

EDITORIAL

Dealing with the blizzard of the world

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Labour's landslide victory seems to have happened a long time ago. Since that metaphorically sunny day, time seems to have accelerated at such dizzying speed that the summer's kerfuffle about freebies for clothes, glasses, and Taylor Swift tickets, as well as fiscal black holes and in-fighting in Number 10 Downing Street, seems to be as trivial as a playground fight about who gets to play with the ball. Even the significance of Labour's first budget, which has begun to chart a new direction for the British economy, pales in comparison with the potential impact of Donald Trump's victory at the recent American presidential election.

To paraphrase Leonard Cohen in his song 'Future', the blizzard of the world has crossed the threshold but has not just yet overturned the order of the soul. But the delay in the reordering of the world around a new set of values and policies will be brief. From January, whatever will be decided in Washington on

foreign, defence, trade and environmental policies will impact the UK profoundly, possibly limiting the room for manoeuvre of the Starmer government in terms of both policy and political imagination.

So far, Keir Starmer has managed to establish a constructive relationship with Donald Trump. But it remains to be seen whether the stale references to the 'special relationship', the promises of 'standing shoulder to shoulder' with the US and invitations to address the House of Commons and meet the King will be sufficient to placate an erratic and grudge-bearing politician like Donald Trump. The former Prime Minister Theresa May rolled out the red-carpet for the US president but was never rewarded with a free trade agreement (a feat that eluded all Conservative prime ministers since Brexit) and was often the target of Trump's put-downs. Starmer can only expect harsher treatment. The designs of the Trump administration pose considerable challenges to Labour's agenda and to the UK's security and economic prospects.

The most immediate and significant challenge is around the strategic importance of NATO, and Europe's relationship with Russia. As he did the last time he was in the White House, it is very likely that Trump will ask (demand is perhaps the most accurate word) European countries to increase defence spending and become less dependent on the US security blanket.

The Starmer government is stepping up to the challenge. In Labour's first budget in fourteen years, Rachel Reeves allocated an additional £2.9 billion to the defence budget, placing the UK on course to commit 2.5 per cent of GDP to defence (which exceeds the NATO commitment and Trump's demand of allocating the equivalent of 2 per cent of GDP). But given the parlous state of the UK's military infrastructure,¹ and the cost of continuing to provide military support to Ukraine and deal with new security threats, the Labour government may need to make a heftier investment in the defence budget within this parliament.

Perhaps more worrying are Trump's own ideas about the war in Ukraine. If his statements during the presidential campaign are a guide to how he will behave in office, Trump will be phasing out American military support to Ukraine. He will also be putting pressure on the Ukrainian president Volodymyr Zelenskyy to accept Russia's terms to end the war between the two countries. This may imply a substantial loss of territory for Ukraine. None of these scenarios are compatible with the promises Starmer has made to Zelenskyy on the different occasions they have met since he entered Downing Street, or with the UK's own national security.

The second main challenge posed by Trump's re-election is economic. His threat of imposing a flat tariff on all imports into the US will have a strong negative impact on global economic growth.² As the largest European exporter to the US,

the UK is particularly vulnerable to Trump's America First economic agenda. Some estimates project a fall of 0.7 percentage points in the growth rate in the first two years following the introduction of US trade tariffs.³ It remains to be seen, of course, whether and how trade restrictions would apply to UK services exports to the US. There may even be opportunities for the rest of the world to take advantage of the self-inflicted harm that would be done to the US economy if Trump gets anywhere close to delivering his immigration agenda. This does not mean the UK is yet well-placed to seize this opportunity, but the inflationary impact of a trade war will be tempered by lower energy prices in the short-term if Trump reboots fossil fuel extraction in the US.

But this of course indicates another challenge. In the long term it could be on climate politics that Trump's presidency could be most damaging. Carbon dioxide emissions will rise if oil and gas extraction intensifies, and efforts to decarbonise the American economy will dramatically slow down if federal subsidies to the green transition are not renewed. This will have a very nefarious impact on the planet – quite possibly squandering our final chance to avoid an unthinkable climate catastrophe – and will be another source of tension between the Trump administration and the Labour government.

What Labour needs to do

The challenges posed by an unreliable Trump White House should remind Starmer that the UK's relationship with the EU is vital for both the UK's security and geopolitical interests, and its economic prosperity. The forthcoming process of renegotiating the terms of the UK's relationship with the EU offers an opportunity for a serious rapprochement with the continent, which Starmer should not waste. The UK can play a leading role in enhancing the EU's capability to deal with security threats like Russia, an unstable Middle East, and the climate emergency.

None of this will be politically comfortable for Labour. But these are not normal times, and there are no easy choices. And there would at least be an economic upside. Labour's reset of the UK's relationship with the EU should also focus on seeking closer economic ties with the continent. According to the latest projections by the Office for Budget Responsibility (OBR), the reduction in 'trade intensity' between Britain in the EU 'will lead to a 4 per cent reduction in the potential productivity' of the UK economy.⁴ This projection alone should focus the minds of the Prime Minister and Chancellor.

