

Politics in a no growth era

The pre-budget statement kicked off the first General Election campaign of the post-growth era. The terms of political trade have changed and we are in landscape unfamiliar to both parties. Previous approaches to the electorate which have worked will not do.

Since 1983, elections have been fought on which party will raise the lowest amount in taxes. Both parties' policies were based on an assumption of steady economic growth that could be divided between tax cuts (or limited growth in taxes) and some increase in public spending.

The last time the reliance on growth ceased to be a viable option, in the early 1990s downturn, it led to negative equity, repossessions, manufacturing closures, 15% interest rates and Black Wednesday. By 1997, when growth was back, Blair and Brown had decided that income tax was the salient tax – hence the famous pledge. Other taxes, of course, rose, but as the Conservatives had first doubled VAT and then added another 2.5%, Labour was probably right. The voters thought so.

Labour has moved more quickly to adapt to the new terrain. This is not old Labour – not ideological taxation, as the serious consideration of a post 2011 18.5% VAT rate showed - but a careful package. Some in industry think that it might even not be bold enough. It takes account of the view that international markets might take of a decision that the early '90s approach would do more damage to the economy than vastly increased Government borrowing.

The 45% rate post 2011 will be in place for some time. In so far as a post 2010 Conservative Government would be able to change anything, they would have to concentrate any cash available on tax cuts for the lower paid for electoral reasons.

So there will be a clear choice for voters – perhaps in 2009, but more likely in 2010. Labour's message will be that inaction would have provoked a vicious-downward-spiral recession and that if the Conservatives remain wedded to reducing the size of the state in a no-growth or very-low-growth economy, this will mean truly massive public spending cuts. The challenge for David Cameron is to replace the Conservatives' policy up till now - funding tax cuts and modest public spending increases out of growth – with something that looks plausible for the no-growth economy.

The economy will start to grow again eventually. The truth is that no-one knows when. Labour hopes that it will show through before an election and that people might then be feeling better.

We shall see. It may some time for us to adjust to being in an economy not fuelled by affluence based on easy credit.

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