

The Choice

The Labour future / The Tory threat

The Choice:

Economy

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1. INTRODUCTION

At next year's election, the British people face a choice on the economy. A choice between the Tories who complacently claim the economy is fixed, even though most people are worse off, and Labour who will deliver long-term reforms to create an economy that works for all working people.

Last week the Tories held up the fact that our economy has at long last got back to the size it was before the global financial crisis as vindication that their plan is working. But this milestone was reached two years later than George Osborne's original plan said and three years after the US reached the same point. GDP per head is still 4.9 per cent below where it was when the crisis hit and won't even recover to where it was for around another three years. In other words, the UK is facing a lost decade for living standards.

So while David Cameron and George Osborne claim the economy is fixed the reality couldn't be further from the truth.

It wasn't supposed to be this way. The Tories once claimed their policies would deliver rising living standards, but working people are worse off. Wages after inflation are down by more than £1,600 a year since 2010. They once claimed we were 'all in this together', but then exposed this as a myth by giving a £3 billion tax cut for the richest one per cent. They used to claim they'd balance the books by 2015 but the deficit is set to be £75 billion next year.

Working people can't afford five more years of the same old Tory economics. David Cameron and George Osborne have no answers to the cost-of-living crisis and the challenges facing Britain. We know that the Tories are not going to deliver a balanced, investment-led recovery that benefits all working people. The fact they tell people things are solved shows they can't be trusted again. Without a step change in their approach they'll continue to stand up for just a privileged few and we'll continue to see no action on living standards.

We know that their approach will continue to be a race to the bottom on wages, opposition to a proper industrial strategy, flirting with exit from the European Union and hoping that tax cuts at the very top will trickle down. Not content with having already cut taxes for millionaires in this Parliament they're champing at the bit to do it again if they win the election.

Labour's economic plan will make Britain better off and fairer, by making the long-term reforms we need to create an economy that works for all working people. That will include supporting working people and making work pay, creating more good jobs and ensuring our young people have the skills they need to succeed, backing British businesses and reforming uncompetitive markets. And we'll do all this at the same time as balancing the books as soon as possible in the next Parliament. But we'll do so in a fairer way.

Next May, on the economy, the British people will decide between the Tory threat or the Labour future: that's the choice.

2. THE TORY FAILURE

The Tories complacently claim the economy is fixed, but most people are worse off under the Tories. They have no plan to tackle the cost-of-living crisis and reform our economy for the long-term.

Failure on living standards

In their 2010 manifesto the Tories claimed they wanted to see an economy where people's standard of living "rises steadily and sustainably".

"We want to see an economy where not just our standard of living, but everyone's quality of life, rises steadily and sustainably."

Conservative Party Manifesto 2010, p.viii

David Cameron later claimed that he was elected to deliver "rising living standards for all, not just rewards for those in high finance".

"When I think back to the last election, this was the change that people most wanted to see. Economic growth that meant rising living standards for all, not just rewards for those in high finance."

