

Labour needs to work out what a progressive party can a...

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David Cobham is professor of economics at Heriot-Watt University in Edinburgh. He co-edited the spring 2013 issue of the Oxford Review of Economic Policy on the economic record of the 1997-2010 Labour government. In the context of this blog, [he was the author of a very popular post on seven Conservative claims that Labour should have nailed long ago](#). In this guest post he considers what Labour (like other parties that have the aim of representing those less privileged in society) can do in the current economic and political climate. In the process he seeks to place the [sensitive issue of wealth creation](#) in its proper context. I thought it another contribution worth sharing:

The current calls for Labour to jettison the 'leftwing' policies on which it allegedly fought the election in favour of the more 'centrist' and City-oriented policies it allegedly had under Blair are not just all too predictable, they are also silly and unthinking. What Labour really needs is a strategic debate about what progressive politics is and what can be achieved within a modern economy. This will take time, but above all it needs a willingness to address difficult questions.

Many of us have long thought that Labour made a crucial mistake in allowing the Coalition to embed their [myths](#) about the economic crisis into the public consciousness. It should have had a rebuttal unit in place throughout the long leadership election in 2010. But that mistake cannot now be rectified by confessing to economic policy errors which did not exist, and Labour will do itself no favours by agreeing with even a small part of the Coalition's fairy stories.

The financial crisis was global. It originated in the US, and affected the UK so severely because of the size of its financial sector. It was not the result of excessive or uncontrolled government expenditure: that rose from [37.8% of GDP in 1997-98 to 40.4% in 2006-7](#) (compared to 49.7% in 1975-6, 48.1% in 1982-3 and an average of 40.4% from 1987-8 to 1997-8). At the start of the crisis the current budget deficit was [0.6% of GDP](#) and the government debt to income ratio was [46% \(compared to 64% in Germany and the US, and 73% in France\)](#). The subsequent sharp rise in the deficit and then in debt was mainly the result (not the cause) of the recession, assisted by a

sharper drop in tax revenues from the City than the Treasury or anyone else had expected plus a small amount of fiscal easing (the temporary VAT cut). And a rise in the budget deficit in a recession is just what economic theory recommends.

It is true that recent estimates of the structural deficit in 2007 (what the deficit would have been if the economy had been operating at the potential output level) put it much higher — but that is just a function of the mechanical way these things are sometimes compiled: the effect of the crisis and recession has been to pull down the mechanical estimate of potential output both now and in the recent past, which [pushes up the estimate of the output gap](#) (the extent to which actual output exceeds potential) in 2007, raises the amount of tax revenue which is ascribed to output being above potential, and therefore increases the estimate of the structural deficit. Any economist with intelligence and integrity would not take such estimates seriously.

It is also arguable that Labour made a bad mistake in not highlighting the Coalition government's [major softening of their fiscal consolidation programme](#) in 2012. Osborne glossed over this, no doubt because to admit it he would have had to accept the failure of his Plan A. But Labour also ignored it. With hindsight it seems clear that if Labour had stressed the government's U-turn it would have been able to explain the (limited) recovery when that came, rather than allowing Osborne to present the recovery as proof that his plan was working and Labour had been wrong about austerity. But Labour could still have campaigned on the economic losses due to Plan A, the cost of living, the unequal impact of government policies and so on.

What Labour needs now is a fundamental strategic rethink about what progressive outcomes might be achievable, and how they can be realised, in a modern globalised and liberalised economy — the big questions now facing all social democratic movements. Of course, the 1997-2010 Labour government grappled with these issues, and its answer was reflected in policies such as the minimum wage, tax credits, Bank of England independence and fiscal rules. The government can be criticised, particularly with hindsight, for compromising too much with the neo-liberal doctrines and policies introduced under Thatcher and Major (and in other countries too) — in the early years such compromise was probably unavoidable, but the extent to which it could and should have been more deeply and more clearly reversed in the later years is still [a matter of fine political judgment](#).

Ed Miliband and his shadow cabinet also grappled with these issues, in the post-crisis context. Its election platform, from raising the minimum wage to freezing energy prices before reshaping an oligopolistic energy market to more gradual fiscal consolidation, reflected this. In both cases the policies adopted may not always have been right (even without hindsight), but they were serious attempts to address the issues. However, the objectives and the thinking were kept largely behind closed doors; policies seem to have been developed in a piecemeal way rather than as part of a wider strategy for a new type of government. What Labour needs now is a much more open and public debate on where those policies fell short and where they went too far, given both the

domestic and international market forces that constrain a government's ability to act, and the political constraints in a post-Thatcher UK.

Such a debate would also provide Labour with an answer to much of the attacks on it made by the Scottish National Party. The SNP has never had such a debate, although it claims these days to be social democratic. Instead, it presents Labour as pursuing less progressive policies than many would like out of choice rather than from any analysis of what is possible (which the SNP as insurgent party has managed so far to avoid facing). Instead, at different times the SNP has been associated with a watered down version of Tony Benn's Alternative Economic Strategy (79 Group), with a New Labour-ish cosying up to business and bankers (including support for RBS's disastrous bid for ABN-AMRO and arguments for a cut in corporation tax), and recently with an Old Labour rhetoric about inequality (though it took a long time for the SNP to support the re-imposition of the 50% tax band).

Labour needs to work out what a progressive party can and cannot achieve and then to be much more effective in explaining both the constraints and its choices to its members and its potential voters, in Scotland and elsewhere. That would enable it to answer the 'red Tory' charge coming from an SNP which has been dancing a delicate two-step with the Conservative Party and the conservative press designed to maximise SNP votes in Scotland and minimise Labour votes in England. But in former industrial areas in England and Wales it would also give it a chance of regaining trust with the voters it has lost to UKIP.

At the same time, a transparent programme of this kind would allow Labour to confront the accusation that it is against wealth creation by demonstrating how in a properly-run economy and society, one not dominated by financial short-termism and rent-seeking, wealth creation and distribution can and should go hand in hand.