Neoliberalism 2.0: crisis and austerity in the UK

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1. Introduction

Four years into the austerity programme introduced by the Conservative-Liberal Democrat coalition after the 2010 election it is clear that the policy objective is to bring about fundamental change in the UK social model (Grimshaw 2014; Rubery and Grimshaw 2012), while neglecting the fundamental problems in the economic model that precipitated the 2008 crisis. This crisis was to a large extent the product of the UK model of capitalism, centred around financial services, credit-led booms and deregulated markets. This increased the model’s vulnerability to the crisis, but the United Kingdom was also protected, compared with other European countries, from the ensuing sovereign debt crisis, notably by its position outside the euro area (euro zone) and its relatively long-dated government debt (which means less frequent debt resale). The policy direction post-2010 therefore represents at least to some extent a free political choice – that is, not directly dictated by the markets – but also one not mandated by the electorate. Labour lost but the Conservatives did not win the election outright and many of the changes introduced contradict manifesto commitments. This chapter assesses the changes that have taken place since the crisis, focusing in particular on the period of austerity policy, under three headings. We first consider macroeconomic policy up to early 2014, before and during the crisis and now under austerity; second, we look at the approach taken to the social model, including both welfare and employment regulation; and third we consider the approach to governance and the provision of public services.

2. Macroeconomic policy, banking crisis and response

In the run up to the crisis, the UK economy was governed by a set of principles similar to those that govern the USA, namely, the pursuit of
low inflation, limited state assistance to firms and industries, ‘shareholder value’, deregulation of product markets and liberalisation of capital flows. At its heart, the UK model prioritised the interests of the rising class of finance capitalists. London has been an important geographical base for global finance. Moreover, Conservative and Labour governments have pandered to its needs, based on the rationale that free markets prosper better with a financial class that can act unhindered to help markets grow. While the Bank of England and the Financial Services Authority repeatedly recognised the risks, they are said to have failed to appreciate the new system-wide nature of market risk (Besley and Hennessy 2010; HM Treasury 2008). The UK economy thus experienced the conditions that, as is well known, led to the financial crash; that is, a glut of cheap credit now made available to many low- and middle-income households, a booming housing market, an under-regulated banking sector and a bubble of derivatives and futures trading among an increasingly highly paid and uncompromising financial elite (see Elliott and Atkinson 2008).

There are strong grounds therefore to agree with Crouch’s (2009) assessment of UK macroeconomic policy during this period as ‘privatised Keynesianism’; an increasing reliance on private rather than government debt characterised the growth model. Moreover, it conforms to a growth model that Lavoie and Stockhammer (2011) describe as pro-capital with weak wage growth, one that is based on neoliberal economic policy and a distributional policy that favours capital over labour (including the active promotion of labour market ‘flexibility’, residual welfare policy and weakened collective employment rights). The combined result is a falling wage share, growing personal debt, rising poverty and instability.

Despite the apparent flaws in the government’s pre-crisis approach to macro policy, its response to the 2008–2009 crisis and post-2010 design of austerity measures suggest that few lessons have been learned. The United Kingdom is likely to experience a ‘lost decade’ of stalled economic output and investment, falling real wages, growing debt and a resurgence of unsustainable asset bubbles. A first piece of evidence is the very slow recovery of GDP, combined with falling real wages. GDP tumbled by 6 per cent from the first quarter of 2008 to mid-way through 2009 and then took a full 17 quarters to recover to its pre-crisis peak, far longer than recoveries from previous recessions. Real pay (median hourly earnings) is down 9 per cent (2009–2014) and in 2014 was approximately equivalent to its 2002 level.
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The pattern of falling real earnings applies to both male and female workers, to those in full-time and part-time jobs and to workers employed in the public and private sectors. Analysis by the Office for National Statistics (Levy 2013) shows that the steepest fall (2009–2012) was for male full-time workers in the private sector (9 per cent on average) and the smallest for female part-time workers in the public sector (3 per cent). However, in the course of the roll-out of public spending cuts since 2010 real pay cuts for full-time public sector workers have exceeded those for the private sector (2010–2012 data).

