

# FUTURE SHOCK

**GOVERNING AS ONE NATION LABOUR**

Dr Matthew Sowemimo



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## About the Author

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# Key Findings

This pamphlet will argue that a radical reforming Labour government or Labour led government, will face intense political resistance and needs to be ready with a strategy to overcome its likely opponents. There is a strong possibility that the scale of political opposition a Labour government could face would destroy its authority and pave the way for a heavy election defeat. There are steps that Labour should take in the months ahead to prepare to govern effectively when the time comes. Political opposition to a future Labour government could easily lead it to haemorrhage votes on the same scale as during the last Labour administration – only this time from what is a likely to be a much lower electoral starting point. Labour cannot expect anywhere near the quality or quantity of support it enjoyed in 1997. A weak government that will need to strengthen its position might instead find itself floundering fast.

**“There is a strong possibility that the scale of political opposition a Labour government could face would destroy its authority and pave the way for a heavy election defeat”**

Labour is likely to face battles with the banks, big business and over the future of the European Union. However it could also struggle to convince actors within its own constituency, like the public sector trade unions and local government leaders of the wisdom of its policies.

An incoming Labour administration will be in many ways undertaking the most ambitious and challenging reform programme since the 1945 post-war government. It will endeavour to introduce major private sector reforms that challenge powerful business interests in the context of slow growth. There remains a risk that Labour will also enter office when a new financial shock ripples across the world, possibly from the collapse of the Euro. If Labour want to stimulate the economy without borrowing more in the short term they may be forced to squeeze some

areas of public spending even harder than the current government. Labour could preside over continuing cuts in public services that disproportionately impact on its core vote. Ed Miliband and his Foreign Secretary would have a limited window to wrest back the initiative in the debate on British membership of the European Union.

A Labour government may not enjoy a parliamentary majority in either the House of Commons or the House of Lords. Even though Labour’s parliamentary opponents will not be able to force a dissolution of the Commons, they could destabilise the administration by calling votes against individual policy measures. The Scottish nationalists may have particular incentives to do this. A Labour government with a small majority might see this whittled away through by-election defeats. Relationships with whatever remains of the Liberal Democrats could be vital.

A future Labour government is likely to face strong political resistance in key areas including:

- The social distribution and magnitude of public spending cuts, especially in policing and local government
- From the banking sector
- Resistance to reforms to private sector governance, including the media and utility regulation and pricing
- Progressive taxation – in particular any mansion tax
- Climate change and energy
- Scotland
- British membership of the European Union
- Public sector pay
- Internal party dissent

Labour faces potential political isolation in the face of strong attacks from both the Right and within the labour movement in the above areas of public policy. The scale of dissent on these issues may rob ministers of the political capital to secure policy change as well as the chance to stabilise the newly elected government and build its base. President Obama’s first two years in office were made immensely fraught due to attacks from both the Right and Left of the political spectrum. Equally, winning legislative battles will not of itself secure behaviour change or public support.

This paper makes a series of **key recommendations** for Labour as it prepares for power. These are:

- Ed Miliband needs to secure a clear electoral mandate for a fairer social distribution of spending cuts and tax increases just as President Obama did in his successful re-election campaign in 2012. This will help overcome the opposition that Labour would face from well financed interests that will resist paying a greater contribution to reducing the budget deficit.
- Labour will need the support of strong social movements willing to mobilise and agitate for private sector reform, including breaking up the banks. These alliances will need to cross party lines and include Liberal Democrats like Vince Cable that have shown support for these reforms. Labour needs to emulate President Obama's work to convert an electoral machine into a movement to win major legislative struggles.
- A Labour government would need to spell out the benefits of the private sector reforms in concrete terms specifying their impact on wages, jobs and ending 'rip off' commercial abuses by providers of financial products.
- Labour has to act quickly to shore up public support for British membership of the European Union and secure early policy victories from EU member states in order to gradually shift the mood on this issue. Ed Miliband can only secure this by reaching out to major European Union governments in advance of coming to power. This approach is essential whether or not Labour embarks on a referendum on continued UK membership.
- Labour's private sector reforms can only be enacted if there are equal levels of commitment to them from both Number Ten and the Treasury. Business will exploit any governmental divisions over policy within this area.
- Labour has to avoid a public showdown with the trade unions due to its policy on public sector pay. If the Labour administration continues its hard line on pay it should couple it with policy initiatives designed to improve fairness in the workplace.
- Labour needs allies from sections of big business to make a public case for responsible capitalism. The lack of these allies weakened Ed Miliband when he made his big speech on responsible capitalism in 2011.
- Labour is already finding it difficult to manage austerity now where it is power in places such as Newcastle and Camden. But present local authority struggles could look like a picnic if a new government hasn't laid the political foundations for the rocky road ahead.

