

The charge sheet against Labour

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Larry Elliot summarises [the charge sheet against Labour](#) — and by implication Ed Balls — this morning. He says:

The charge sheet against Labour is a lengthy one: it boasted about abolishing boom and bust when it hadn't; it over spent and over borrowed; it gave the City far too much freedom while neglecting manufacturing; it built an economy that was far too dependent on the willingness of individuals to amass personal debt and for financiers to take risks with other people's money.

And it's true — to the extent, for example, that the Keynesian maxim of saving should have been in place from 2005 onwards.

But remember it's also true that Cameron and Osborne argued for less regulation of banks and credit and committed to all of Labour's spending plans until quite late in the last parliament. And Osborne promoted Ireland as the model for our economy. He wanted us to be a tax haven! We would have been so much worse off under them.

And the evidence that we will be so much worse off is mounting. [Household spending is falling](#). [Business failure is increasing](#). GDP will fall today — and with it the prospect of double dip recession becomes very real — with no options left in the bankrupt policy book of the ConDems to deal with it.

Sure Labour got things wrong — like all politicians too influenced by neoliberal economics for too long. The difference is they may be willing to learn from their mistakes.

And if that's true it is a massive difference.

And it's one that the electorate will notice. Because like it or not they felt good under Labour. And they sure as heck aren't going to under this government. And that's going to be very, very telling. Especially when they won't have the comfort of the NHS to pick up the pieces by the time the Conservatives have finished with it.

Next, the opposition needs to expose the fact that Cameron and Osborne do not have a Plan B if the economy heads back towards [recession](#). Back in the Autumn, the chancellor indicated that his Plan B, should the fiscal tightening prove too much for the economy to bear, would be a resumption of the Bank of England's [quantitative easing](#) programme. The creation of electronic money through buying gilts is, however, no longer on the agenda due to the repeated over-shooting of the government's [inflation](#) target. Far from thinking about easing monetary policy, the Bank is now being pressed by some in the City to raise [interest rates](#). Should it bow to that pressure, the only macro-economic tool left to Osborne would be to slow the pace of fiscal retrenchment in the Budget, which would be seized upon by Balls as evidence that Labour had been right all along.

The shadow chancellor was closely involved in Brown's decision to grant independence to the Bank, and should have a long think about why Threadneedle Street was initially unable to curb the UK's debt-driven boom, was too slow in its response to the slump of 2008 and is now in danger of losing its anti-inflationary credibility.

In reality, the one macro-economic instrument currently available to UK policymakers is a fall in the exchange rate, which would help exports but push inflation even higher through its impact on imports. To the extent that the coalition has a strategy for rebalancing the economy, it is the familiar British model of allowing the currency to do the work. Plans for a Green Investment Bank have been scaled back as a result of spending restraint, while lending to businesses — despite pressure on the banks from Cable — continues to contract.

The challenge for Labour is not just to come up with proposals for, say, a new national investment bank or to provide state support for environmental technologies — useful though both would be. It also has to come up with an overall critique of the economy in which those individual policies can sit. This should be based on three principles. The first is that there is an in-built tendency for manufacturing to be weak and the City to be strong. Left to its own devices, the economy will tend to be unbalanced. Second, the biggest mistakes Labour made in power resulted from intervening too little rather than too much. Finally, we are not all this in together, and when it comes to choosing between the bankers with their multimillion-pound bonuses and the young unemployed, between VAT for the many and tax havens for the few, Labour knows which side it is on.