A second piece of evidence of Britain’s likely lost decade is the repeated extension of the period required to achieve the planned reduction of the structural deficit and a turnaround in rising public sector net debt. Figure 1 shows how the government’s independent Office for Budget Responsibility (OBR) has had to adjust its predictions in response to the slow recovery in GDP and lower than expected falls in net borrowing. In 2011, on the basis of OBR forecasts, the government was confident that debt levels would peak at 71 per cent of GDP in 2013–2014. The 2013 projections forecast debt levels continuing to rise to 86 per cent by 2016–2017, amounting to a three-year postponement of one of the government’s central macroeconomic targets.

The government has not responded to real developments by revising its mantra about the need to cut public expenditures and investment in an effort to rapidly reduce deficit levels. Since 2010, spending cuts have been its centrepiece policy in an effort to eliminate the structural budget deficit and to reduce public sector debt (Treasury 2010). The extension of the forecast timescale required to turn around rising debt levels seems simply to have persuaded government that it needs to be resilient and to stick to the course by extending the period of spending cuts. Only with respect to investment spending has the government scaled back its planned reductions partly in response to lobbying from the IMF, among other organisations, that the cuts were damaging prospects for recovery.

Figure 2 compares the average annual changes in public expenditures for different areas of spending across three periods. During the three years of recession and partial recovery prior to the election of the coalition government (2007–2008 to 2010–2011) the New Labour government continued to raise spending, albeit at a slower pace than in the previous decade in the major areas of education and health care. As a direct result, jobs in the public sector increased by 92,000 from early 2008 to early
Figure 2  Average annual percentage change in real public expenditures over three periods: pre-recession, recession/recovery and austerity

2010, providing some compensation for the loss of around 790,000 jobs in the private sector.¹ From 2010 onwards austerity became the order of the day; spending cuts have already taken out around £45 billion of expenditures in real terms (a 6.3 per cent reduction in total managed expenditures from 2010–2011 to 2012–2013). The largest cuts are in defence, public order and particularly education (7.7 per cent), involving the scrapping of Labour’s ‘Building Schools for the Future’ programme, the continued shifting of university funding to students by forcing them to take out loans, cuts in youth services and reduced education budgets for 16–19 year olds. Social protection spending, despite a raft of radical “reforms” that have reduced entitlement and cut benefit levels (see below), has nevertheless continued to rise (by £12.2 billion over the two-year period), caused by a combination of the stalled economic recovery, rising numbers of households falling below the poverty threshold (partly a result of too many ‘lousy jobs’ among net jobs created in the private sector, which offer low pay and/or undefined working hours, so-called zero-hours contracts) and incompetent policy design by government, as is becomingly increasingly evident in critical parliamentary and legal evaluations of post-2010 social policy reform (see below).

Spending cuts have been significantly hampering economic recovery. The government blames weak global markets but our analysis suggests that public spending cuts are causing much of the damage. Falling public sector incomes are not only depressing aggregate demand, but also causing a sequence of knock-on effects on the private sector through interlinkages of outsourcing, partnerships and subcontracting in the United Kingdom’s mixed economy. Moreover, it has proven to be a great shock to UK public services and to women’s prospects for quality employment (given their overrepresentation in public sector employment, see below), suddenly reversing more than a decade of average annual rises of 5 per cent in public spending. The implications of spending cuts vary significantly by region, such that areas outside London and the South East are facing significantly higher risks, fuelling perceptions among commentators that on a variety of economic indicators London looks increasingly like a different country.

¹. The public sector data exclude workers employed in the banks that were nationalised (RBS and Lloyds in 2008); these data are instead included in the private sector data. Data refer to the 24-month period from the first quarter of 2008 to the first quarter of 2010 and derive from ONS data ‘Public and private sector employment’ and ‘Public sector employment including and excluding financial corporations’, available at: www.statistics.gov.uk/statbase/product.asp?vlnk=8284.
A third piece of evidence concerns the continuing instability of the UK model centred on an unreformed financial economy. The September 2007 run on the retail deposits of the Northern Rock bank was followed by an unprecedented £850 billion government bailout of the banking industry, an increasing number of house repossessions and rising unemployment. There followed a short-lived backlash against bank executives, including a highly publicised grilling by politicians of hedge fund managers and widespread criticism of ‘fat-cat’ bonuses in the City. However, the UK model’s neoliberalism reasserted itself in the policy response to public demands for stronger banking regulation; a widely anticipated government review, Project Merlin, concluded by supporting the status quo, arguing against a re-regulation of the banking industry and a tax on banks or on bonuses. Instead, the four largest British banks were merely requested to ensure that their 2010 bonus pool be lower than for 2009 (and only for their UK workforce); to agree lending targets to business (with more set aside for SMEs); to link lending targets to bonus payments; and to publish the pay of top earners. These have been subsequently monitored but the post-2010 period has not witnessed a significant change in speculative behaviour or high pay culture.2