# Introduction

Two years away from a general election Labour has a real prospect of retaking power. The realignment of disillusioned former Liberal Democrat voters behind Labour since 2010 and the emerging split within the centre-right due to the rise of the UK Independence Party create the conditions for a Labour or Labour-led administration in 2015. So Labour needs to be ready to govern decisively and to pre-empt some of the political challenges it will face in taking office. Tony Blair's government had a clear strategic view about the need to consolidate political support within the centre ground after the Conservative's electoral collapse in 1997. Prime Minister Ed Miliband would need his own carefully prepared plan to overcome opposition to the radical reforms he proposes. This paper assumes that Labour has regained power in 2015, either in coalition; as a minority administration or with a secure but narrow parliamentary majority.

Financial austerity has torn apart previous Labour governments; most notably Ramsay Macdonald's in the pre-war period and also generated tensions during the Callaghan government in 1976-78. Labour faces a real danger that notwithstanding its wider progressive ambitions, the continuing financial squeeze on households will further alienate core supporters. Labour's challenge in 2015 would in some ways resemble those of Margaret Thatcher's in the 1979-81 period – an administration with far reaching ambitions to reform the private sector has to undertake them in the least propitious circumstances.

Looking back into history in the case of Margaret Thatcher and Tony Blair's assumption of power, we can see how much weaker Ed Miliband's position would be in Downing Street. Margaret Thatcher came to office in 1979 with considerable ideological winds at her back. Her case that the state had become too dominant and that trade union power needed to be curbed seemed plausible given the industrial strife of the Winter of Discontent. Internationally, she had strong allies with the advent of the Reagan administration which shared almost all her underlying

analysis in socio-economic and security policy. Both Reagan and Thatcher wanted to expand the space for the global capitalist political economy (Gamble 1988). Thatcher and Keith Joseph's free market doctrines were also underpinned by a strong intellectual transatlantic movement. There has yet to be a comparable intellectual ferment around responsible capitalism or reformed social democracy. There are some isolated thinkers on topics like pre-distribution but there are no unifying precepts that can guide the direction of policy across the board. If anything the elite consensus in support of free market policies has proved to be surprisingly resilient in the face of the banking crash of 2008.

Internationally, if Labour won office in 2015 this would coincide with the end of Barack Obama's term in office and with only one other social democratic government in office in a major European Union state. Tony Blair for a short period enjoyed a situation where there were social democratic governments in office in fifteen out of seventeen Western European democracies. By 2015 Francois Hollande may be in deep trouble and we are yet to see if the German SPD can establish a winning lead before they go to the polls in September 2013. But no European or global left of centre actors look strong at present.

Margaret Thatcher had a strong base of support in the Conservative parliamentary party and had young up and coming ministers in the junior ranks like Peter Lilley and Michael Portillo ready to champion her policies. But even she had to work hard to establish a political regime where the majority were 'one of us'. Tony Blair in 1997 was also able to call upon a loyal and sizeable parliamentary contingent beyond his Cabinet allies, including rising stars like Alan Milburn and John Reid. Ed Miliband's support within the Parliamentary Labour party (PLP) has always been fragile and this was reflected in his level of support within the PLP in the 2010 leadership electoral college. As will be discussed later, Miliband's support from within the wider labour movement is brittle and will be tested through the prolongation of financial austerity.

New Labour's central objective was to make an accommodation with big business. Ludlam and Smith have argued that Blair and Brown's central macroeconomic objective in 1997 was to

maintain stability and foster Labour's credibility in financial markets (Ludlam and Smith 2004: 147). Ed Miliband conversely appears ready to embark on a much greater policy departure by strong efforts to influence how some markets operate.

Ed Miliband had led the debate on how to secure a more responsible form of capitalism – one that provides the wages, investment practices and skills that our communities need. Many of these proposed reforms, such as breaking up the big banks, will place a Labour administration in conflict with key business interests. Given that the Conservatives have done so much to damage Labour's economic credibility through their propaganda post-2008, Labour may have to rebuild its reputation when it faces potential business criticism. Labour appears ready to pursue a major shift in corporate behaviour at a time when it also needs enhanced investment from the private sector to overcome slow growth and stagnation. The breadth of Labour's ambitions for the private sector is considerable – higher wages, a more long term approach to investment, reformed corporate governance and challenging high pay. Any one of these reforms could attract resistance from the CBI.

Francois Hollande's victory in the French presidential elections in 2012 raised considerable expectations of change in a country suffering from high unemployment and intense social divisions. However the president's administration was overtaken within months by high levels of public disillusionment and a strong political backlash from the wealthy elite against his redistributive policies. The decisions by a number of high profile French individuals to relocate to other countries helped shift the news agenda against the Socialist administration and place it on the defensive.

