



COVID-19

UK Political Analysis

By Tim Hames, Senior Adviser | 3rd July 2020



Post-Crisis Politics: The Conservative Party is reinventing itself (again).

In advance of the reopening of pubs and restaurants tomorrow, Boris Johnson decided to offer a sense of the political direction that he and the Conservative Government would take once the coronavirus crisis is deemed to be contained, if not completely over. He did so in a speech in Dudley, a town symbolic both of the Industrial Revolution of yesteryear and of the so-called “Red Wall” constituencies that switched from Labour to the Conservatives at the December 2019 General Election. His address was nothing if not audacious. He adopted a hero of the American Left – Franklin Delano Roosevelt – as his model and appropriated the language of “building back better” that had been first deployed by advocates of sustainable finance who had in many cases been very critical of the globalised capitalism largely in vogue before the virus struck. He also made it clear that he had little interest in the austerity agenda that had been Conservative orthodoxy until really quite recently, and he was more than happy to wave the cheque book at the new circumstances in which the country finds itself. A different and distinct Conservative approach had, in fairness, already emerged before COVID-19 arrived and was signalled in the March 11 Budget, issued shortly before the road to lockdown became all but certain. That strategy has, though, been hardened by recent events and will be the fundamental theme of government and politics in the UK throughout the duration of this Parliament.

EXECUTIVE SUMMARY

- The coronavirus crisis has hardened a strategic shift by the leadership of the Conservative Party that had already emerged but not taken on its full form.
- The Conservative Party has a very long tradition of reinventing itself. Indeed it could be argued that this is the strongest explanation of its electoral success.
- The factors that are pushing it in the direction that it is adopting include its new parliamentary and public profile, a totally new economic landscape and Brexit.
- Although there will be some unease on the “Thatcherite” wing of the party, internal opposition is unlikely to prove an inconvenience to the Prime Minister.
- The markets, similarly, are an improbable obstacle to higher levels of debt.
- The Labour Party, despite manifestly superior leadership than under Jeremy Corbyn, may struggle to find a coherent line of attack on the Government.
- The greatest danger to this reinvented strategy is ineffective delivery. This explains the intense interest in civil service reform and in reshaping the state.

A History of Reinvention.

There is absolutely no evidence that the late David Bowie was a Conservative Party member. It would, however, have been entirely appropriate if he had been. His career and music was a tour de force of continuous reinvention (as indeed were his hair styles). Yet the UK Conservative Party has arguably been more adept than him at reinvention.

This has an incredibly long history. Most scholars would argue that the Conservative Party can and should be dated from Sir Robert Peel’s Tamworth Manifesto of 1834. That document had three core objectives. It sought first to distance a new leader from an unpopular predecessor (the Duke of Wellington). It then deliberately reversed what had become an unsustainable party policy stance (outright opposition to the Reform Act of 1832 and the consequent expansion of the electorate). It then aimed to reach out to new sections of those who now had the vote by pledging that it would “reform to survive” and would stand for “the correction of proved abuses and the redress of real grievances” while rejecting unnecessary change as risking allowing “a perpetual vortex of agitation”.

This formula has largely been followed for almost 200 years now. It has meant that the party of land became the party of capital, the party of the aristocracy became the party of democracy, the party of protection became the party of free trade, the party of appeasement became the party of defeating Hitler at all cost, the party of Empire became the party of decolonisation, the party that took the UK into the then EEC became the party that took the UK out of the later EU - and to achieve that the party of the Union became the party of throwing the DUP under a bus to do a deal with Dublin. Compared with all this, swapping from being the party of austerity and eliminating the deficit to being the party of vast infrastructure investment is not such a sizeable shift.

The Conservative Party has only endured serious and consistent electoral trouble when it has become fixated on an issue where it was clearly detached from the mass sentiment of the electorate. This was true over the abolition of the Corn Laws, Tariff Reform at the start of the 20th century and Europe at the onset of the 21st century, when initially the voters did not share the extent of its concerns. The solution – starting with Tamworth in 1834 – has always been the same: distance itself from its previous (failed) leadership; be shot of the policy stance that has proved to be politically toxic and do what is needed to find new sources of voters. The Prime Minister is singing from a well-worn hymn book.