David Cameron, Daily Telegraph, 7 May 2012

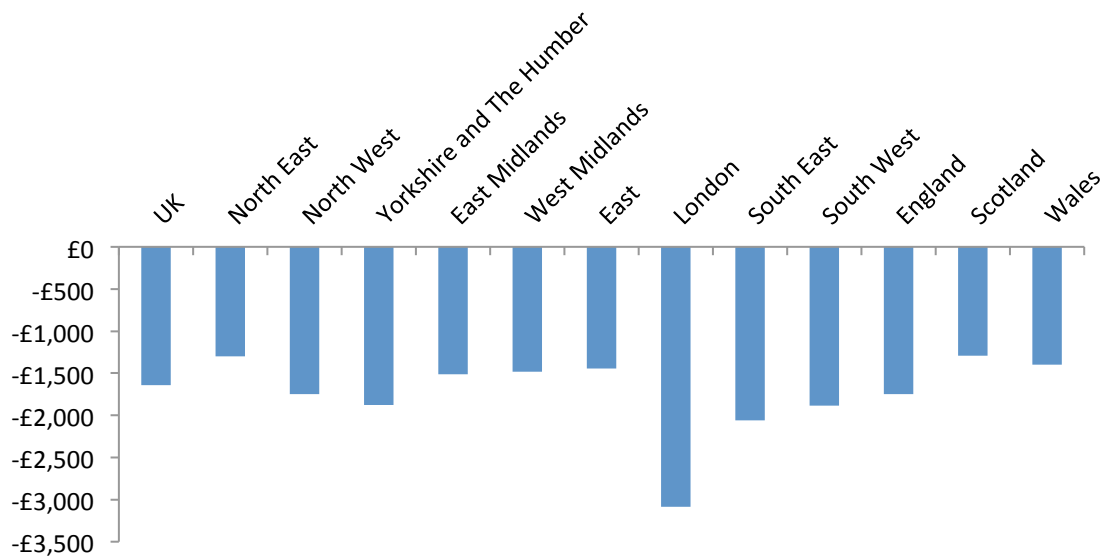
The reality is that wages after inflation are down by more than £1,600 a year since 2010.



Source: House of Commons Library analysis, ONS, Annual Survey of Hours and Earnings (ASHE) 2010-2013 ; RPI: ONS series (two 2011 figures indicate break in series which has been accounted for in overall change)

Wages are down right across the country, with working people in London on average more than £3,000 a year worse off.

Change (2010-2013) in gross median wages for all employee jobs, by region (2013 prices)



Source: House of Commons Library analysis, ONS, Annual Survey of Hours and Earnings (ASHE) 2010-2013; RPI: ONS series

So it's no wonder that when David Cameron and George Osborne say everything is going well and that the economy is fixed, many working people will not recognise the picture they paint.

As the former Conservative Chancellor Ken Clarke admitted last month, most people are not feeling any sense of recovery.

"We have just come through a deep recession; the population of most European countries including the United Kingdom have not yet felt any sense of recovery."

Kenneth Clarke, Channel Four News, 2 June 2014

Failure on fairness

Back in 2010 George Osborne claimed we were “all in this together” and that he was “not going to balance the budget on the backs of the poor.”

“We are all in this together. I am not going to balance the budget on the backs of the poor.”

George Osborne, Mail Online, 14 March 2010, <http://www.dailymail.co.uk/news/article-1257820/Blow-Cameron-polls-say-heading-hung-Parliament.html>

Time and time again David Cameron and George Osborne repeated the claim of “we’re all in this together”. At the 2012 Conservative Party Conference Osborne described how it was “more than a slogan” and that it “spoke of our values and of our intent”.

“On the eve of the election, I told this Conference:

“we’re all in this together.

“It was more than a slogan. It spoke of our values and of our intent”.

George Osborne, speech to Conservative Party Conference, 8 October 2012

He made that speech six months before his tax cut for millionaires took effect. The decision to cut the 50p rate to 45p from April 2013 handed a £3 billion tax cut to the richest one per cent in the country.¹

It means that someone earning £1 million received a tax cut of over £42,000 a year.

At the same time ordinary people are worse off, with families paying hundreds of pounds a year more in VAT thanks to the Government’s decision to raise VAT to 20 per cent.²

Since 2010 there have been 24 Tory tax rises, not even including the cuts to tax credits which have hit millions of working families. Labour analysis of figures from the Institute for Fiscal Studies has found that households will be £974 a year worse off by the time of the next General Election because of tax and benefit changes since 2010.

The reality is that the Tories’ economic plan is to cut taxes at the very top and hope wealth trickles down. Yet there’s no evidence this actually works. In fact, recent figures from HM Revenue and Customs show that over the last year the share of post-tax income from the top one per cent of taxpayers – just 300,000 people – has risen from 8.2 per cent (in 2012/13) to 9.8 per cent (in 2013/14). Yet over the same period, the bottom 90 per cent – a total of 27 million taxpayers – have seen their share of post-tax income fall from 71.3 per cent to 70.4 per cent.³

With the help of a huge tax cut from this Government the very richest are feeling a recovery, but everyone else is being left behind as growth belatedly returns.