New Labour was able to pursue covert redistribution of wealth in a benign economic environment where it was not obvious that poorer households were receiving significant transfers. However given the shrunken 'pot' of state resources it will inherit, any transfer to one section of the community will be highly visible. Recent years have shown a marked shift away from public support for redistribution of wealth and particularly for welfare spending. British

Social Attitudes data showed that this shift began when Labour was in office and occurred primarily due to Labour voters becoming more hostile to welfare spending. Many would argue that Labour voters responded to messages from its own government on issues like welfare sanctions. On the other hand certain progressive taxation measures like the 50p top rate of income tax have been shown to be consistently popular with the public which gives a future Labour government options for enlarging the 'pot' of state resources.

Labour would also be entering power with a limited community base. The party at grassroots level was hollowed in the final period of the Blair/Brown years. However, more positively, new social movements began to lead and galvanise resistance against Coalition Government policies from 2010 onwards. Despite their effectiveness, many people within these movements are currently detached from Labour and do not feel that the party instinctively speaks to their concerns. New projects like Movement for Change are attempts to rectify this failing – but they start from a very low base.

**“Labour's leadership has to be ready to fight off calls for it to change course and tack back to the centre-right in order to retain office”**

Labour risks serious political isolation if it forms a government in this context. The opposition Conservatives could form a nexus with big business to attack the administration's economic reforms, whilst the continuation of austerity throughout the 2015-2020 parliament could attract mounting resistance from core parts of the Labour coalition, including the northern cities and the trade unions. Any government that undergoes midterm unpopularity will generate renewed internal debate over its political direction. Labour's leadership has to be ready to fight off calls for it to change course and tack back to the centre-right in order to retain office.

Labour will not have a majority in the House of Lords and the upper chamber could be a source of significant legislative opposition. If Labour is



governing as a minority administration it will be subject to opportunistic motions in the House of Commons that could defeat its policies when the opposition parties can unite. These motions are more likely if this administration is losing the battle for public opinion.

Labour's opponents outside parliament will be well financed and have access to considerable public platforms to make their case. In some areas, like banking reform, they will pose as guardians of the conventional wisdom and enjoy third party endorsement from mainstream commentators.

Tony Blair was constantly focused on losing support to the Conservatives. However if Labour in power alienates a significant section of its core support over continued austerity, it may have to contend with electoral challenges from parties like Respect or even the NHS Action Party.

This paper will explore the areas in which I foresee a Labour or Labour-led government facing strong political resistance. They are in turn:

- Banking reform
- Wider private sector reform
- Public spending
- Scotland
- Europe
- Climate change and energy
- Internal opposition from within the labour movement

The paper will suggest how opposition on these issues can be countered and will conclude with making specific recommendations for action that the Labour leadership can take now as well as in office.

# Public Spending

Whilst Compass has consistently argued that there are alternatives to economic austerity (Reed 2011) the Labour Party in opposition have indicated that they accept the need for public spending cuts. The politics of austerity will be more contentious for Labour than the Conservatives. The Conservatives have ensured that the spending squeeze bears down hardest on constituencies outside their electoral coalition. For example, the removal of area-based money from the most deprived local authority districts and the cuts to council tax benefit do not, on average, affect Conservative voters as severely. However Labour voters, particularly those in areas of high deprivation are most reliant on income transfers and public services.

It is worth examining two scenarios in relation to the politics of austerity under a future Labour government. The first is that Labour decides to greatly slow down the pace of spending cuts. The second scenario is that Labour adheres to the overall spending envelope left by the Coalition Government.

## Slowing the Pace of Spending Cuts: Scenario One

An incoming Labour government might decide to half the rate of public spending cuts planned by the coalition in order to kick start the economy. Labour might decide for example, to reduce the rate of value added tax (VAT) to encourage more consumer demand. A Labour Chancellor might also instigate a national house building programme designed to create economic activity and to reduce housing pressures in the Southeast of England. If the real economy responds to the anticipated demand stimulus, there are possibilities for Labour to make alliances with fractions of big business, such as manufacturers and the property industry. Labour could use the additional resources to change regional spending formulas so that the severity of the squeeze on metropolitan cities and northern regions is reduced. If the economy begins to recover within two quarters and recoups the lost output from

2008, any adverse reaction of the bond markets could be offset both financially and politically.

However, central to this scenario is the strong risk that an adverse market reaction will come very swiftly and dramatically. Labour could face a substantial sterling depreciation if there is considerable loss of investor confidence. A major sterling devaluation could negate some of the benefits of the looser fiscal policy introduced by Labour. A rise in domestic prices might also negate the impact of lower VAT on household budgets. This scenario would rally the Conservatives and their City of London allies into loud and coordinated attacks on a Labour administration. The greatest danger for Labour would be if the benefits of a looser fiscal policy were not felt for up to a year. The Business Secretary Vince Cable has noted that the UK did not derive substantial benefits from the post-crash sterling depreciation. If Angela Merkel remains as Chancellor of Germany the prospects for a coordinated European reflationary programme will move out of range. The greatest challenge for Labour would be if its attempts to re-orientate policy were overtaken by a new global shock, such as the secession of Spain and Portugal from the Euro currency area.