The forces moving the Conservatives in a new direction now.

The forces that are moving the Conservative Party in this new direction are three-fold. They are the new parliamentary and public profile of their electorate, the extent to which (even pre-crisis) the probability of very long-term low interest rates opened up new economic options and the challenges and opportunities associated with Brexit.

The headline numbers in terms of percentage of the national vote for the Conservatives in 2017 and 2019 do not look very different. The party obtained 42.4% in 2017 and 43.6% in 2019, a comparatively moderate increase of 1.2%. This disguises the fact that there were two significant shifts in electoral sentiment around the party. The Conservatives lost around 3% of their original 42.4%, largely in the direction of the Liberal Democrats. Those defections were overwhelmingly focused on relatively affluent individuals who had favoured remaining in the EU and who lived in London and South East England. As a

consequence the party made no net advance in London against Labour, did not retake seats such as Bedford and Canterbury that on paper should have been easy wins for them and with the odd exception such as Ipswich did not snatch victory in marginal constituencies in the South East of England or Eastern England either. The party also lost half of the seats that it had taken in Scotland at the 2017 election in 2019 (to the SNP).

This did not matter because there was a larger wave of voters (around 4% of the overall electorate) moving towards them directly from the Labour Party and doing so in territory that was politically pivotal. It was highly concentrated in the older white working class that had voted to Leave the EU in June 2016 and which was located disproportionately in the North East of England, Yorkshire and Humber, the North West outside of Liverpool and Manchester themselves, the West Midlands and a section of North Wales. This was where almost every single net seat gain for the Conservative Party was witnessed. It has, therefore, left the party with the urgency of ensuring that these new recruits remain on board and is an enormous incentive to render the “levelling up” agenda a reality. That the Labour Party under Sir Keir Starmer appears to be making at least some strides to the political centre reinforces this necessity. Any attempt at an alternative approach such as aspiring to lure back the “lost Conservatives” of 2019 does not seem a very rational idea.

A new electorate is a complicated experience. Keeping both long-standing backers and the new cohort content can be hard. In this case, the former client base instinctively favours tax cuts while the fresh troops intuitively prefer higher public spending. There are trade-offs that will need to be made. Tony Blair had this dilemma after the 1997 and 2001 elections, when the traditional Labour core vote had been supplemented by a more middle class set of supporters. In the end, Labour found itself alienating both of these camps. Labour started losing the first over immigration from central and eastern Europe from 2004 (although to be fair to Mr Blair, the official estimates as to how many people would come to the UK and enter the labour market were a tenth of what the eventual statistics proved to be). The middle class was alienated by the Iraq War and at the time moved to the Lib Dems. This, plus David Cameron doing his own Tamworth trick, led to the 2010 election result. Mr Johnson has to juggle the fact that his two constituencies have different economic priorities, although similar on social and cultural questions.

The second force is in the new post-virus economic landscape. This had been changing anyway (see FTI UK Political Analysis: Economic Outlook: The March Budget will signal a seminal shift in official Treasury thinking, January 17th, 2020). The Treasury had come to accept that interest rates in 2025, even 2030, would be substantially lower globally than had been expected until comparatively recently, which offers more policy flexibility, particularly when it comes to capital expenditure. It was also becoming accepted in No. 11 that existing models and rulebook surrounding such spending had a strong bias in favour of infrastructure investment in London and the South East and against the rest of the UK. Rishi Sunak recognised this by announcing a series of seemingly technical reviews in his March Budget that were actually much more important in their implications for policy (see FTI UK Political Analysis: After the Virus. A Budget that may well herald a radical change in UK economic policy). The move away from austerity was already there.

At one level all of this might seem to have been hit for six by the coronavirus crisis. It is costing astronomical amounts of money in terms of lost tax revenues and in spending increases of mind-blowing margins. The UK's debt to GDP ratio is already north of 100% and could end up being at a level which at the start of 2020 was associated with Italy (although God knows what that means for where Italy will stabilise - amounts once linked with Zimbabwe?). Surely this will all have to be paid for by tax hikes and cuts in spending and that would derail all previous plans to increase infrastructure expenditure?

