

For Labour Grassroots

23/3/21

Starmer's capitulation to the Tory budget, and what the left should propose

Jamie Gough

This article considers Starmer's capitulation to neoliberalism in his 'big speech' and pronouncements on the 3 March budget. I consider the class nature of government spending and funding. I give the context of ten years of Tory cuts to public services and benefits, and, crucially, the collapse of productive investment in Britain since the 2008 'financial' crisis. I suggest a left programme for government spending, taxation and borrowing to support the struggles which will emerge in the coming years.

Starmer and Dodds sign up to neoliberal austerity

For the first year of his leadership of the Labour Party, Kier Starmer focused exclusively on criticising the government's response to the pandemic, and promoting Labour as the party of 'competence'. He said nothing about Brexit, nothing about ten years of Tory austerity, and nothing about Labour policy on these issues. Earlier this year, Starmer came under pressure from the centre and right of the Labour Party and their mouthpiece *The Guardian* to begin to define what he positively stands for. His supporters are canny enough to know that you cannot unseat a party with a 80 seat majority by merely stressing your competence: voters need to be convinced Labour has an alternative strategy or vision for their economic and social lives. Accordingly, on 15 February he made a much-hyped 'big speech'. This was entirely vacuous: its main point was to say what Labour would *not* do. The government's budget delivered on 3 March gave Starmer and the shadow chancellor Anneliese Dodds another bite of the cherry. But once again, they came up with zero. They proposed no increase in public spending on services and benefits to begin to make up for ten years of Tory cuts. No substantial investment in industry and green infrastructure. And no increased taxation of business and the rich. So their new vision amounts to: we are Tories, with added competence and less corruption.

Early last year, when Starmer was running for the Labour leadership, he said that he stood by the 2019 Labour manifesto. This proposed a £83 bn a year increase in 'current' spending in the first year of a Labour government, an increase of around 12%, to begin to reverse the Tories' cuts since 2010 and repair the dire state of services and benefits. This was to be funded by the same amount of increased tax on capital (90% of the increase) and the rich (10% of the increase). It aimed to begin to reverse the massive transfer of value produced from labour to capital which has taken place over the last 45 years, and to start to reduce the massive inequality of income between the rich and the rest which has increased over the same period. The manifesto also proposed that government borrowing for investment be increased, taking advantage of near-zero interest rates: an extra £50 bn a year to fund a National Investment Bank and the Green New Deal; and the nationalisation of the utilities, funded by bonds (another form of borrowing). This approach has now been decisively abandoned by Starmer and Dodds.

Starmer's 'big speech': the emperor's new clothes

In his 'big speech' on 15 February, Starmer made one important and valid observation: that the impact of the pandemic is worse because of 10 years of Tory policies. Everyone from the Tory wets leftwards has been saying this for a year, but better late than never. But he didn't explain *why* this is the case. And worse, he drew no policy conclusions whatever from it. His 'strategy' consisted of

three entirely negative points, designed to distinguish himself from Corbyn. First, 'Labour will not treat business with indifference but will work with business'. Second, 'Labour will not treat business as a source of tax'. Third, 'Labour will not increase tax on the hard won earnings of ordinary families'. (These supposed attacks on Corbynism forget that the 2019 manifesto had major policies to support business, and promised no increases in tax on incomes under £80,000 a year.) Thus the overall message was: no increase in tax revenue; and so no increase in revenue spending.

To show his 'positive' thinking, Starmer put forward two proposals, albeit tiny ones. First, to expand National Savings so as to provide a haven for the savings of the better-off which they have accumulated over the pandemic. This can then help to fund the recovery, and provides a bung to the middle class. But this suffers from two disadvantages relative to government borrowing from the finance system: the interest rate offered will have to be larger; and the amount raised is unpredictable in advance. Starmer's second proposal was a £1bn a year increase in funds for firm start ups, a bung for middle-income people who have lost their jobs. This is one of the most inefficient industrial policies for creating jobs: a half of start-ups fail within a year; there is no targeting by industry, so successful start ups serving domestic markets simply kill off other firms. The policy doesn't begin to address the main industrial problem: that corporations over decades have failed to invest, and have instead used their profits to pay dividends, pay squillions to their executives, buy back their shares, and speculate in money markets. So these two proposals amount to nothing.