Any change of macro-economic strategy will have to be executed swiftly. A change in strategy right at the beginning of the government is more likely to command credibility than a course correction. Labour must also face up to the prospect that the Governor of the Bank of England, Mark Carney, may speak out against a change in policy. Mervyn King agitated for public spending cuts in 2009, in flat defiance of his legal remit. Removing the governor after public criticism might inflame financial markets even further. To manage the politics of this scenario Labour would need to secure public support from the sections of business that are the beneficiaries of its fiscal policy.

The losers from spending allocations are always vocal. Labour needs to ensure the winners from this policy are equally vocal.

## Labour's Austerity: Scenario Two

In this scenario Labour would adopt the spending envelope left by the coalition in its 2015-16

comprehensive spending review. This would potentially entail at least £70 billion of spending cuts over the lifetime of the next parliament. In 1997 Labour accepted the Conservative's spending totals and this contributed to controversies like the cut to lone parents' benefits.

In office Labour will have to more squarely address why austerity has to continue. Labour would need to show how its austerity programme would differ from the outgoing government and how austerity fits with the government's wider social purpose. Labour may win office in part because public support for austerity has begun to flag. Therefore Ed Miliband and Ed Balls would need to demonstrate how their path to reducing the budget deficit will be more socially equitable than Conservative policy.

Labour will face a choice of either front loading the spending cuts for 2015-19 in the first half of the parliament or profiling them more slowly. The electoral cycle will encourage a Labour Chancellor to concentrate the greatest cuts in the first two years of the parliament to provide the space for an easing of spending controls in the immediate run up to the 2020 general election. Unfortunately, this approach will ensure that a Labour Chancellor faces strong protests from local authorities and the health service in the first two years of the parliament.

Resistance to austerity from within the labour movement is likely to escalate after four years of sustained budget cuts. Labour-led local authorities could publicly condemn the government for failing to ease the squeeze in areas like social care. Growing hostility to spending cuts may come at a time when the bond markets seek to test Labour's resolve to maintain deficit reduction, especially if borrowing is over-shooting the targets set by the outgoing administration.

However, if growth in the economy under-shoots Treasury targets in 2015-17, this will have ramifications for the level of government borrowing. In this scenario Labour will be under pressure from the financial markets to make even greater spending cuts. This could prove to be one of the most politically testing periods in the lifetime of the government. In addition to this the Shadow Chancellor, Ed Balls, has already indicated that he would wish to reallocate spending in order to stimulate the economy. An economic stimulus would involve quite signifi-

cant sums of money for it to have any effect on the real economy. As a consequence, this would mean deeper cuts in other areas of the budget.

Labour would be wise to make a strong public gesture that would reduce financial pressure on low to middle income people using resources from higher wealth taxation. This should help ministers maintain political support from within its own base for the 'long haul' of austerity across the parliament. The Blair government deliberately avoided making an open argument for greater social equality, despite the introduction of transfers like the working family tax credits. This contributed to a waning of political support for redistribution, particularly amongst Labour voters and has made it easier for the Conservatives to roll back these policies. **A Labour administration must endeavour to re-establish the link between a greater financial contribution from the strongest in society and providing greater relief for low and middle income sections of the community.**

**“Labour should fight the next election explicitly on a pledge to rebalance the distribution of financial pain incurred by deficit reduction”**

Labour should fight the next election explicitly on a pledge to rebalance the distribution of financial pain incurred by deficit reduction. This will help it undercut resistance to greater wealth taxation in power. Opinion polls have consistently shown that the public think that the government's spending cuts are unevenly distributed. By making a direct link between higher wealth taxation and alleviating the burden borne by the rest of the population, Labour could start to rebuild support for income redistribution.

In the second scenario Labour should urgently revise the funding formula for local authority central grants. Funding that flows to deprived districts would help ease some of the financial and political pressure on big city and northern local authorities.

The unprecedented length of financial austerity will particularly test the NHS by the time Labour comes to power. The health service will have had

five years of static spending at a time of growing demand due to an ageing population. Many people have argued that there is a crucial interdependency between health service performance and investments in social care. However many local authorities have made considerable cuts in social care spending, such as home care. The result may be that emergency readmissions for over 75 years olds reach stratospheric levels by the time Labour comes to power and have knock on effects for the rest of the work undertaken by acute hospitals (Humphries 2011: 10). A major fall in public confidence in the health service during Labour's first years in power will damage the party's brand given that Labour has consistently been trusted to manage the health service effectively.

Some of the social groups who have been publicly hostile to the Coalition's public spending cuts may become even more vociferous under Labour. The police and local authorities may intensify their mobilisation against the Government. Labour-led local authorities will be particularly difficult to mollify under a Labour administration. A key consideration for Labour will be if they relax the spending squeeze on local authorities, ministers will not be sure how far those benefits will translate into specific policy priorities. The military were forcefully critical of Gordon Brown during Labour's third term and they can be expected to publicly protest against the defence cuts. So Labour will face two respected groups – the police and the army who can be expected to argue that the Government is threatening public security through its policies.

