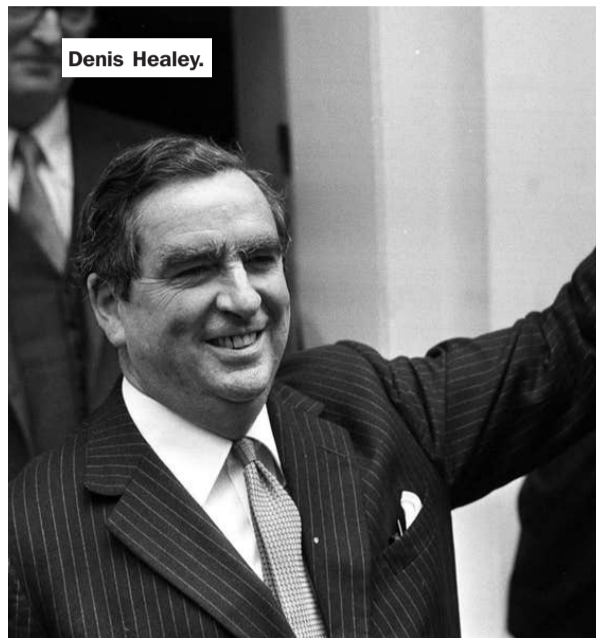


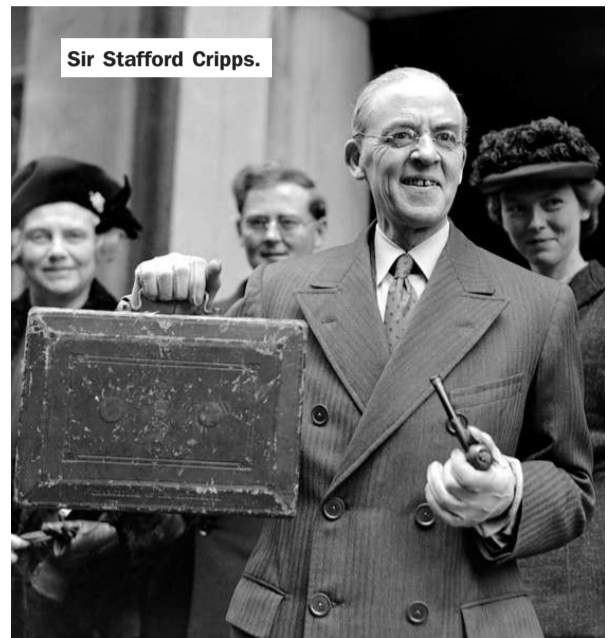
Labour Chancellors since the Second World War – are they really that bad?



Gordon Brown



Denis Healey.



Sir Stafford Cripps.

THERE is a view in the press and media that Labour Chancellors are profligate in that they raise too much in tax to fund ambitious spending plans. I sought to look at this question based on the records of Labour Chancellors in power since the Second World War, especially apposite at the moment, given the possibility of a Labour Government after 4 July. Just to recap, this will cover the periods of the Labour governments of the vintage 1945-51, 1964-70, 1974-79 and 1997-2010, and look forward potentially to the current Shadow Chancellor Rachel Reeves.

The period of the first Labour government is difficult to evaluate given the accumulation of wartime debts and the transition to a post-war economy. The first Chancellor was Hugh Dalton, a trained economist, who was very committed to cheap money and a gradual transition to a market economy. Unfortunately, he got caught up in the sterling crisis of 1947 and was replaced by the brilliant lawyer Stafford Cripps.

Stafford Cripps is remembered for the devaluation of 1949 and his work with the next Chancellor, Hugh Gaitskell, later leader – the latter giving rise to internal dissent by introducing prescription charges in his one budget. He is widely regarded as one of the best Chancellors since the war, having been an economic don at University College London and a wartime civil servant. Having said that, he had a

With prospects of a new Labour Chancellor heading to 11 Downing Street next month, Advocate **Raymond Ashton** looks at the records of post-war Labour Chancellors, their successes and failures, and considers what it might mean for Guernsey

pathological hatred of mathematical economics. Regrettably his premature death prevented him from being Prime Minister, and in this he was replaced by the technocrat Harold Wilson.

