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[Editorial/Introduction]

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The Conservatives' Economic Strategy

Long before Boris Johnson gave his robust view of business opposition to Brexit, the Conservative Party had an ambivalent relationship to business interests. Mrs Thatcher admired individual businessmen but disliked the cautious compromise-seeking of the Confederation of British Industry. The aggressive anti-union stance of the Institute of Directors was more to her liking, but it made no pretence of being a representative body. Cameron was more emollient, but not interested in using formal channels of communication. It is easily forgotten that he and Osborne initiated the so-called 'high wage' strategy with a big boost to the minimum wage in 2015. In the process they casually sidelined the Low Pay Commission, one of the few bodies where employers had a clear role in national policy-making.

This is not to say that the party is unfriendly to business. It is heavily reliant on business donations, although it is always worth bearing in mind the difference between rich people and business people. As Gilens and Page¹ pointed out in the US, the concentration of wealth has created more opportunities for maverick figures to pursue their personal obsessions, at great cost to the rest of us. The government is friendly in other ways too, particularly to those linked to the personal networks of ministers. But this hardly makes the Conservatives the party of business; indeed, corruption may annoy as many as it pleases.

The Johnson government has taken its relationship with business to a new low. The focus of much of the discontent on the airwaves in the last month or two has been the government's immigration policy. At the party conference, the Prime Minister stuck with the strategy of restricting immigration in pursuit of a 'high wage, high productivity' economy. He was assailed with criticism from Thatcher's erstwhile favourite, the Adam Smith Institute, which called the policy 'vacuous and economically illiterate'.² Business leaders convened in a Financial Times forum accused the government of lacking a credible economic plan and complained that economic policies appeared to be politically driven.³

Whether this loss of influence for UK plc should worry us depends on what kind of politics takes its place. The politics of immigration policy are hard to unravel. Strikingly, commentators on the left have joined the chorus of criticism of the government's policy. Jonathan Portes⁴ and Simon Wren-Lewis⁵ have argued that immigration controls will make 'us' poorer, while also denying employment to people who would benefit from being allowed to immigrate, albeit to low-waged jobs. Wren-Lewis has argued that immigrants' low-paid work allows natives to occupy higher-paid jobs. If the immigrants left, the economy would shrink and natives would have to do some of the lower-paid jobs. Portes cites evidence that immigration expands the economy and does not harm native workers' wages. Portes and Wren-Lewis favour relaxed immigration policies partly for good cosmopolitan reasons. Immigrants presumably benefit from being able to take up opportunities in other countries. They may work for lower pay than natives, but they're still ahead of where they were, and the native population does not suffer. Mobility is a win for both migrants and natives.

¹ M. Gilens and B. Page, 'Testing theories of American politics: Elites, interest groups and average citizens' *Perspectives on Politics*, vol. 12, no. 3, 2014, p. 571.

² <https://www.adamsmith.org/news/boris-blustering-asi-responds-to-pms-conservative-party-conference-speech>

³ D Thomas, 'City bosses call for credible economic plan and warn on UK inflation' *Financial Times*, October 14 2021.

⁴ J Portes, 'The Economics of Migration', *Contexts* Vol 18 No 2, 2019; doi:10.1177/1536504219854712

⁵ S Wren-Lewis, 'Is creating worker shortages by restricting low paid immigration a good idea?' 7 Sept 2021, <https://mainlymacro.blogspot.com/2021/09/is-creating-worker-shortages-by.html>

Obviously, this is not everyone's experience, and we know well the political effects of failing to grapple with the consequences for those who are disadvantaged by immigration. But there's another missing element in the story which receives much less attention, concerning the effect of immigration on the overall distribution of income. There was an illuminating debate about this at a recent Resolution Foundation event, where Alan Manning put the counterargument.⁶ Both Wren-Lewis and Portes advance analyses which distinguish sharply between natives and immigrants. Natives will, on the whole, benefit from immigrants' low-paid work. But this sharp bifurcation should make anyone who cares about equality uneasy. Overall, if you look at all the jobs and all the wages, not just native jobs and wages, there will be more low-paid work in the economy when there is high immigration of workers into so-called low-skilled jobs. We should ask who really benefits most from that. Yes, it keeps the NHS afloat, but gains also accrue to other employers whose interests are not so readily equated with the public interest. Wage inequality has increased, and those at the bottom are not receiving their fair share.⁷