## The Banks

Ed Miliband promised to break up the major banks if he was not satisfied that the public interest has been protected by the ring-fencing operation required by the new financial services legislation. The manifesto will probably signal Labour's intent in this regard and the banks will be ready to mobilise against it following their success in limiting the Vickers reforms. Many commentators have cast doubt on whether the ring-fencing reforms will limit financial contagion or prevent the need for a future bailout of investment banks (Hutton 2011: 211).

The banks have a record of mobilising tremendous lobbying power both in the public arena and behind the scenes. Their work during Vickers demonstrated this in full measure where some of them won policy concessions (Pratly 2012). Labour has to deal with the banks with a series of policy objectives in mind. It will wish to mitigate the impact of their potential bad debts but at the same time the Treasury will want to encourage an expansion of lending to small firms. During the early stage of the Vickers inquiry, it was reported that the banks sought to trade off policies relating to their lending against separation of their retail and investment functions. The banks' institutional power could be undermined if the Labour government is willing to bypass them and secure enhanced lending via state or intermediate agencies or by facilitating the entry of new actors in the marketplace.

However Labour's leverage over the big banks will increase if they are in need of a further recapitalisation. This need might emerge if some of the banks face sovereign debt default due to the troubles facing the Euro zone.

Intellectually Labour will be able to marshal many arguments for full separation but it risks these being drowned out by scaremongering about the banks importance to the economy. One of the banks may even attempt a stunt and announce a pull-out from the City of London. Labour will need to be ready to stand firm in this scenario. As with the wider programme of private sector reforms, it will be essential that the public do not see the issue as a struggle between the banks/big business and the Government. Instead

Labour should marshal a constellation of forces so that it seems as if the banks are ranged against public opinion.

A key argument will be, as ever, that a new banking regime here will encourage disinvestment and relocation. If the Euro instability continues it will be worth emphasising in the public debate that further shocks to the banks makes it essential to insulate the taxpayer.

Labour needs to be ready to pre-empt bank campaigning in the public sphere by:

- Getting big political figures from competitor countries to highlight the importance of limiting losses to the taxpayer and citing examples where banking regulation has been strengthened, such as Dodd Frank in the United States.
- Finding an ally from within the banking industry willing to do public advocacy for change.
- Finding a respected external body to publish any evidence indicating that the banks are 'tunnelling under' the ring fence created by the Treasury in response to the Vickers Report.
- Quantifying how much potential new banking bailouts would mean per head of the population and in relation to further cuts in public spending.
- Anticipating Tory opposition in parliament. Labour can highlight the considerable numbers of Tory MPs who have previously been employed in the banking industry and the extent to which the Conservative Party relies on financial industry political donors.
- Being ready with counter-arguments to the cry that its policy risks the loss of tax revenue and employment. Part of its response should highlight not just the fiscal impact of another banking crash but how a no bail out policy would create new incentives in the system against excessive risk taking.
- Ensuring that the debate does not seem as if it is 'the government versus the banks' rather than the big banks ranged against the public interest.

# Conflicts with Big Business over Corporate Governance Reforms

Ed Miliband has set out a series of very substantial changes he hopes to make to corporate governance within the private sector. He has called for a worker representative to be placed on corporate boards; binding shareholder votes on pay remuneration and a change to the culture of short termism in business investment strategies. Some of these policies were subject to resistance within Whitehall during the Blair years and were seen as highly contentious (Corry 2012). The Smith Institute has argued specifically that big business interests would see worker representation at board level as providing a foothold for the trade unions and react ferociously to it (Coats 2012). The reaction to Ed Miliband's 2011 'producers vs predators' speech gives an insight into the type of resistance that may come from big business. Miles Templeman, Director General of the Institute of Directors responded by saying:

"We would like to know how Ed Miliband plans to identify and reward 'good' companies over 'bad' ones. In practice, we think he would find this neither straightforward nor desirable. He should have more faith in customers and investors to decide. In the modern business place price is not the sole determining factor affecting people's buying and investment decisions. Consumers and investors are better equipped and better informed than ever to impose discipline on firms than any government. Instead of proposing that the state makes choices that are likely to be simplistic and wrong he would be wiser to find ways of boosting competition so that the customer remains king."

Business critics of Labour's reforms are likely to argue that they will damage confidence amongst potential investors at a time when the economy is still weak. These arguments could gain traction amongst the wider public.

As has been the case with the early period of President Hollande's administration, the Right may encourage some key sections of the wealthy elite to carry out 'stunts' such as the relocation of individuals or business interests overseas in response to Labour's 'over-regulation'. In presentational terms Labour have to define in concrete ways how its changes will deliver benefits for the population. For example, will some of the changes lead to more jobs with better wages? The risk is that changes that focus on processes will be met with opposition that presents them as simply loading costs on firms and provoking disinvestment.

