support for democratic government*, Oxford, Oxford University Press 1999.
- 3 M.Kettle, '2015 general election: it's the economy, stupid! (Well, maybe not ...)', *Guardian* 14.1.14, <http://www.theguardian.com/politics/2014/jan/14/2015-uk-general-election-polls-analysis>.
- 4 McAllister, 'The Economic Performance of Governments', p189.
- 5 Paul Krugman is particularly interesting, since in 1994 he argued that trade was insignificant in increasing inequality, but has since altered his position: P.Krugman and R.Lawrence, *Trade, Jobs, and Wages*, NBER Working Paper No. 4478, 1993, <http://www.nber.org/papers/w4478>; P.Krugman, 'Trade and inequality, revisited', *Vox*, 15.6.2007, <http://voxeu.org/article/trade-and-inequality-revisited>.
- 6 S.Nickell and J.Saleheen, *The impact of immigration on occupational wages: evidence from Britain*, London, Bank of England 2015.