¹ HMRC, Exchequer effect of the 50 per cent additional rate of income tax, March 2012, Table A1, p.48, <http://www.hmrc.gov.uk/budget2012/excheg-income-tax-2042.pdf>

² Hansard, written answer, 5 July 2010, Column 99W, <http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm100705/text/100705w0004.htm#10070542000230>

³ HMRC, Income tax liabilities statistics, April 2014, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/306818/Income_Tax_Liabilities_Statistics_-_April_2014.pdf

Failure on balancing the books

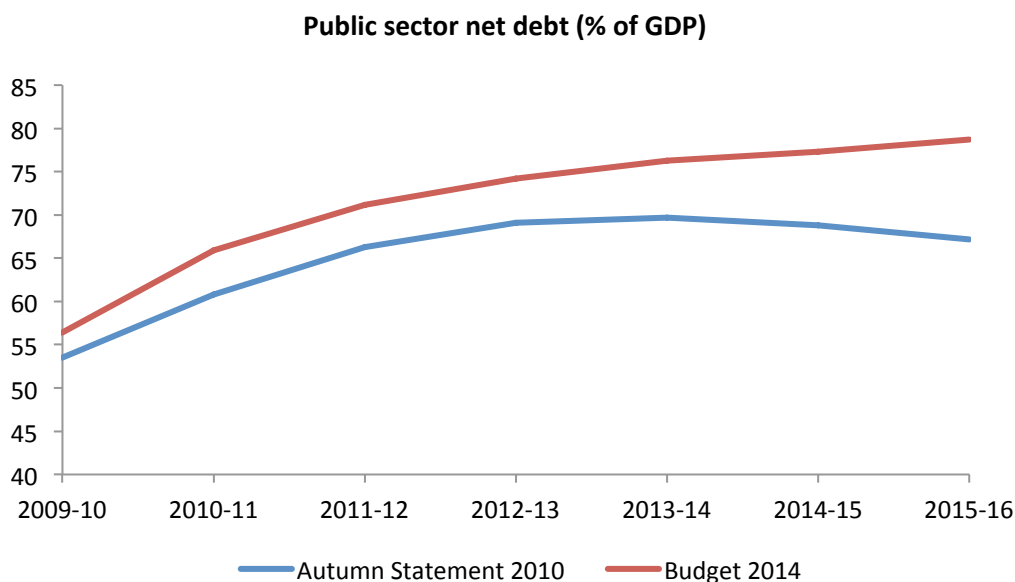
In 2010 David Cameron pledged that his Government would balance the books by 2015.

“In five years’ time, we will have balanced the books.”

David Cameron, speech to CBI, 25 October 2010, <https://www.gov.uk/government/speeches/pms-speech-on-creating-a-new-economic-dynamism>

But he and George Osborne have failed in this central task, with the deficit now set to be £75 billion next year. In fact, the Tories are now set to borrow almost £190 billion more than their plan entailed at the time of the 2010 Spending Review.⁴

As a result of this failure the Tories are set to miss their own fiscal mandate to get the debt falling as a proportion of GDP by next year (2015-16). Instead, public sector net debt is set to peak at 78.7 per cent of GDP in 2015-16.



Source: Office for Budget Responsibility, November 2010 and March 2014 Economic and Fiscal Outlook; OBR public finances databank

And the latest financial year hasn't got off to a good start for George Osborne, with borrowing up £2.5 billion this year, compared to the same period a year before – an increase of 7.3 per cent.⁵

Weaker than expected tax receipts have helped to drive this. As the Institute for Fiscal Studies pointed out, central government current receipts in April to June 2014 were just 1.6 per cent higher than in the same three months of 2013. This is lower than the 5.0 per cent growth forecast for the year as a whole by the Office for Budget Responsibility in the March 2014 Budget.⁶

⁴ Office for Budget Responsibility, Economic and Fiscal Outlook, November 2010 and March 2014; Office for Budget Responsibility, public finances databank

⁵ ONS, Public sector finances, June 2014

⁶ Institute for Fiscal Studies, Public finance bulletin, 22 July 2014, <http://www.ifs.org.uk/publications/7290>

Failure on rebalancing the economy

The Tories have repeatedly said they would rebalance the economy and as early as August 2010 George Osborne was claiming that this rebalancing was already underway.