**"Business critics of Labour's reforms are likely to argue that they will damage confidence amongst potential investors at a time when the economy is still weak"**

A Labour government should secure a public statement endorsed by other influential European Union leaders on responsible capitalism to demonstrate that big business will not be able to simply move production to other states to avoid stronger public interest regulation within the UK. Compass has previously called for European wide action on a living wage (Lawson and Albrecht 2010) to prevent a 'race to the bottom' in investment and wages.

Ideally, Labour policy objectives in this area could draw on strong and vocal support from movements committed to social justice. Otherwise, as with the case in the banking controversies, the public will perceive a two sided debate with ministers ranged against private sector actors who claim to speak for the national interest. The support of social movements could rally the public behind reforms as Make Poverty History did on the issues of African debt and aid in 2004/5. It was bodies like UK Uncut that made the running on the issue of tax avoidance and the political class subsequently responded when they saw that public opinion was supportive of protestors.

# British Membership of the European Union

If Labour comes to power it will have emerged from an election where the Conservatives have called for a referendum on European Union membership. Even though Cameron is unlikely to secure a major repatriation of power to Westminster, this will not diminish the political momentum that has been generated for a referendum. During its last period in power, Labour avoided making a consistent and robust case for British engagement within Europe. The decision not to enter the single currency was a by-product of this wariness. As a result, much of the argument about the European Union has, by default, been made by those who favour British secession from the EU.

In opposition, the Conservatives will probably move to a united position of calling for an in/out referendum and even urge a 'no' vote. They will enjoy considerable support from at least one third of the national press. The Conservatives are likely to argue that Labour is 'the poodle of Brussels' and that the administration is uncritically pro-European. Labour ministers may stoke up popular anger if they resist a vote either on the status quo of membership or on any new treaty designed to stabilise the Eurozone. The question of whether Labour holds a European referendum in the UK has to be seen in a wider institutional context. The current proposals to strengthen fiscal coordination of the Eurozone may add to the lack of democratic legitimacy within the European Union. (Hix 2012:3)

Labour could inherit an advanced stage of a new intergovernmental conference called to define the shape of a Eurozone fiscal and banking union. Ministers would need to have a clear public position on proposed institutional changes and the nature of safeguards required to protect British influence on single market policies. Labour would face very pertinent questions about how the UK could remain an influential actor within the European Union if 'in' member states intensified political relationships. All this would take place whilst other member states made public pronouncements about their

negotiating positions. In communications terms Labour would need a very clear 'story' about how Britain could remain an influential actor within the European Union and how it would relate to the Euro area countries.

Labour needs to swiftly get out in front of this issue within its first months in office. It needs to shape the debate and not be led by it. Labour faces a choice of either reinforcing the hostile public climate towards the European Union or seeking to shift it. If a Labour Prime Minister wishes the UK to remain within the EU, hostile public attitudes will be a constraint on its room for manoeuvre.

**“Labour faces a choice of either reinforcing the hostile public climate towards the European Union or seeking to shift it”**

Labour could do this by demonstrating that the EU is responsive to British leadership and British economic concerns. Rather than placing the focus on institutional issues, like national vetoes, Labour could concentrate on securing political support for a major policy initiative aimed at fostering pan-European economic recovery. In the early days of the Blair premiership, Labour ministers were successful in shifting the political mood on Europe by negotiating a swift deal addressing the problem of fishing by other member states against the UK fishing quota, known as 'quota hopping' (Sowemimo 1999). Some people have suggested that Britain should press for reforms to European regional aid and the Common Agricultural Policy in order to release funds for targeted economic growth projects (Straw 2012: 27).

Prime Minister Miliband and his foreign secretary should aim for a comparable public demonstration that their administration has secured a major policy change benefiting the UK within its first one hundred days in office. Labour will have a limited honeymoon with other member states and will have to act quickly to capitalise on any good will that exists towards a new administration. Labour will need to consider what policy concessions it is willing to offer to

foster a better relationship with major EU states. During its last period in office Labour managed to alienate important left of centre governments by supporting neo-liberal policies within the European Union (Ludlam and Smith 2004). The next Labour government would be in no position to repeat these errors.

Whether Labour wishes to instigate a referendum or not, Labour ministers have to be willing to spend political capital on making a public case for British membership of the EU. Ministers have to communicate the fact that many British jobs are linked to the strength of European Union markets and our ability to develop trading relationships that benefit British companies. Anti-European campaigners place Britain in a position of immense uncertainty at a time of UK economic weakness and global economic fragility. In the pre-2015 period, Labour needs to avoid committing itself to policy positions that narrow its room for manoeuvre when the time will come to negotiate with other member states.

A trenchant and coordinated public campaign of messaging on British membership of the European Union could provide some opportunities for Labour to align itself with British big business concerns given the conflicts that have been discussed above. The case for UK membership needs to expand beyond commercial issues. A Britain that seeks to influence issues like climate change and international development will struggle to further its objectives outside of a common European Union position.



