

In (partial) defence of Gordon Brown

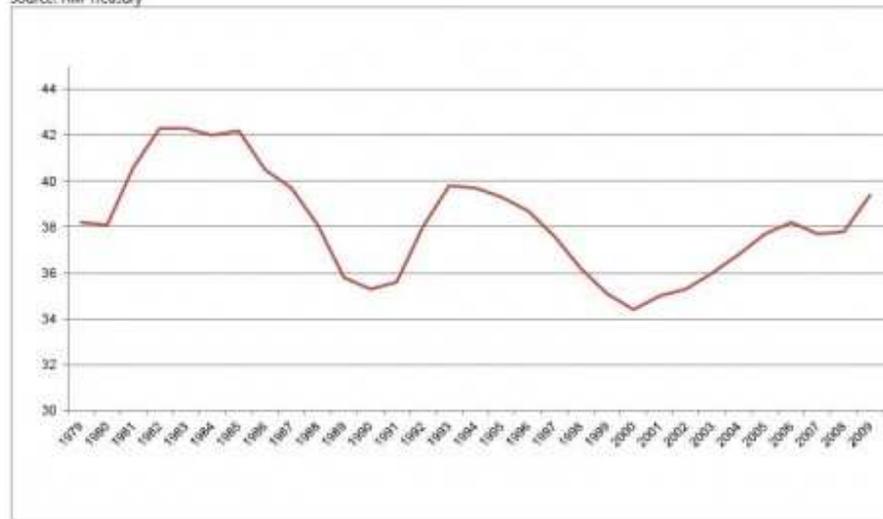


Despite the claims of Cameron and Osborne ([and that rather politically naive and economically illiterate note left by Liam Byrne](#)), the last Labour government was not profligate, it did not over-spend. In fact, Labour actually spent less as a proportion of GDP than either the governments of Thatcher and Major.

Labour stuck to Tory spending plans from 1997-99 meaning that public spending did not start increasing in real terms until 2000. The UK had also embarked on an unprecedented period of seemingly stable economic growth that would last until late 2008.

Public spending as % of GDP

Source: HM Treasury



Labour also had two decades of underinvestment in public services to make up for. The proportion of GDP spent on education, health and pensions lagged far behind the rest of Europe. Too many pensioners and children were in poverty, and Labour set ambitious targets to reduce (and even eradicate) poverty among these groups.

Labour's aim then, to increase public spending, was correct. It was necessary to build new schools and hospitals and to employ more and improve the wages of dedicated public servants.

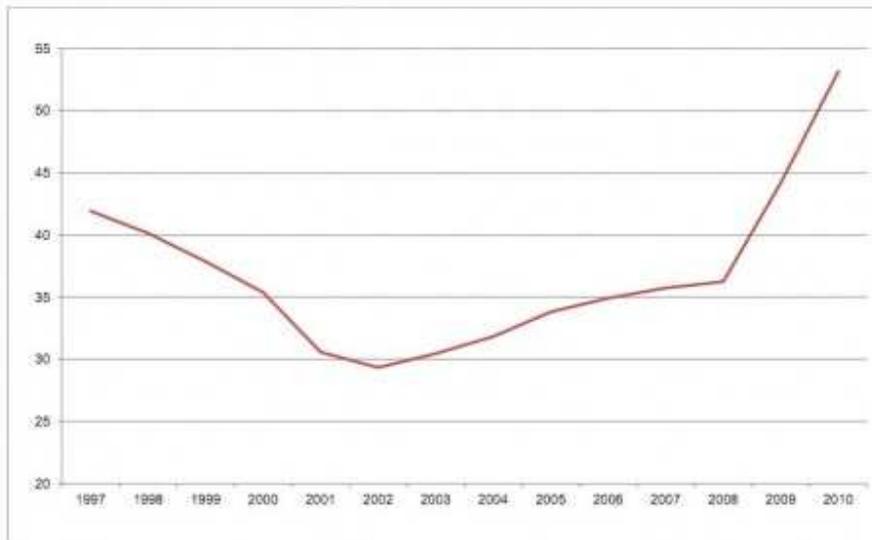
But it was not just this period of economic growth that allowed New Labour to spend more: they also hit the utilities with a windfall tax to (partially) compensate for the fact they were undersold by the Tories' cheap sell-offs. Introduced in the emergency budget in 1997 it raised £5.2bn. Brown also sold off about half the UK gold reserves in 1999, raising over £2bn.

[The decision to sell-off that gold has been heavily criticised](#) — the price of gold has shot up since — but the question is what was it spent on? At that point our public services were in desperate need of investment – and Labour had manifesto commitments to bring down hospital waiting lists and reduce class sizes. At the time it seemed the right priority, and most people would agree.

Labour reduced the debt

So Labour spent, as Brown himself would often say, prudently throughout its term in office. It also managed to reduce the national debt – as this graph shows.

Government debt as % of GDP



When Labour came to power in 1997, the national debt was 42% of GDP. By 2002 it was below 30%. It increased very slowly between 2002 and 2008 to 36% (still lower than any year under Margaret Thatcher or John Major). Then, as the chart shows, the banking crisis hit and Labour left office in 2010 with the national debt at around 52% – lower than in Japan, the US, France or Germany.

Despite this George Osborne came to the Despatch Box for his emergency budget in June 2010 and told us Britain was on ‘the brink of bankruptcy’. Where Brown had put a windfall tax on big business privateers, Osborne delivered an unprecedented cut in corporation tax and other business tax breaks, with welfare cuts.

But Labour did make massive mistakes

Having said that some criticism must be levelled at Gordon Brown and New Labour for the mistakes they did make. Their light-touch and continued deregulation of the banking sector meant that Britain was harder hit by the global financial crisis than many other countries. Our over-dependence on the finance sector and failure to have any strategy for manufacturing left us particularly exposed.

The Tories however cannot make any headway on this because they actually called for further deregulation of the banking sector, finance and mortgage markets. They too offered no industrial strategy.

Likewise Labour should also be criticised for their national accounts-fiddling approach to investment: PFI. This has dumped about £300bn of debt on public sector bodies for assets worth about £50bn. But, bad news again for the Tories, PFI was the brainchild of the Major government and Labour’s only opposition to PFI came from rebellious backbench MPs like John McDonnell and Kelvin Hopkins.

Another colossal waste of money (though more pertinently of human life) was New Labour's wars in Afghanistan and Iraq, but again the only opposition was found on Labour's own benches. Likewise for the commitment to replace Trident.

Conclusion

Labour made huge economic mistakes – it relied too heavily on the finance sector and the growth of personal debt – but none of the Tories' attack lines that Labour spent too much or left Britain on the brink of bankruptcy are tenable.

The bank bailout was also a disaster – less the nationalisation of the banks and more the privatisation of public money. Intervention was needed and although botched it was better than the Tory frontbench which dithered between bailout support and letting banks fail (and along with them would have gone jobs, savings and much more of the UK banking system) – which in turn allowed Vince Cable to appear credible.

In opposition Labour needs to assess where it went wrong. The simple formula for 1997-2010 was 'if the Tories agree it's probably a mistake', as they were on banking regulation, PFI, wars and (eventually) the bank bailout.

This article first appeared at the [Left Economic Advisory Panel](#) Website.