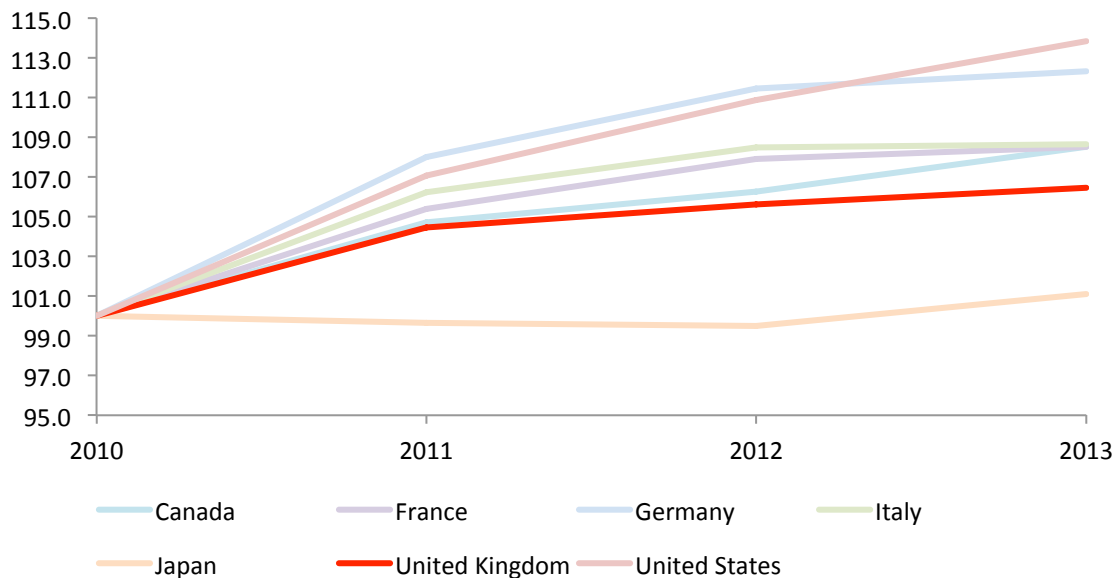
“The much-needed rebalancing of our indebted economy - away from government and towards the private sector, away from consumption and towards business demand, away from imports and towards exports - is beginning.”

George Osborne, Speech at Bloomberg, London, 17 August 2010

But despite these boasts the Tories have completely failed to deliver.

Our export growth since 2010 is sixth in the G7, 16th in the G20 and 22nd in the EU.⁷ This is despite the fact the Tories have a target to double exports by 2020, a target they not on course to meet.

Exports of goods and services (volume), 2010-2013 in G7



Source: IMF, World Economic Outlook Database April 2014

While business investment is slowly starting to recover it's still £6.1 billion a year below its pre-crisis peak⁸ and is the fourth lowest in the EU as a share of national income – only above Cyprus, Greece and Ireland.⁹

Meanwhile infrastructure output is down 12.6 per cent compared to May 2010.¹⁰ House-building under this Government is at its lowest peacetime level since the 1920s.