Far more significant has been the radical policy measure known as ‘Quantitative Easing’ (QE), borrowed from Japan’s response to its 1990s asset bubble crisis. QE involves the purchasing of financial assets (largely gilt-edged securities or ‘gilts’), which are held mainly by insurance companies, banks and pension funds. Starting in 2009, QE amounted to some £375 billion by late 2013 (roughly equivalent to the UK’s annual GDP) and means that the Bank of England now owns around one-third of the gilt market. With interest rates at a historic low level, the Bank’s objective is to increase liquidity, restore confidence and encourage more lending by banks. However, the policy has met three main criticisms. First, pensions are likely, on balance, to have been adversely affected by QE. Funds that were already in deficit have fallen further into debt because rising gilt prices have reduced yields, and annuity rates on pension pots have fallen significantly (NAPF 2012). On one hand, this increases the burden on employers and existing employees to make up the shortfall, but also raises the real risk that pension fund holders will move out

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2. Evidence includes: bank bonuses decreased by 8 per cent in 2010–2011, but basic pay increased by 7 per cent (The Guardian, 26/04/11); continued use of multi-million pound ‘golden hellos’ and salaries to banking board executives and non-board executives (High Pay Commission 2011: 31–32).
of gilts into more risky investments. Second, by encouraging the holders of gilts to sell and exchange for other financial assets the policy has indirectly supported a rising FTSE stock index, which at the time of writing is already disconcertingly higher than its pre-crisis peak level even though GDPs remains lower. Third, QE has had a very regressive effect on wealth distribution. In its evaluation of the distributive effects of QE, the Bank of England reports an overall boost to UK households’ net wealth of approximately 16 per cent, but observes that ‘in practice the benefits from these wealth effects will accrue to those households holding most financial assets’ (2012: 10). Given that in 2011 the median household held an estimated £1,500 gross assets and the top 5 per cent of households an average of £175,000 it is easy to see the regressive impact of wealth changes. The Bank of England is quite clear in its conclusions:

By pushing up a range of asset prices, asset purchases [as a consequence of QE] have boosted the value of households’ financial wealth held outside pension funds, although holdings are heavily skewed with the top 5% of households holding 40% of these assets.(Bank of England 2012: 21)

3. Towards a true neoliberal employment and social model

The austerity-related changes in the UK social model (encompassing both welfare and employment aspects) have both reinforced long-term trends and introduced a distinctive shift towards an ideal-type neoliberal model. This dual characterisation reflects the essentially hybrid nature of the United Kingdom’s social model prior to the austerity programme and the hybrid and divergent trends observed under New Labour (Rubery 2011; Grimshaw 2013a). Thus while changes under New Labour reinforced the neoliberal principles of work discipline, deregulated labour markets and a flat-rate benefit welfare system providing minimum and often means-tested benefits, at the same time it introduced new social rights and higher social floors, which modified the neoliberal effects and reinforced the model’s hybrid character. The main policies under New

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Labour that provided stronger social rights included extending statutory employment rights (most notably the national minimum wage), improving the level of minimum welfare benefits, increasing resources and support flowing to children (Dickens 2011) and to working parents (Waldfogel 2011) and developing, albeit at a relatively low level, some active labour market programmes for the unemployed (Bonoli 2010).