# Climate Change

In power Labour made no attempt to make the case that climate change was a major economic and social challenge for society (Toynbee and Walker 2010). However Labour has now signed up to a demanding energy decarbonisation target for 2030. In opposition the Conservatives could make a strong link between higher energy bills and climate change policies. Labour will need to be ready to counteract this argument.

The event that rocked the Blair Government to its foundation was the 2000 fuel protests by hauliers. Petrol prices remain politically sensitive and a repeat of the blockading of petrol depots is a possibility. Any new wave of protests in the next parliament could overwhelm the Government faster than those that took place in 2000 because of the advent of social media. A powerful mobilising green movement secured the Climate Change legislation in 2007. An equivalent level of mobilisation will be needed to drive through environmental reforms if Labour returns to office.

**“etrol prices remain politically sensitive and a repeat of the blockading of petrol depots is a possibility”**

# Scotland

If there is a 'Yes' vote for independence in the 2014 Scottish constitutional referendum, Labour could be placed in the position where it can never again win a parliamentary majority in the House of Commons. However even a 'No' vote might generate political problems for a Labour government. A strong minority vote for independence would be used by the Scottish nationalists as a basis for securing more leverage over Scotland's finances and fiscal powers. If Labour seeks to resist greater devolved powers, the SNP could challenge sitting Labour MPs in Scotland and also strengthen their majority in Holyrood. Pressure from the SNP on Labour MPs could lead to a further loss of support in the Commons and jeopardise the party's ability to secure a working majority. In addition the loss of seats to the SNP would strengthen its bargaining position in a future hung parliament.

The greatest pressure on Labour would be generated if Labour was dependant on the nationalist parties for a working parliamentary majority. In these circumstances Labour would be under pressure on an almost monthly basis to provide concessions to Scotland.

**“A strong minority vote for independence would be used by the Scottish nationalists as a basis for securing more leverage over Scotland's finances and fiscal powers”**

# Internal Opposition

All governments face calls from within their own ranks for a change of course in the face of political adversity. Often these representations come from long standing critics of the Leader's ideological approach. The scenarios discussed above, particularly conflicts over economic strategy, are likely to reactivate these critics within Labour. David Cameron has not only faced strong public dissent from within the Conservative Party, he has also experienced high profile parliamentary defeats on the European Union budget and on the House of Lords Reform Bill. Internal opposition within Labour led to the defeat of Tony Blair's plans for detention without trial. Ed Miliband took over the leadership after failing to win a strong majority amongst Labour parliamentarians.

A key area of conflict will be with the public sector trade unions over pay. Ed Balls has already said that a future Labour government will maintain the freeze on public sector pay and excited strong protests from trade unions. In power, this policy could lead to threats of withdrawal of the political levy from Labour. Labour would be wise to minimise conflicts with the public sector in this context. It should avoid new reorganisations or reforms of the professions, especially given the reform fatigue that has set in within the health service and schools.

**“Ed Miliband took over the leadership after failing to win a strong majority amongst Labour parliamentarians.”**

## Conclusion

Labour in power could rapidly face a series of political battles that render it isolated and weakened. This would provoke internal disunity and reawaken old arguments about the party's purpose and direction. Labour cannot overcome its opponents alone and needs to reach out to allies both within the UK and beyond.

If Labour wishes to seriously pursue climate change goals it has to expend considerable political capital at a time when it may have to do the same simply to cement the status quo on British membership of the European Union. On public spending, Labour austerity could attract more serious opposition than the Conservatives. Labour's private sector governance reforms could see a return to the animosity of the 1970s between the party and big business leaders. All these controversies will take place against a climate of high levels of public distrust with politicians and alienation from the political system. Labour in office will have no choice but to reach out to allies both domestically and internationally if it is to implement its policies and secure re-election. The greater the political support that Labour secures for its policies, the better that they are safeguarded.

Margaret Thatcher had a clear strategic vision when she entered Downing Street. She was determined foremostly to change the direction of macro-economic policy as her immediate first term goal. She also developed policies like trade union reform and the sale of council homes that consolidated a political constituency and weakened her political opponents. One of Tony Blair's strategic weaknesses is that he did not engage in a comparable exercise in expanding and embedding a constituency for Labour. Arguably, one of the advantages of weakening the oligopolistic power of the banks is that this will diminish their political leverage as well as rendering economic benefits.

Thatcher's strategic calculations also involved a sequencing of her ambitions. She always intended to move into a more radical phase, for example, in breaking the power of the National Union of Mineworkers. She engaged in a tactical retreat from an early confrontation with the

NUM in 1981 in order to return to the issue from a position of greater strength. Ed Miliband would face similar considerations in terms of how he sequences major reforms and whether he is willing to defer some of the policy ambitions that have been discussed above.