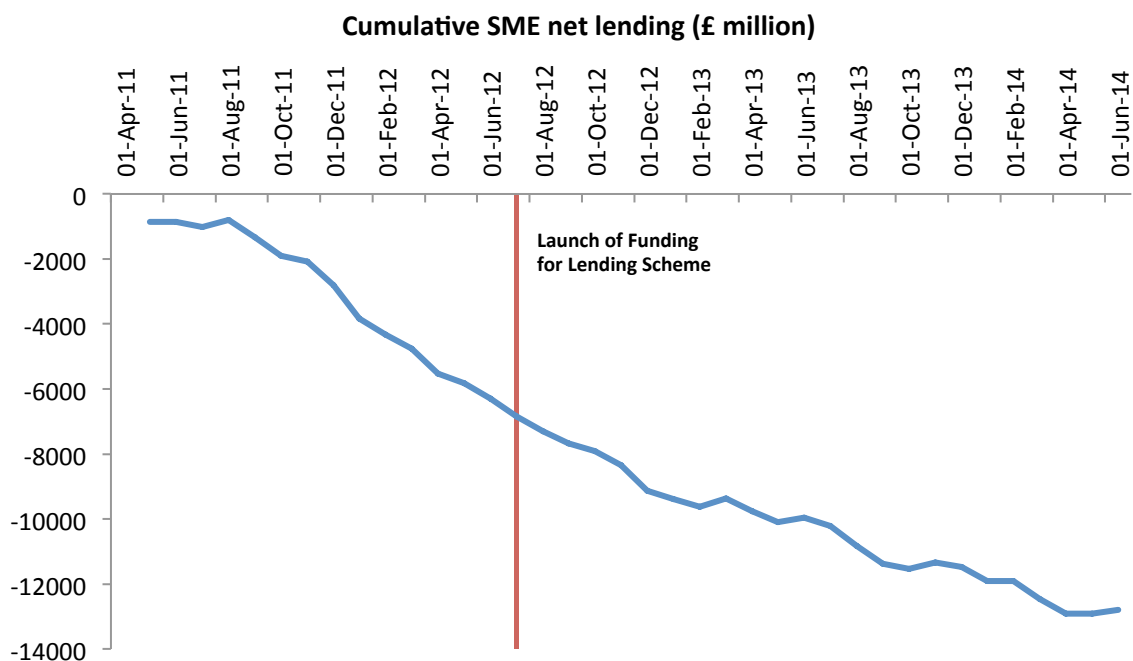
⁷ IMF, World Economic Outlook Database April 2014

⁸ ONS, Business Investment, 27 June 2014

⁹ Eurostat, Annual sector accounts, Investment by institutional sectors

¹⁰ ONS, Output in the construction industry, May 2014, 11 July 2014

Banks still aren't lending to business, despite the Tories' flagship schemes like Funding for Lending. Net lending is down by over £2.8 billion in the last year while net lending to all businesses is down by over £56 billion since May 2010.¹¹



Source: Bank of England, monthly changes of monetary financial institutions' sterling and all foreign currency loans (excluding overdrafts) and reverse repos to SMEs

Apprenticeships for young people are falling, with the number of under-25-year-olds starting an apprenticeship falling by over 11,000 between 2011-12 and 2012-13. Fewer 16-to 18-year-olds started an apprenticeship in 2012-13 than in the last year of the Labour Government.¹²

¹¹ Bank of England statistics

¹² FE Data Library, Apprenticeships, <https://www.gov.uk/government/statistical-data-sets/fe-data-library-apprenticeships--2>

3. THE TORY THREAT

People are worried about the future – where the good jobs are going to come from and how Britain will earn its way in the world. But the Tories have no answers to the cost-of-living crisis and the challenges facing Britain. Working people can't afford five more years of the same old Tory economics.

Tory threat on living standards

The Tories are quick to tell working people there's no cost of living crisis.

"Over the past year, from 2012 to 2013, things have started to turn around. New facts on take-home pay — the pound in your pocket — are stark. Last year take-home pay grew faster than inflation for every group of earners except the top 10 per cent.

Matthew Hancock, The Times, 24 January 2014

Their complete failure to recognise the scale of the cost-of-living crisis facing the UK and take action to tackle falling living standards highlights the risk of five more years of David Cameron and George Osborne. When we desperately need a change of direction they offer only more of the same failed policies.