The significance of Wilson was that he had worked in the civil service during the war and set up the government statistics department and so was well versed in economic statistics. Indeed, during this time in the civil service he devised the order paper setting out each month's exports and imports.

His first Chancellor in the Labour government of 64-69 was Jim Callaghan, who had risen in the Labour Party based on his connections with the trade unions and

indeed the Inland Revenue union. He introduced major tax reforms such as corporation tax, and a comprehensive capital gains tax (both of which remain today) and a tax based on employment, the selective employment tax (subsequently abolished). While he was an innovative Chancellor, who inherited considerable debt from his Conservative predecessor, he inevitably lost the battle against devaluation in November 1967 and was replaced by the effete Roy Jenkins, who had worked in the Bank of England for a short time after the war.



‘One thing is clear – if Labour is elected, the Chancellor will be on a “bed of nails” and limited in regards to her ability to manoeuvre’

Jenkins raised taxes substantially but made significant reforms in the form of simplification of capital gains tax and achieved Budget surpluses for 1968 and 1969. He has been criticised for not reflation the economy enough in his 1970 budget, which it is said was responsible for Labour's election defeat to the Conservatives. Significantly he was replaced by Iain Macleod, a brilliant House of Commons orator, who would have been a great Chancellor had he not died prematurely shortly after the election.

The next Labour Chancellor was Denis Healey, arguably the best leader of the Labour Party they never had. He was the Chancellor from the economic doldrums of early 1974 until the Thatcher government came to power in 1979. At first he was disastrous, as he assumed the corporate sector had more money than it had. However, the situation was saved by the introduction of a tax deferral, known

as stock relief, and after experiencing inflation at over 20%, a tight grip on expenditure was required by the International Monetary Fund. After starting disastrously, he turned things around significantly before Labour lost power.

The Conservative government lasted until 1997 when Tony Blair's landslide victory swept away a tired ruling party. During the first term Gordon Brown kept a tight rein on expenditure, but this did not continue, and gradually spending was increased significantly, and it was necessary to raid the pension funds to finance this increase, along with raising taxes.

The next incumbent was Alistair Darling, a Scottish lawyer who took over from Gordon Brown when he became Prime Minister. An able man, he unfortunately inherited a large financial deficit which was exacerbated by the financial crisis of 2008. He was generally conservative (with small c) but in a position of not being able to reign in expenditure, given the economic circumstances. His was a short-lived appointment given that the coalition government replaced the Labour Government in 2010.

Finally, what are the prospects for the proposed incumbent Rachel Reeves? She has been an MP since 2010, but before that she worked at the Bank of England and HBOS, and was Shadow Chief Secretary to the Treasury from 2010-2012. This experience will stand her in good stead and in the policy statements she has said all the ‘right things’ about not raising taxes and keeping a tight control of expenditure. In terms of economic policy, with exceptions, Labour Chancellors have overall not been spendthrifts, but have had to deal with substantial balance of payments deficits and inflation at very high levels.

This has been blamed on the settlements reached by the unions in the 1960s and 1970s, but which was also followed by stringent controls on wages, particularly in the 1970s. Initially the Blair government kept stringent controls on expenditure, but arguably was not able to keep such a tight rein on wages. It is suggested that the record of governments of both colours have been equally lax at times.

One thing is clear – if Labour is elected, the Chancellor will be on a ‘bed of nails’ and limited in regards to her ability to manoeuvre. It appears that the prospective Labour government will in any event have to be very cautious, given the knife-edge of the government finances, according to an Institute of Fiscal Studies Report.

From a Guernsey perspective, this could make the island an attractive place to relocate.



Shadow Chancellor Rachel Reeves.