Messaging will be central to Labour's prospects for success. The Coalition Government was successfully able to define the terms of the political debate when it argued that there was 'no alternative' to fast track deficit reduction. Labour needs to achieve a similar mastery of public debate on its key policies on business reform. Otherwise its vocal opponents inside and outside parliament will set the pace of the debate. If Labour struggles to communicate the value and urgency of its ambitions in the public arena then this will embolden its internal critics.

Labour's leadership needs to be clear that attempts to turn back to the Blair years are outdated as well as misconceived. The social landscape in 2015 will look very different to that of 1997 (Cooke 2011). Home ownership is set to fall; the private rented sector is much more central in London and the Southeast and living standards are expected to have fallen for a period of ten years. The budget deficit also means that, unlike in the 1990s, government will not be able to finance large subsidies for low paying employers in order to raise incomes.

The ability of any government to cut taxes to retain support will also be strictly limited and therefore only policies aimed at getting the private sector to deliver good jobs and better wages are viable. Labour internal critics need to be challenged on the relevance of their alternatives.

This paper makes the **following recommendations to Labour** as it prepares to secure power in 2015:

Ed Miliband needs to secure a clear electoral mandate for a fairer social distribution of spending cuts and tax increases just as President Obama did in his successful re-election campaign in 2012. This will help overcome the opposition that Labour would face from well funded interests that will resist paying a greater contribution to reducing the budget deficit.

Labour will need the support of strong social movements willing to mobilise and agitate for private sector reform, including breaking up the

banks. These alliances will need to cross party lines and include Liberal Democrats who have expressed support for some of these reforms. However the foundations are not fully laid for the scale and intensity of the mobilisation that will be required.

**“Labour may not have a parliamentary majority in 2015. The party should engage with the Liberal Democrats in the coming two years so it is ready for this eventuality”**

The American MoveOn.org movement is a pointer to the type of role that British social movements could play. MoveOn came into being to rally support for Bill Clinton when he was facing the impeachment crisis instigated by leading Republicans in Congress. At its high watermark MoveOn had five million members and played an important role in mobilising support for candidate Barack Obama. Britain’s 38 degrees has generated some important campaigns focused on single issues but it does not see its role as rallying supporters behind a broad-based left of centre agenda. It is notable that after having moth balled his social movement when he entered the White House in 2009, President Obama is now trying to reactivate it through in the now renamed Organising For Action. The White House feels that it in order to deliver its legislative second term agenda on issues like climate change it has to mobilise the public. Labour needs to help foster its own version of Organising For America. This exercise should include informal coordination of existing progressive networks; investment in a strong online infrastructure to develop user-led content and intensified efforts to secure new supporter recruitment. The time to engage in these preparation is not in the months following the election of a Labour government but now.

Labour may not have a parliamentary majority in 2015. The party should engage with the Liberal Democrats in the coming two years so it is ready for this eventuality. Labour should identify areas of policy common ground with Liberal Democrats as it has done with the mansion

tax. Labour should emulate the pre-election contacts that took place prior to 1997 between Robin Cook and Robert Maclennan. The Shadow Cabinet should avoid opportunistic sniping at Liberal Democrats. Labour should be mindful of the fact that some Liberal Democrat MPs entered the coalition with the Tories because they felt the Labour Party was not willing to work in partnership with them.

A Labour government would need to spell out the benefits of the private sector reforms in concrete terms specifying their impact on wages, jobs and ending ‘rip off’ commercial abuses by providers of financial products.

Labour must carefully cultivate allies amongst centre left governments in key European Union states like France, Sweden and the Netherlands in advance of coming to power to enable it to secure the policy concessions that could shift the public mood.

Labour has to avoid a public showdown with the trade unions due to its policy on public sector pay. The Labour administration should seek to couple its hard line on pay with policy initiatives designed to improve fairness in the workplace.

Labour needs allies from sections of big business in arguing for producer rather than predator capitalism. The lack of these allies weakened Ed Miliband when he made his big speech on responsible capitalism in 2011.

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# About Compass

Compass is an ideas and action based pressure group with over 50,000 members and supporters around the country.

We are committed to help build a Good Society; one in which there is far greater social, political and economic equality; where democracy is deepened at every level of the state, our workplaces and communities; where the sustainability of the planet is made an urgent priority and we recognise our interconnected fate across all nations; a society where the market is made to work as the servant of society.

We organise regular events and conferences that provide real space to discuss policy, we produce thought provoking pamphlets and we encourage debate through our website. We campaign, take positions and lead the debate on key political issues. We're developing a coherent and strong voice for those that believe in greater equality and democracy as the means to achieve radical social change.

As the planet gets hotter and the poor get poorer we're campaigning collaboratively with progressive politicians of all parties, pressure groups, trade unions, think tanks, NGOs, academics, activists, campaigners and across civil society.

Compass wants to see a transformed Labour Party working with other parties, organisations and individuals in pursuit of this goal of the Good Society.

Take action now for a more democratic, equal and sustainable world and join Compass – Britain’s most influential political movement for real change.

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