Probably not. To a very large extent the UK Government (as many others) will take the hit and accept a much higher level of national debt than previously deemed acceptable. It will do so in the knowledge that interest rates are destined to be even lower for even longer than envisaged a mere three months ago. There will be no rush to force up taxes or slash other areas of expenditure. The original blueprint will need to be adjusted, but not abandoned. In the medium term there will be upward pressure on taxes because it is a racing certainty that NHS spending will be notably higher in this decade than planned. Nonetheless, for the next 12-18 months economic policy is likely to be accommodating. The overwhelming emphasis will be on entrenching a recovery. Only when the economy starts to resemble 'normal' will the Chancellor and Treasury begin to consider how they can set a trajectory that will allow debt to GDP to diminish significantly over time. For the moment, when the Prime Minister proclaims "build, build, build" he can plausibly deliver on it. The underlying economic philosophy of this decade will continue to be different

from the ten years previous to it. The virus crisis might have produced numbers for the public finance that make one's hair stand on end, but it will not prevent new spending.

The third element that is driving this latest reinvention of the Conservative Party is Brexit. Before the virus struck, ministers had already determined that they would seek to end the transition period on December 31st 2020 and accept a more limited bargain with the EU in order to realise that ambition. They would now be willing to forego a degree of market access to the EU in order to acquire a larger amount of autonomy; not simply as a theoretical proposition, but to make changes that State Aid rules might have curtailed.

This is a conclusion that has economic and political implications. In one sense, the virus crisis is a blessing for the Government as it seeks to execute its Brexit strategy. Supply chain lines between the UK and the EU-27 have already experienced an element of disruption well beyond the scale imagined during 'no-deal' modelling. If there is a short-term cost to departing the EU on the terms chosen then it will now be hidden within the much larger threat to the economy that the virus crisis has produced, and it will be very hard to distinguish between the Brexit and the COVID-19 aspects of it. Besides which, such will be the contraction of the economy in Q2 of this year that by Q1 2021 there is literally only one direction in which overall output could be moving. The exact pace of this is unclear - and is unlikely to be the V-shaped recovery once spoken of - but it will not be an L-shaped situation either. The timing of the arrival of a vaccine or new and highly effective means of treating the virus will be critical. Yet the logic of Brexit is that while policy will move (in a sense) to the left on fiscal policy, alongside permissive monetary policy that can be expected to last for a long time, it will simultaneously move (in a sense) to the right in terms of regulatory policy as the UK attempts to distinguish itself from the European norm in order to be more appealing to international investors.

Brexit may be almost forgotten as of now, but it will force change that otherwise was unlikely to be implemented. The area of most sensitivity will be immigration, where the interests of very different constituencies today allied within the Conservative Party (the business sector and the new working class Conservatives) are at odds with each other.

Put together the new profile of the Conservative Party, an utterly transformed economic landscape and the imperatives of Brexit are an immensely strong force for reinvention. All of the components were present, to repeat the point, before a sickly bat proved to be the undoing of a large part of international society. They have been intensified by it.

What might prevent this latest Conservative reinvention from happening?

In principle there are a number of factors which might disrupt this reinvention. They include internal dissent within the Conservative Party, the reluctance of the markets to fund much higher levels of debt which might compel the Chancellor to shift policy again, and the Labour Party might succeed in reinventing itself even more dramatically and even more sweepingly than the Conservative Party is attempting while it is in office. Spectacular administrative incompetence in delivering the reinvention could yet occur.

Some of these possibilities seem less credible than others. There are Conservative MPs of a 'Thatcherite' inclination who are not that wild about the new enthusiasm that their leader has for Big Government Conservatism (although almost all of those MPs voted for Mr Johnson in the contest to succeed Theresa May last year). There are mutterings that the old tax cutting agenda should be resurrected. The NHS is not universally worshiped.