Labour is already doing the right things on the economy, for the most part, although only the first, tentative steps towards an alternative growth strategy have

been taken. But the OBR's sober projections for economic growth should not be treated as gospel. There are reasons to believe that the OBR's projections are too conservative. As *Renewal*'s editor Craig Berry recently argued, the OBR 'is underestimating the non-linear impact that public investment in infrastructure might have on the growth trend'.⁵ As he explains with reference to the US experience, especially under the Biden administration, 'the returns to investment in terms of positive impact on GDP could be double of what the OBR is expecting over the forecast period'.⁶

To deliver long-term economic growth, Labour's green mission is probably more important than its growth mission. Labour's plans in this regard are examined throughout this issue, overseen by guest editor Sean McDaniel. McDaniel's own assessment of Labour's Green Prosperity Plan is surely correct to point out that an industrial strategy selectively investing in low-carbon production and renewable energy sources is necessary but not sufficient. Labour will also need a broader and more ambitious strategy that challenges the patterns of ownership associated with ecologically destructive accumulation, as well as unjust outcomes whereby risks are socialised while rewards are privatised.

Finally, Trump's victory shows how difficult it is to govern in hard economic times. Across most democracies, voters have put up with a deterioration of their living standards since the global financial crisis of 2008. Understandably, they are now disappointed and angry with what they perceive to be empty promises made by self-interested politicians. The welcome focus on labour rights and energy transition that Bidenomics brought to the table did little to alter the fact that most Americans have not reaped the benefits of the recent growth in the US economy. Most are just able to survive, spending a large proportion of their income on essentials such as food and housing, having little left for the extras that make life worth living.⁷

And these are the bleak prospects facing Labour now. A Biden-lite green industrial strategy is pretty much the best growth strategy available to the UK (as well as being the right thing to do). But it will not work quickly enough, or benefit enough people directly, to ensure that Labour can avoid the fate the Democrats now face in the US. Of course, the Biden administration was blamed for the post-pandemic surge in inflation, a charge that Labour has probably swerved given it was in opposition as prices rose most sharply. But inflation is not going away as a political and economic problem. The Starmer government needs to recognise that closer economic ties to the EU will both accelerate and broaden the growth it is able to achieve from industrial strategy, and that more investment in public services and welfare provision is necessary for people to actually feel better off.⁸ It can also strengthen its industrial strategy – and demonstrate whose interests this

agenda supports – by challenging the ability of large corporations to capture the proceeds of growth through rentier practices. This is a task the Democrats shied away from, sowing the seeds for Trump’s appeal to working-class voters. Helpfully, this kind of industrial strategy – focused on steering allocation, not spending money – would not necessarily require higher taxes to finance it.⁹

If, after five years in office, the Labour government does not deliver visible improvements to the living standards of most voters, Starmer risks losing the next election. It is precisely this scenario that the new leader of the Conservative Party Kemi Badenoch is betting on. And she seems to have the energy and determination to follow Trump’s rulebook of culture wars and angry politics in the hope of replicating his re-election. She could, perversely, also benefit from the economic carnage the Trump administration may be about to unleash on the rest of the world. To avoid this scenario, the Labour government needs to hold its nerve and keep its promise to rebuild the UK ‘brick by brick’.¹⁰ *Renewal*, which will have a new editorial team from the new year, will be here to guide it in that mission.

Notes

- 1 Andrew Dorman, ‘The State of Britain’s Armed Forces – Time to Panic, Mr. Mainwaring’, UK in a Changing Europe, 13 February 2024, <https://ukandeu.ac.uk/the-state-of-britains-armed-forces-time-to-panic-mr-mainwaring/>.
- 2 ‘Tariff Surge Would Damage Global Growth, IMF Warns’, *Financial Times*, 22 October 2024, <https://www.ft.com/content/f7c31ee0-8eb3-41a3-98fb-c84a6604deab>.
- 3 ‘Trump Tariffs Threaten Billions in British Exports’, Politico, 6 November 2024. <https://www.politico.eu/article/trump-tariffs-threaten-billions-in-british-exports/>.
- 4 “How Are Our Brexit Trade Forecast Assumptions Performing”, OBR, March 2024, <https://obr.uk/box/how-are-our-brexite-trade-forecast-assumptions-performing/>
- 5 Craig Berry, ‘OBR-la-di, OBR-la-da’, The Political Economy Blog, 03 November 2024, <https://craigberry.substack.com/p/obr-la-di-obr-la-da>.
- 6 Craig Berry, ‘OBR-la-di, OBR-la-da’, The Political Economy Blog, 03 November 2024, <https://craigberry.substack.com/p/obr-la-di-obr-la-da>. See also Valerie A. Ramey, ‘The Macroeconomic Consequences of Infrastructure Investment’, NBER Working Paper Series, Working Paper Series 27625, July 2020, https://www.nber.org/system/files/working_papers/w27625/w27625.pdf.
- 7 Ruchir Sharma, ‘The US Economic Boom Is a Mirage’, *Financial Times*, 4 November 2024, <https://www.ft.com/content/8af2ad3b-dca0-4add-bbc8-55fc28184f34>
- 8 Craig Berry, ‘Caught beneath a landslide: can Labour win again?’, *Renewal*, Vol 32, Issue 3/4, 2024.

- 9 Chris Dillow, 'Beyond Tax Rises', Stumbling and Mumbling, 12 September 2024, https://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2024/09/beyond-tax-rises.html.
- 10 Eunice Goes, 'Wanting the ends without the means', Renewal, Vol 32, Issue 3/4, 2024.