Budgets are a class issue

A government budget sets out its plans for spending, taxation and therefore borrowing for the next financial year, in this case April 2021 to March 2022. It also sets out plans for the following three years, though these are typically changed in the event. This is very big stuff: in contemporary high-income countries government spending accounts for between 25 and 50% of Gross Domestic Product (GDP). In Britain in 2019/20, the year before the pandemic, GDP was £2,170 bn a year and government spending £842 bn, 38% of GDP. The budget also sets out how spending is to be divided between capital (subsidies to business), workers (public services, benefits, state pensions, housing benefit), infrastructures which serve both classes, and military spending which serves only capital. The budget specifies how taxes are to be raised on capital (corporation tax, capital gains tax, land and property taxes) and on workers (income tax and national insurance, VAT, council tax). These are therefore huge class issues, alongside the primary class issue of the exploitation of labour within production.

Accordingly, in the lead up to a budget, opposition parties usually set out their broad strategy and demands on each of the major spending and taxation issues, and then use their reply to the budget to plug those demands. In the weeks leading up to the budget, I waited with baited breath for Starmer and Dodds to set out their strategy. But they said nothing. So it turned out that Starmer's 'big speech' was their budget demands; as we have seen, this was a big zero.

This year, the class nature of the budget has been overshadowed and obscured by the short-term government spending in reaction to the pandemic - furlough payments, grants and loans to firms, and changes to benefits. These were required to stop wholesale bankruptcies, soaring unemployment, and destitution of the majority of the population. The inadequacies of this spending are well-known. So in this article I focus on the long term issues in government spending, taxation and borrowing. I look at spending on public services and benefits, and how it can be funded by borrowing; industrial and ecological policy and associated government spending on business and public goods; and finally the hotly-contested question of taxation.

Spending on public services and benefits

Since 2010 the Tories have carried out massive cuts to public services and benefits, which resulted in catastrophe *even before the pandemic*. Services were in tatters, the workload on public sector workers intolerable, and their wages frozen. There was a 15-20% real cut to public sector wages. Central funding of local government was cut by 50% on average, 60% in most Labour-controlled authorities. Spending on housing, social care, nurseries, libraries and public spaces was slashed; youth services and day care centres have vanished. In private-sector run social care there were 100,000 unfilled posts, and workers suffered sweatshop levels of pay and conditions. In the NHS, there were the lowest number of acute beds per capita among high income countries, and 85,000 nursing posts were unfilled. Schools had classes of 30+, buildings and equipment were grossly inadequate, and teachers had to work 60 or 70 hours a week, with consequent high drop out rates. Cuts to funding of legal aid mean that ordinary people had no possibility of legal help, a fundamental right. The number of civil servants, local government officers and staff of regulators is so depleted that many government spending programmes are simply not implemented (for example the cultural industries pandemic funding), policing of regulations on the environment and employment is non-existent (water pollution, wages and health and safety), and the government 'has to' farm out programmes to the consultancies and outsourcing corporations (who then don't carry them out either - the £1bn fund for greening homes was only 3% spent last year). All this has of course got much worse during the pandemic. In the NHS, schools, care homes and social work, workers are under unbearable strain leading to burn out, depression and resignation. The waiting list for elective surgery stands at 4.6 million (one of whom is me).

Sunak's budget freezes spending on public services in 2021/2, and cuts it by £15bn in 2022/3. In the face of this barbarism, the least that Labour should demand is an immediate rise of 15% in spending on services to bring wages back to 2010 levels, plus a 20% rise to begin to restore services and reopen closed ones. On base spending of around £500 bn, this is increased spending of £175 bn a year. (These are ballpark figures, but we need a sense of scale here.) Since services are labour intensive, around 30% of this comes straight back to the Treasury in tax, so the net cost is around £120 bn a year. This could make a start on the 'care-led recovery' proposed by the Women's Budget Group.