This massive squeeze on wages is set to become the Tories' legacy. New analysis from the House of Commons Library shows that under David Cameron working people will have seen the biggest fall in wages of any Parliament since 1874-1880.

And it's set to be the first time since the 1920s that people are worse off at the end of the Parliament than they were at the beginning.¹³

If they don't even recognise the scale of the problem how can they be trusted to tackle it effectively?

Tory threat on fairness

The Tory approach to the economy is that wealth will just trickle down if they cut taxes for the richest. That's why not content with giving one tax cut to millionaires they would do it all over again.

We know George Osborne wanted to cut the top rate down to 40p in his omnishambles Budget two years ago. David Cameron has already admitted that he had originally planned to cut it to 40p, rather than 45p.

"The other way to help business – cutting taxes – is going rather well. The top rate of tax has been cut from 50p to 45p and the richest are now paying more income tax than ever. Cameron feels vindicated. 'I knew we would get attacked for it, but I thought the evidence was so strong that actually cutting the top rate of tax would probably result in more revenue,' he says. 'I thought, you can't just not do something because you're going to be attacked, that's just feeble politics.' His original plan was to cut the tax to 40p, but the Lib Dems

¹³ House of Commons Library analysis using Bank of England: Three centuries of data; ONS, Average Weekly Earnings and Consumer prices; OBR, Economic and Fiscal Outlook; and House of Commons Library calculations

vetoed it. Is that the next stop? He purses his lips. 'I will leave tax as a matter for the Chancellor,' he says. 'I am a low-tax Conservative'."

The Spectator, 10 December 2013, <http://blogs.spectator.co.uk/coffeehouse/2013/12/david-cameron-interview-tax-coalition-green-crap-and-team-nigella/>

Both he and George Osborne repeatedly refused to rule out a further tax cut.

Ed Miliband: He said that the 50p tax rate was a symbol of us all being in it together, and now it has gone.

Can he now tell us whether he rules out cutting the top rate further to 40p?

The Prime Minister: The Chancellor set out yesterday exactly what our priorities are. We want to cut taxes for the lowest paid and for middle income people.

Hansard, 29 January 2014, Column 851-852,

http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140129/debtext/140129-0001.htm#140129-0001.htm_snew55

Edward Miliband: I am asking him a very simple question. Does he rule out reducing the top rate to 40p—yes or no?

The Prime Minister: The simple answer is that I have told him our priority: tax cuts for low earners, tax cuts for middle earners, freezing the council tax, freezing the fuel duty and helping people in our country.

Hansard, 29 January 2014, Column 851-852,

http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140129/debtext/140129-0001.htm#140129-0001.htm_snew55

Ed Balls: Let me ask the Chancellor about the one thing he has refused to talk about now for four days. He has delivered one massive tax cut for the richest 1% earning more than £150,000, when everybody else is worse off. The Prime Minister and the Mayor of London are now saying that they want to cut the top rate of income tax again, to 40p. Is that really the Conservative party's priority? If the Chancellor still believes that we are "all in this together", why will he not stand at the Dispatch Box and rule out another top-rate tax cut from the Conservatives in the next Parliament? Come on, George: stand up and rule it out.

Mr Osborne: I will tell the right hon. Gentleman what the big tax cut was this Parliament: it was for working people through our increase in the personal allowance to £10,000.

Hansard, 28 January 2014, Column 759,

http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm140128/debtext/140128-0001.htm#140128-0001.htm_snew93

Boris Johnson and other influential Tories have urged the Tories to take this next step.

"The Government should open up some more blue water, and cut the top rate back to 40p."

Boris Johnson, *The Telegraph*, 26 January 2014,

<http://www.telegraph.co.uk/news/politics/labour/10598306/Bash-the-rich-and-you-deprive-us-of-what-their-taxes-pay-for.html>

"The senior backbencher [Graham Brady] said that Osborne should have gone further and cut the top rate of income tax all the way to 40p rather than a 'halfway house' of 45p.