The exact design of immigration policies is likely to affect the outcome. In fairness to those on the cosmopolitan left, they advocate genuine free movement, which means that immigrants enjoy full civil rights and can move freely to better opportunities. They are less exploitable than when they enter under restrictive conditions. The effect of visas that require migrants to stay with the same employer, or at least in the same sector, is to give employers a degree of monopsony (buyer) power. Sometimes this can lead to gross abuses, as Sarah O'Connor and Judith Evans have uncovered in the seasonal workers' scheme.⁸ More generally, these visas help employers keep wages low, enhancing their profitability. While it is true that consumers may then benefit from lower prices, and taxpayers from lower costs in health and social care, these gains are founded on a discriminatory and potentially exploitative regime.

This government sees immigration policy, along with the minimum wage, as the easiest lever to pull to counter low pay and poor conditions. Businesses say that this does not add up to an economic strategy. They are vague about what a strategy would look like, but we can draw a rough sketch of the most favoured policies. Instead of proposing that employers grapple with the task of training home-grown workers, the government should spend heavily on skills acquisition, particularly at the intermediate 'technical' level between school and university. And if shortages nonetheless emerge, the government should stop accusing businesses of 'crying wolf' and release visas for so-called 'shortage sectors' without restrictive requirements such as meeting a minimum salary threshold.

Clearly, these are not ideal policies. Some of the responsibility for addressing the shortfall in skills should be laid at the door of employers, and immigration should not be a pool that employers can draw on at their convenience to maintain profits instead of investing in better ways of working. But it is hard to see how to find a way from the government's current policies to a reasonable compromise. The government has got into a game of chicken with employers, trying to keep immigration restrictions in place and face down employer pressure. It has partly succeeded, but at the cost of price increases and shortages. This would usually be enough to frighten a government into backing down, and it has capitulated in some areas, but it has also resisted by invoking a post-Brexit, 'fight them on the beaches' spirit. This is accompanied by globalist boosterism in which the government has proved susceptible to fashionable sectoral favourites. Dodgy pet projects like a visa

⁶ Pastures new: Is lower migration the route to a new, higher wage, British economy? 13 October 2021, <https://www.resolutionfoundation.org/events/pastures-new/>

⁷ Andreas Teichgraeber and John Van Reenen, 'Have productivity and pay decoupled in the UK?' LSE Centre for Economic Performance Discussion Paper CEPDP1812, 3 November 2021

⁸ S O'Connor and J Evans, 'Brexit: the low-paid migrant workers "trapped" on Britain's farms'. *Financial Times*, March 16 2021.

for fintech have been promoted. Rishi Sunak hardly mentioned immigration in the budget, but under the heading of 'Advancing Global Britain' he signalled the government's preferences with visa plans for 'High Potential Individuals' and 'Global Business Mobility': not schemes that will put goods on shelves anytime soon.

Stein Rokkan argued that 'votes count, resources decide',⁹ and delved into the institutions of European democracies to find the linkages by which those in command of resources could exercise influence in ways compatible with electoral imperatives, and thereby stabilise democratic capitalism. He found his answer in political parties that were affiliated to the main economic interests. It has become customary to dwell on the difficulties for social democracy caused by the decline of organised labour, which seemed to leave capital in political as well as economic ascendancy. But this neglects the political difficulties for business emerging on the populist right. In its present incarnation, the Conservative Party's affiliation with business is weaker than ever. The government sees its policies as a path to electoral success. Votes count, and resources decide less when, thanks to Brexit, the government can reach for nationalistic excuses in the face of economic disruption.

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⁹ He continued: 'however weighty the decisions of electoral majorities, nothing is likely to get settled without the consent and participation of corporate groups controlling key resources.' S Rokkan, 'Votes count, resources decide: Territoriality vs functionality in the structuring of political arenas', republished as 'Numerical democracy and corporate pluralism', in P. Flora, Ed., *State Formation, Nation-Building, and Mass Politics in Europe*. Oxford, OUP: 261-273, 1999, at p.261.