Since 2010, benefits other than the state pension have been slashed, most grievously in disability benefits, the bedroom tax, housing benefit, and the five week wait for payment of Universal Credit; statutory sickness pay is a ludicrous £95 a week. Sunak has frozen these too. Labour should have demanded an immediate doubling of benefits overall, costing £75 bn a year.

In the event, Labour has demanded no increase whatever in funding of public services and benefits. Members of the Labour front bench have criticised particular fields of government spending. They have called for maintaining the 10% lift in universal credit, and opposed the cut in the overseas aid budget. They have *pointed to* problems such as the crisis in local government funding, the low level of statutory sick pay, the real wage cut for NHS staff. But they do not say what increases are needed in these areas; and because they do not propose to increase overall spending, increase in these areas would be offset by cuts in other areas. So these criticisms are random and vacuous, designed solely to appear a bit more caring than the Tories.

A particular but significant instance of Starmer's failure on this issue is his recently-launched campaign for the May local elections. He makes no demand for a (radical) increase in central government funding of local authorities. Instead, he talks of the great job being done by Labour-controlled authorities in administering austerity. An opportunity lost - and probably a lot of local elections lost.

Borrowing and debt

Increased spending on services and benefits totalling £195 bn a year does not require any increase in taxation. It can be funded by borrowing at close to zero interest rates. Or it can be funded by the Bank of England printing money and lending it to the Treasury - 'quantitative easing'. (The great majority of extra government borrowing during the pandemic has been funded in this way; the Bank now owns a third of the government debt). So why has Labour refused to make this elementary demand? Starmer and Dodds have given no public explanation that I know of. But Dodds recently did a meeting for Sheffield Labour Party members, at which two of us asked her why she didn't propose increased borrowing to fund services and benefits. She gave two reasons. First, that revenue spending and taxation should be equal over a business cycle (ten years, say), which was in fact John McDonnell's rule. But this rule suggests that the state *should* borrow in a recession; and, duh, we are currently in the biggest recession for 300 years. Second, she said that interest rates may rise in the coming years, echoing recent 'warnings' by rightwing pundits. But this is actually unlikely. Underlying her stance is the neoliberal dogma that government debt is bad and must be reduced, the same argument used by the Tories since 2010 to cut spending. This view has no interest in the real utility and effects of government debt; it simply fetishises a number – an instance of the fetish of value discussed by Marx. British government debt currently stands at 108% of GDP. In 1945 it stood at 250% of GDP, which didn't stop the Atlee government from creating the NHS. Ridiculously, Labour now finds itself to the right of the IMF and the OECD which are calling for rises in state spending.

Spending on business and investment

The last ten years have seen rock bottom levels both of productive investment by capital and state investment in green infrastructure. Since 2010, the Tories have more-or-less abstained from industrial policy. Economic 'regeneration' has been confined to enabling of commercial property and housing for owner occupation, both of abysmal quality and often in entirely inappropriate inaccessible green-field sites. Government investment has been in ruinous roads and high cost rail; the £100bn HS2 line is environmentally destructive and will actually drain of economic activity the Midland and Northern towns it serves, as John Tomaney has shown. Johnson's fatuously named 'levelling up' of the North proceeds entirely through physical infrastructure: HS2 plus the current three programmes of money to towns to build something visible which the local Tory MP can cut the ribbon of. The thing that could actually make the biggest difference is a reversal of the cuts to local government. Since Cameron abolished the English Regional Development Agencies, there has been no serious regional and local industrial strategy. But Starmer has made no criticism of this appalling record, beyond pointing out that the town pork-barrelling programmes are corruptly focused on Tory seats. The proposals in the 2019 manifesto for National and Regional Investment Banks have been forgotten.