"The politics of that was very straightforward and it really wouldn't have made any difference to the popularity or the unpopularity of the measure if you went from 50p to 40p rather than 45p. In some ways we've just made it more difficult for ourselves [and] we've left an unnecessary complication in the tax system as well'."

Huffington Post, 3 April 2014, http://www.huffingtonpost.co.uk/2014/04/03/graham-brady-tory-tax-cps_n_5081819.html?utm_hp_ref=uk

"I wonder how much more revenue the Treasury would enjoy if the top rate were set at a more competitive rate? I suspect that too would see a further surge in revenue, money the state clearly needs to end the deficit."

John Redwood, 2 April 2014, <http://johnredwoodsdiary.com/2014/04/02/the-45p-income-tax-has-brought-in-billions-extra/>

HMRC statistics show that there are currently 16,000 people earning over a million pounds and paying income tax.¹⁴ Cutting taxes for them would mean giving them, on average, a tax cut of more than £110,000 a year. And that's on top of the tax cut they've already received as a result of reducing the top rate from 50p to 45p.

But some Tories don't even want to stop there. David Cameron's close Cabinet colleague - the Minister for Government Policy Oliver Letwin - has let it slip. He's advocating the old right-wing idea of a flat tax if the Tories win the election. That means lower taxes for the richest and higher taxes for everyone else.

"Investors worldwide look very carefully at headline rates - are pretty unimpressed by the panoply of exemptions. And it may well be that we will see sufficiently increased investment to produce more revenue as the elasticity equation. And that is of course is the proposition that the flat tax proponents make about income tax. The difference is that on corporation tax this can be achieved within our fiscal envelope without taking any serious risks, whereas it's enormously complicated and a risk to business if we move to a flat tax regime in the hope that we get enough extra revenue to make up for the revenue you will certainly lose. **And I'd draw your attention to the fact that in 2010, indeed now, we were not in a position to take a large fiscal cut. There may come a time when the situation is different and that discussion will no doubt open up at that point.** But for the time being I think it's right to focus the attention on reducing taxes, some would say eliminating, taxes for millions of people"

Oliver Letwin, 1 July 2014, Politeia Summer Address, 'The Long-Term Economic Plan'

George Osborne has previously said that the flat tax is "a very exciting idea".

"[Flat tax] is a very exciting idea, that started in central and eastern Europe, but now is being looked at by other countries like Greece, and there is some speculation that Germany is looking at it. And it clears away all the complexity of the tax system."

George Osborne, The Guardian, 7 September 2005

He has also specifically talked of the merits of a flat tax system once the personal allowance threshold had been raised.

"You have a single rate in a flat tax system, however, you also tend to have a very large personal allowance so for example, the first £10,000 of your income could tax free. So if you're on £20,000 that means half your income is tax free, where of course if you're on £100,000 then only a 1/10th of your income is tax free."

George Osborne, Radio Four 'Today', 7th September 2005

Last year Boris Johnson suggested that a "single flat tax of 25 per cent or 30 per cent could work brilliantly."

"Setting out his stall as the party's next leader, Mr Johnson yesterday warned that 'a strategy of masterly inactivity simply will not work'.

He added: 'A single flat rate of tax at 25% or 30% could work brilliantly. We need to send a signal to enterprise.

"'A flat rate works in some places and I am told it would be ideal for this country.'

"He then admitted his scheme would plunge Britain much further into the red in the short term before hastily adding it would boost the economy in the long run.

"'Revenue would go up as you liberated enterprise,' he explained. 'People would say 'wow' this is the place to do business'."

The Mirror, 16 March 2013, <http://www.mirror.co.uk/news/uk-news/boris-johnson-proposes-flat-tax-1766806>

¹⁴ HMRC, Income tax liabilities statistics, April 2014,

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/306818/Income_Tax_Liabilities_Statistics_-_April_2014.pdf

The Institute for Fiscal Studies have previously calculated that a flat tax system which maintained the distinction between National Insurance Contributions and income tax with a tax free allowance of £10,000 would require the rate be set at 31 per cent to be broadly fiscally neutral.¹⁵

This would amount to an increase in income taxes for the 24 million taxpayers who are basic rate payers, whilst at the same time offering a huge tax cut to the very richest.