While these policies together constituted a significant improvement in social rights, their implementation was still limited or directly influenced by neoliberal ideology (Rubery 2011). With the exception of the national minimum wage, the new statutory employment rights were limited primarily to those already agreed under the EU Social Charter and followed from the decision to renounce the opt-out from the Social Charter.4 The New Labour commitment to reducing poverty, particularly child poverty, while offering significant resources was, however, closely tied to the implementation of the policy that employment was the key solution to child poverty and thus went hand in hand with increasing imposition of pressure on lone parents to seek work. The extensive new forms of support for working parents were based on neoliberal market policy and a residual welfare model, so that childcare support was provided through tax credits but provision relied on high cost private suppliers; leave was extended but payments kept at low flat-rate levels; and the right to flexible working amounted to no more than a right to request it, thereby leaving decisions up to employers. The New Deal programmes for the unemployed retained the neoliberal doctrine that any work was better than no work, so that the ambitions for active labour market policies with regard to retraining or lifelong learning remained very underdeveloped. Finally, none of these policies were aimed at reducing inequality by applying measures affecting the top end of the earnings and wealth distribution.

This hybrid approach was also seen in New Labour’s response to the financial crisis; it failed to increase unemployment benefit levels, or extend coverage, unlike France, for example (Gautié 2011: 231). On the other hand, it did provide some social support, notably through increasing child benefits and reducing VAT, introducing new schemes for young

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4. Three exceptions to this ban on more employment regulation included the extension of paid holidays from 20 to 28 days, the development of leave and flexible working policies for working parents and, finally, the adoption of a UK-specific regulation on temporary agency workers.
people (particularly the youth guarantee scheme and the £1 billion Future Jobs Fund) and also, for the first time, raised taxes on the higher paid, to 50 per cent for those earning more than £150,000.

This description of New Labour policies before and during the crisis provides a benchmark for considering the extent of continuity and of change under the coalition government elected in 2010. We discuss these in relation to four main policy areas.

Welfare benefits and welfare-to-work policy

The key area of continuity and indeed intensification is the approach to work requirements for the non-employed dependent upon benefits. This includes continued and intensified pressure on lone parents and disability claimants to enter employment. Thus the age of the youngest child at which lone parents have to be ready to enter employment has been further reduced from 7 to 5 years and under the proposed Universal Credit system lone parents will have to begin to demonstrate work readiness from when their child is one year old. Furthermore all disability claimants are being reassessed for fitness to work by a test which to date has resulted in two-thirds of claimants being declared fit to work. However, a significant minority of appeals against the test have been successful, in May 2013 a judge ruled that the test discriminated against people with mental health problems (The Guardian, 22.05.2013) and in 2014 the private company administering the tests – the French IT firm Atos – quit the contract early because of damage to its reputation and brand. Disability benefits have also been cut and means-tested, with a particularly strong effect on women as they are more likely to have a working partner.

Another reinforcement of the neoliberal emphasis on work discipline is found in the now privatised job placement activities, called the Work Programme, where unemployed job-seekers may be required to take unpaid work (30 hours per week) or lose benefits. Negative press coverage led to major employers withdrawing from the scheme but, despite a court ruling that mandatory unpaid work was illegal, rules have been amended in parliament to allow it to continue.5

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5. The Guardian 16/03/2013, p. 5 and The Guardian 22/03/2013, p. 12.
Alongside the reinforcement of work requirements, both the non-employed and those in work but reliant on in-work benefits have faced major cuts in the resources provided for them. There is no space here to list the dozens of policy ‘reforms’ that have cut incomes (see Grimshaw 2014; TUC 2013 for details). One area of reform that well illustrates the government’s anti-poor approach is housing benefits. The government has cut entitlement to housing benefits and their real value in the following ways:

- imposition of a 1 per cent cap on the annual uprating of housing benefits (as with all benefits);
- a reduction in the maximum benefit (from the 50th to the 30th percentile of local private rents);
- raising the age threshold for the right to seek individual rather than shared accommodation (from 24 to 34);
- a reduction of benefits for social housing tenants with ‘more bedrooms than needed’ (the so-called ‘bedroom tax’); and
- an overall benefit cap for working-age claimants (as part of universal credit reforms, 2013–2017) to be managed by reducing housing benefit payments.

In 2013 more than 20 London local authorities had already rented properties as far away as the North West and North East of England to transfer a rising number of low-income families out of London. The tax on ‘extra’ bedrooms is having greater effect in the north where more people live in social housing and is being applied even though there is a desperate shortage of social housing with one or two bedrooms. Some families are leaving social housing to be rehoused in smaller but more expensive private housing, thereby raising housing benefit payments still further (The Guardian 27.05. 2013). Moreover, very little is being done to resolve the underlying problems of a shortage of affordable housing and unregulated rents, which have boosted landlords’ incomes. The only silver lining is that the policy has been challenged repeatedly by vulnerable claimants. Late 2013 saw a court victory for a disabled tenant in social housing in which the judge argued that the definition of ‘spare bedroom’ was ambiguous and should not be applied to rooms used for the storage of equipment needed to live a normal life (The Guardian, 26.09.2013).

