

Labour took a historic drubbing this week, and there's no easy solution for the party or the country.



POLITICAL ECONOMICS

Keir Starmer, the Bond Market's Only Hope?

London It's always a terrible sign when British politicians start appealing to the authority of the bond market. That Prime Minister Keir Starmer's allies have done so this week is the clearest indication yet that his government is in trouble.

Mr. Starmer is embroiled in speculation about how long he'll hold on to his job. The proximate cause is this week's local and regional elections. Britons were still casting and counting ballots in the Thursday election as this column went to press. But the outcome is all but foregone: a historic drubbing for Mr. Starmer's Labour Party in races to control around 40% of the local governments in England and the regional parliaments in Wales and Scotland.

Labour lawmakers in the national Parliament were so certain of the bad outcome they haven't waited for the elections before accelerating their plotting against Mr. Starmer. Rumors have swirled for weeks about challenges to his leadership of the party and the country.

The anticipated election loss exposes Mr. Starmer's failure to resolve the central political crisis confronting Labour—the loss of trust in the party among its traditional bluecollar base. Those voters are flocking to the insurgent-right, anti-immigration Reform UK party of Nigel Farage. Compared with the scale of this shift, the concomitant drift of urban progressives toward the farleft Green Party is a sideshow.

The specter of a big electoral defeat makes Labour politicians more sensitive to Mr. Starmer's peccadilloes. A few weeks ago it was the scandal over his appointment of Peter Mandelson as ambassador to Washington despite concerns about whether Mr. Mandelson had passed a national-security vetting procedure.

Then there's the antisemitism crisis. A spate of attacks on Jewish sites, most recently a double stabbing attack last week in the Golders Green neighborhood of London, is exposing a persistent Islamist threat in Britain that authorities suggest may be egged on by Iranian proxies. The danger is compounded by the disgraceful seepage of antisemitism through elements of Britain's political class, particularly on the left.

Mr. Starmer was elected as Labour leader in 2020 in large part to purge the party of the antisemitism that

was rife under Jeremy Corbyn's leadership and make Labour electable again. Instead, after nearly two years of Mr. Starmer's administration, Jews are less safe in Britain than they've been at any time since perhaps the Middle Ages.

Mr. Starmer talks a good game about combating this danger. In practice he appears paralyzed. Perhaps he fears being abandoned by the motley coalition of Islamic community rabble-rousers and far-left campaigners who still sort of prop up Labour. But voters forcefully rebuffed Mr. Corbyn in 2019 in part due to antisemitism and eventually may notice Mr. Starmer's failure to get a grip.

Looming over it all is the poor state of the economy. Growth remains anemic, while inflation shows signs of ticking up amid the war in Iran. Despite periodic attempts to gin up an economic-growth agenda, Mr. Starmer hasn't been able to settle on an approach that would raise living standards and stir optimism. The failure results from a combination of Mr. Starmer's personal lack of intellectual imagination and his party's fractiousness.

Which brings us back to the bond market. Allies have started whispering to reporters that if Chancellor of the Exchequer Rachel Reeves or, by extension, Mr. Starmer himself is ousted, bond investors will take it poorly. Yields on British government bonds, known as gilts, would surge, and so would mortgage rates. The point is to warn Labour lawmakers not to provoke a repeat of the turbulence of autumn 2022, when Conservative Prime Minister Liz Truss re--leased a tax-cutting budget that was blamed for tipping the gilt market into meltdown.

The Truss comparison is both less and more apt than Labour politicians might care to admit. It's less compelling to the extent that gilt yields now are higher than their peak during Ms. Truss's short tenure. If this is the standard, Mr. Starmer and Ms. Reeves already are failing.

The parallel is more instructive concerning the underlying dynamic. Ms. Truss spooked markets not with her relatively modest tax-cut package, as is commonly believed, but with a much larger suite of energy subsidies Britain couldn't afford. The big-spending Labour left that hopes to profit politically from Mr. Starmer's collapse might soon run right into the same market buzzsaw.

The common thread is that a highdebt, low-growth economy eventually starts running out of policy options. Mr. Starmer wants to argue that as far as bond investors are concerned, Britain's menu of viable political choices is now so short that he is the only name on it. As a political survival strategy this may even work. But it isn't the flex he thinks it is.

By Joseph C. Sternberg

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