That's the real Tory agenda for a second term. The same old Tories standing up for the privileged few.

Tory threat on jobs and growth

We know that the Tories are not going to deliver a balanced, investment-led recovery that benefits all working people with more of the same.

Another five years will bring a race to the bottom on wages, Treasury opposition to a proper industrial strategy and flirting with exit from the European Union.

George Osborne is once again a Tory Chancellor who, having abolished the Regional Development Agencies and backed plans to persuade workers to trade their rights at work for shares, is blocking the Heseltine plan to devolve real power and resources to business and local government to support skills and local innovation.

And David Cameron is once again a Tory leader caving into his Eurosceptic backbenchers - putting the party interest before the national interest by threatening to walk away from the EU. This would be a disaster for British jobs and businesses.

Last month, John Cridland, Director-General of the CBI, warned that the UK's EU membership "supports jobs, drives growth and boosts our international competitiveness" and that leaving the EU would leave us "beholden to its rules without being able to influence them".

"Cridland told the Observer that full membership of the EU boosted British jobs, growth and investment. 'The EU is our biggest export market and remains fundamental to our economic future,' he said. 'Our membership supports jobs, drives growth and boosts our international competitiveness.'

He dismissed the idea that the UK economy could be just as successful outside the EU with some form of associate membership status, which some Conservatives advocate. 'Alternatives to full membership of the EU simply wouldn't work, leaving us beholden to its rules without being able to influence them. We will continue to press the case for the UK remaining in a reformed European Union'."

The Observer, 28 June 2014, <http://www.theguardian.com/world/2014/jun/28/european-union-exit-will-harm-britain-says-cbi>

Major UK employers have also warned about the economic impact of the UK walking away from Europe.

"European aerospace group Airbus, one of Britain's largest employers, has voiced concerns over the possibility of the country leaving the European Union (EU), saying the benefits of an alternative economic model needed to be proven.

¹⁵ Institute for Fiscal Studies, Options for a UK 'flat tax', some simple simulations, <http://eprints.ucl.ac.uk/14873/1/14873.pdf>

“The Franco-German company, that employs 17,000 workers in Britain, is the latest large foreign investor to say it favours Britain continuing its membership of the 28-member trading bloc.
“Car giants Ford and Japan's Nissan have said they would have to re-evaluate their operations if Britain pulled out of the EU in a proposed referendum.”

Reuters, 21 January 2014, <http://uk.reuters.com/article/2014/01/21/uk-airbus-britain-eu-idUKBREAOK18B20140121>

4. THE LABOUR FUTURE

Labour's economic plan will make Britain better off and fairer – by making long-term changes to create an economy that works for all working people. Labour will:

- **Support working people and make work pay** by expanding free childcare, freezing energy bills, introducing a lower 10p starting rate of tax, increasing the minimum wage and offering tax breaks to firms that pay the living wage.
- **Create more good jobs and ensure young people have the skills they need to succeed** by boosting apprenticeships, transforming vocational education and ensuring there is a paid starter job for every young person out of work for over a year.
- **Build a stronger and more balanced economy** by getting at least 200,000 new homes built a year, devolving more power and funding to city and county regions and investing for the long-term with an independent national infrastructure commission.
- **Promote competition** in markets like energy and banking so they work better for consumers and businesses and support long-term investment.
- **Back British businesses** by cutting business rates, maintaining the most competitive corporation tax in the G7, establishing a proper British Investment Bank and arguing for Britain to stay in a reformed EU.
- **Balance the books in the next Parliament, but do so in a fairer way** by reversing David Cameron's tax cut for millionaires and cutting the winter fuel allowance for the richest pensioners. We also want the OBR to independently audit the spending and tax commitments in our manifesto.

Only with Labour will Britain be better off.

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