

Rishi Sunak is running out of time for an economic recovery

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You could understand the prime minister's thinking. He kicked off the year by outlining his top five priorities, making it crystal clear that he thought falling inflation, a return to economic growth and a decline in the government's debt-to-GDP ratio were prerequisites for earning a hearing from voters before the next election. Only with these building blocks in place could the public take seriously a Tory campaign talking up the risks of a Labour government to the economy and the public finances.

Given how high inflation went and the Conservatives' dire polling numbers, the window of time to deliver that strategy was always narrow. Halving inflation this year, as promised, now looks difficult; reducing the national debt as a share of GDP by the next election, near-impossible. Yet if Rishi Sunak still hoped that a sudden, organic reversal of economic fortunes might transform the political outlook anyway, President Biden's experience serves as a cautionary tale.

The United States is way ahead of Britain in the race to economic recovery. Its inflation is tumbling, at nearly 3 per cent and falling. Unemployment rates are at a 50-year low. Over the past year, real GDP growth has been keeping a decent pace at 2.6 per cent, while wages have managed to outstrip prices in 2023.

So far, though, the president has seen scant political benefit from these improving outcomes. Consumer sentiment indicators, though stronger, remain weak. The Gallup economic confidence index is still at levels as low as during the onset of the financial crisis. Meanwhile, a recent CBS poll revealed that a whopping 65 per cent of Americans think their economy is in the doldrums, with two thirds of voters giving Biden the thumbs down for his handling of it.

With the presidential election next November, Democrats are panicking. They've been waving around slides from focus groups and polls on Capitol Hill, warning their congressmen and congresswomen that the Republicans have the upper hand on economic issues. The president's media sympathisers have been banging Biden's drum, lamenting the yawning gap between the data and the public's perception of the economy.

Some find solace in the idea the polling results merely reflect hyper-partisanship. Ask people about their own economic situation, and the majority of Americans say their financial health is good, after all. From this angle, Biden simply needs to educate people that the overall economy is doing better than they think. They figure that if they can align the messaging with people's personal experiences, they might still sway undecided voters.

The bleaker interpretation? Americans are still licking their wounds from a brutal jump in inflation, for which they part-blame the president. Sure, wages are rising now, but they've dipped by 3 per cent in real terms since Biden moved into the White House, thanks in large part to inflation that was exacerbated by Democrat overspending. As a result, disposable incomes are far below where families might have expected them to be.

An oft-overlooked point here is that inflation hits everyone and plenty feel the pinch of higher mortgage rates and falling house prices, thanks to the necessary monetary tightening. Far fewer people experience transitions from unemployment to employment. A burst of inflation leading to permanently higher prices was therefore always likely to deliver a swift, enduring downturn in economic perceptions — especially because the economy under President Trump had seen similarly low unemployment, but with lower prices and lower interest rates.

The more realistic optimism for Biden may simply be that there's a time lag between an improving economy and any political rewards. If growth keeps on trucking, inflation disappears and real wages continue to climb, maybe — just maybe — he will turn around economic perceptions by next November. And if Trump makes a comeback as the Republican nominee, worries about his character might overshadow any economic grumbles about Biden, anyway.

Unfortunately for Sunak, time is running out and his opponent is far less flawed. Britain is lagging so far behind America that it's hard to see how an economic revival could convert into tangible political gains before the next election. Sure, inflation is on the downward trend, but it's still stuck at a hefty 7.9 per cent, making the UK stick out like a sore thumb. Unemployment is pretty low, but that, too, has been creeping up lately.

British workers also have felt a real wage squeeze and there's no comfort to be found in pre-pandemic times, as even then, the Tories hadn't ushered in any significant improvements in living standards. Average real weekly earnings have been completely stagnant overall since the Conservatives won the election in May 2010. That's over 13 years of lost earnings' growth.

After inflation first took off in 2021, the proportion of people who thought the government was handling the economy badly surged to about 78 per cent. It's bobbed around that level ever since, peaking higher after Liz Truss dropped her mini-budget but showing no signs of falling. No wonder Labour consistently bests the Tories on who'd be better at managing the economy or keeping prices down.

Ken Clarke, the former Tory chancellor, ended his 1996 budget by saying: "We should never forget that good economics is good politics." Six months later, his theory was seemingly disproved, as his party lost in a landslide to Tony Blair's Labour, despite leaving a "golden economic inheritance".

A truer statement is that bad economic crises can leave enduring marks on the perception of the governing party's competence. Rishi Sunak staked his political strategy on the unambitious goal of economic normalisation affording him a fresh start with voters. Joe Biden's dismal economic polling, despite a much stronger recovery, paints a grim picture of Sunak's odds of success.

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