Sunak presented two new industrial programmes in his budget speech. First, in a 'super-deduction tax break' (SDTB), businesses which invest in fixed capital and R&D can write off 130% of the cost against corporation tax: in other words, the state pays for the investment and gives a present on top. This is costed at £12.5 bn a year. This programme implicitly acknowledges what critics have been saying for years, that cuts to corporation tax have not resulted in productive investment, their supposed justification. But this subsidy to investment is scatter-gun and enormously wasteful: it may go to the development of a new vaccine, or to Amazon to build a new warehouse. Neoliberals have no idea how to do *effective* industrial policy. Starmer has made no criticism of this policy, nor presented the 2019 manifesto strategy as an alternative.

Sunak's second industrial development programme is seven Free Ports in England. In zones of 28-mile radius, investors will be able to import goods free of tariffs for reprocessing; they are exempted from most taxes; land use planning control is softened. The cost of this programme to the

Treasury is unknown, and will never be known since taxation of corporations is ‘commercially confidential’. Like the investment tax break, it is scattergun, not part of any industrial strategy. It will undoubtedly be a laundromat for kleptocrat and mafia money (which is why Free Ports in the EU are being phased out). Like the investment subsidy, there is large ‘deadweight’, subsidising investments which would anyway have been made. And there is large ‘displacement’, as investments are moved from outside to inside the zones. All of these problems were present in spades in Thatcher’s Enterprise Zone programme. But there has been very muted criticism from Labour. Labour local authorities have fallen over themselves to get a Free Port on their patch – not surprisingly, since there is no other industrial development programme on offer.

The government has no serious programme for green investment. In contrast, the 2019 Labour manifesto made a Green New Deal (GND) central, with funding of £25 bn a year. Funded by borrowing, this would have produced large economic, social and environmental benefits, and even a net return to the Treasury. Last year, Starmer presented his own, watered-down version, which stripped out the nationalisation of the utilities. But even this got no mention in the budget debate. Starmer should have presented the 2019 manifesto GND as an alternative to the government’s manifest failure. We could then have had a potentially popular Labour strategy for recovery centred on productive and green investment *and* a massive expansion of care. Instead, we have no strategy. (For an eloquent presentation of this view, see ‘What Kier Starmer should have said about the budget’, Labour Grassroots website, 5 March).

Taxes – the great unmentionable

Since 2010 the Tories have cut corporation tax (the direct tax on profits) and other taxes on capital, and cut income and inheritance tax on the rich. One of the main aims of Brexit, which had the support of all sections of capital, was to prevent the EU from imposing uniform, and thus higher, rates of corporation tax, and from shutting down Britain’s archipelago of tax havens in the Crown Dependencies [<http://www.jamiegough.info/sites/default/files/downloads/Red%20Pepper%203%20revised%20by%20Hilary.pdf>]. Sunak’s big surprise was to announce that corporation tax would jump from 19% to 25% in 2023/4. This was heavily leaked before the budget to lay a booby trap for Labour, which Labour duly fell into. Starmer declared, in line with his big speech, that increasing tax on business would inhibit investment and thus economic recovery, and was unfair in the present difficult circumstances. When Sunak announced that he would do just that, Dodds had to backtrack and say that the rise should be made ‘gradually’.

The Starmer/Dodds line on corporation tax is plain stupid. First, Sunak has *reduced* corporation tax through the Super-Deduction and the Free Ports. Much of the capital operating in British anyway avoids paying any corporation tax by using Britain’s tax havens. Second, the ‘hard pressed firms’ which are making losses as a result of the pandemic, recession and Brexit do not pay any corporation tax. Third, many corporations – the supermarkets, Amazon, the outsourcing corporations, pharmaceuticals – have made super profits from the pandemic, which should be super-taxed. Fourth, corporation tax is applied to the financial sector, on which tax should be increased. Fifth, as we have seen, under neoliberalism productive and commercial corporations have not used low corporation-tax rates to invest.