This is unlikely to prove fatal to the Government. While there is upward pressure on tax revenues (even if there is a VAT cut in the short term, a rise to 25% later on to fund new health expenditure strikes me as the most politically painless means of extra money), the Prime Minister and his very astute Chancellor are smart enough to know that they must produce some eye-catching measures on tax as well (although targeted on the poorer end of the spectrum, which is their new priority electorally). A lot of noise and weight will be placed on the deregulatory agenda that the Government has more scope to press once the UK is completely beyond the orbit of the European Union. This will be incredibly popular with the sort of Conservative MP who might otherwise be unnerved by different aspects of the Government's programme. Mr Johnson has long proved rather skilled at balancing a 'One Nation' stance on domestic policy with also being at the helm of Brexit. If not, and he turns out to become a liability, his colleagues will ruthlessly remove him.

Nor would it seem probable than the markets will be the downfall of reinvention. The entire world economy will have to adapt to much higher levels of sovereign debt. The UK is still a relatively safe haven. The Bank of England has proved to be a flexible friend to the Treasury. Servicing a gigantic increase in borrowing has not been that difficult. It thus seems unlikely that the Chancellor will be obliged to change course in the manner of Denis Healey and the 1976 IMF crisis. The markets tend to award the benefit of the doubt to centre-right administrations. The Government has room to manoeuvre.

Sir Keir Starmer will certainly attempt to reinvent the Labour Party. Not being Jeremy Corbyn is a positive start in itself. His despatch of Rebecca Long-Bailey last week was devised to send out a broader message than intolerance of anything that borders on anti-Semitism. He is well aware that the party needs to rewrite policy fundamentally. He did not, however, assist his own cause by adopting a 'safety first' approach to the Labour leadership election, when despite a large lead in the polls, he did not challenge the party faithful to abandon a host of populist policy positions. He wanted to make it possible for those who had joined Labour under his predecessor to vote for him, or at least not head for the exit the moment that his victory was apparent. His mandate for a swift dash to the political centre is limited. The Labour Party is a much harder entity to redesign than is the Conservative Party. Much of it loathes the former Prime Minister who achieved three outright election victories in succession. Labour's instincts are difficult to change.

This makes outflanking the Conservative Party in terms of reinvention quite awkward. The most likely course of events is that Sir Keir responds to every Boris speech in the spirit of "build, build, build" by shouting out "more, more, more". The trouble with this is that Labour continues to have a credibility issue on economic matters. The public might prefer the certainty of a substantial level of investment under the Conservatives to the promise of even higher spending under a Labour Government. The "Red Wall" voters and seats are also extremely wary of Sir Keir because of his strong opposition to Brexit, and are also detached from Labour on a host of social and cultural issues. It is a much more straightforward exercise to imagine Sir Keir siphoning votes from the Liberal Democrats rather than drawing back ex-Labour leave electors from the Conservatives. This is worth having, but in terms of the parliamentary arithmetic it takes him nowhere near victory.

Conclusion

So the real danger for the latest reinvention project lies in spectacular administrative incompetence in delivering it. Downing Street is extremely well aware of this, hence the atypical interest in the culture and structure of the civil service and the machinery of government. Reshaping the State is considered essential to the success of the entire enterprise. The departure of the Cabinet Secretary and Head of the Home Civil Service is but the prelude to a much more assertive attempt to change the way in which public administration in the UK operates: to reset it on more scientific and technological lines and to incorporate a much more commercial mindset at the heart of Whitehall. This was an aspiration before the virus struck, but the bruising experience of the past few months has made ministers appreciate that this really has to be a very high priority for them.

The extent of that radicalism and vision was set out by Michael Gove, the Chancellor of the Duchy of Lancaster, in his extraordinary Ditchley Park Lecture last Saturday (and the subject of an FTI Public Affairs snapshot published on Tuesday). The question that he wants to be able to answer well is “can we prove that we have made a difference?”. He disowned past leadership, effectively jettisoned the austerity regime of Cabinets in which he had served and reached out to “Red Wall” voters as the source of his inspiration. Sir Robert Peel, one very strongly suspects, would have thoroughly approved of his words.

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