Labour should, then, have demanded a rise in corporation tax from this year. But it should have gone much further, and demanded that: the British tax havens be closed; tax evasion and avoidance be stopped, which the Tax Justice Network estimates could yield £120bn a year; the big five US tech firms be taxed on their British operations (as France is doing); a Financial Transactions (Tobin) Tax be imposed on the city of London; a 100% tax be placed on land price rises due to planning consent (Development Land Tax); a wealth tax be imposed on the wealthiest 1% who own 50% of the wealth; and that Capital Gains Tax be raised at least to the top level of income tax. Providing

that staffing of HMRC was radically improved, and its 'pro-business' remit revoked, this could raise perhaps £150bn in the first year and much more in subsequent years. This approach already has strong support in the public. If Starmer demanded and campaigned for these measures, it would make clear that Labour would 'increase taxes' *without* increasing taxes on workers (failure to make this clear was one of the central failings of Corbyn's election campaigns). But Starmer is so scared of being labelled 'anti-business' that he won't do it.

Sunak's non-surprise was to increase taxation of the working class. Income tax thresholds are to be frozen over the next three years; rising (nominal) incomes mean that more people move into the higher tax brackets. More than one million people are expected to move through the £12,500 threshold and thus start paying tax on their very low income. Sunak also gave the go ahead for big rises in council tax, a grotesquely regressive tax. Labour grumbled about this; but because Starmer had proposed no other means of raising tax income, and had not demanded a big increase in central government funding of local authorities, the grumble cut no ice.

Failure today, failure tomorrow

The failure of Starmer to present an overall alternative to the Tory austerity budget is suggested by an opinion poll commissioned by the *Observer* (14 March). On budget day a staggering 51% thought the budget 'fair' and 19% 'unfair'. Even a week later, after the wage cut for NHS workers became known, 42% thought it fair and 29% unfair. So the Tories have escaped unscathed.

With his big speech and stance on the budget, Starmer has junked Corbyn's economic, social and ecological programme. His supporters claim this will make Labour 'electable'. They have learnt nothing from Ed Miliband's leadership of the Labour Party in 2010-5. Like Starmer, Miliband grumbled about particular cuts; but this was meaningless because he did not oppose the overall, aggregate cut in spending. He therefore never presented a positive reason to vote Labour, and in 2015 duly lost the election.

What Starmer should have said, and what the left should say

I have suggested the kind of programme that the labour movement should demand on government spending and funding at the present time:-

- * A large increase in the annual funding of public services and benefits, of around 35%.
- * This to be funded by around £200 bn a year borrowed from the finance system or from quantitative easing.
- * A programme of state investment in industry and a Green New Deal, of around £50 bn a year, funded by long term borrowing.
- * A reduction in taxation of individuals and households below the median income.
- * A large increase in taxation of the rich and, especially, capital, which can aim to raise around £150 bn a year.

This is the minimum needed to address austerity and economic crisis, to meet people's immediate needs, and build a recovery from the recession based on care and ecological conversion. It is perfectly feasible. The main problem in winning popular support is to explain how the funding can be done. Failure to do this was in my view the main failure of the Corbyn and McDonnell leadership [<http://www.jamiegough.info/sites/default/files/downloads/Labour%27s%20economic>

[%20programme%20and%20its%20public%20reception.pdf](#)]. The left needs to explain how easy it is for the government to borrow, and thus cut through the fetish of the debt. It needs to explain the mechanisms for taxing capital, and that these are eminently feasible despite 'globalisation'.

How can a programme of this sort be advanced? At the moment, neither Momentum nor the Corbynite MPs of the Socialist Campaign Group are presenting an alternative economic programme to Starmer's. This surely should be the next step for the left in the party and allies in the trade unions. It is unlikely to emerge without pressure from struggles 'on the ground' of the trade unions, residents, housing and community groups and the environmental movement. At the moment these struggles are at a low ebb, not only because demonstrations are prohibited and attacked by the police, but because most people are too overworked and exhausted to do anything extra, and too preoccupied with material and mental survival to think about politics at all. But, assuming the vaccination programme is successful in suppressing Covid 19 and its variants, it seems likely that struggles will erupt against the ever-worsening economic, social and environmental crises. If these struggles are to make durable gains and to multiply, they will need to be ideologically and politically supported by a left programme for government, including a programme for spending and funding of the type I have suggested.