The benefit cuts are hurting those in low paid work as well as the unemployed; the government has increased the hours of work a couple with children needs to work before working tax credit can be claimed from
16 to 24 and has extensively cut both eligibility for tax credits and their value. In line with other benefits, the government has capped increases at 1 per cent until 2016. These policies are reversing the pattern of cuts compared with the initial phase of the cycle which affected middle to higher income families more; in 2015–2016 it is the poorest families who are forecast to face the biggest cuts (Brewer et al. 2013). The future plan is to move to a universal credit system to provide a more unified benefits and credit system. The need for simplification and for adjusting the high penalty thresholds that created work disincentives in New Labour’s system is undisputed, but the proposed new system will create new barriers, particularly for women (WBG 2011), and is being introduced in the context of an £18 billion cut in the benefits budget even before the 1 per cent cap on increases.

Support for families, children and young people and gender equality

Turning to the second policy area – support for families, children and young people and gender equality – we inevitably find that many of the benefit policies described above are having a particularly strong negative impact on families with children, especially lone parent families (Browne 2011; Rabindrakumar 2013), who have been identified as the main losers from coalition policy changes. These changes are significant: it is estimated that without the positive flows of benefits related to children under New Labour, roughly one million more children would have been in poverty in 2007/2008 (Dickens 2011). These gains have rapidly been put into reverse.

The most important measures are changes to tax credits, particularly childcare credits and the freezing of child benefits. A particularly controversial change was the removal of these latter benefits from higher income families. Not only did this for the first time breach the Beveridgean principle of universal support for children but it also cut from households in which at least one member paid the higher rate of income tax (40 per cent on annual incomes of 41,000–175,000 euros). As many households have income above this threshold due to two earners and would keep the benefit, the policy appeared arbitrary and unfair and had to be revised before implementation, so that loss of benefits was staggered. This U-turn exemplifies the incoherence of the coalition’s policy towards the family. In the first budgets not only were child tax credits savagely cut
back but also cuts to local government ensured that childcare provision (especially in low-income neighbourhoods) would also decline. In 2013, however, a new childcare subsidy was announced but this will primarily benefit middle to high income earners (up to a very high threshold), while child tax credits were more beneficial to low income households. However, these subsidies do not compensate for loss of child benefits by middle to high income households so no-one is satisfied.

State support for young people is also being cut in a range of areas, putting more pressure on families to support their children for longer. Many of the active labour market programmes axed by the coalition government are also related to young people, particularly the youth guarantee scheme. Those from low income households staying on at school have also lost the educational maintenance allowance, a means-tested benefit to provide support for young people to continue in education. For those entering higher education there has been a tripling of student fees to £9,000 per annum at most institutions. This extra burden will be felt by this age cohort primarily in the future as all fees are funded upfront by the government, but nevertheless the new system places a heavy extra burden on the current cohort of young people and, by extension, their families. Overall, real education spending per capita fell by 10 per cent during 2010–2013 (Grimshaw 2013). Young people are also a major target of the housing benefits cuts, with a raising of the age at which they can claim for independent accommodation instead of shared housing from 24 years of age to 34. This is expected to displace at least 60,000 young adults who claim housing benefits, to which the government minister responsible blithely responded that they should consider moving in with their parents (Shelter 2011). Already by 2012 homelessness was found to be rising particularly among young people (Fitzpatrick et al. 2012).

As women suffer disproportionately from cuts in both services and benefits, even disregarding the associated public sector employment effects (see below), the austerity programme is clearly reducing gender equality (Rubery and Rafferty 2013). This might be considered to be simply an unavoidable consequence of fiscal consolidation, but in several areas the coalition is signalling a direct change of approach. For example in preparing for the new universal credit (DWP 2011a, 2011b) the government has abandoned the long-standing tradition of paying benefits for children directly to the carer and instead insists that all household benefits be paid to only one household member, paving the way for a
major switch of resources from the (female) purse to the (male) wallet. This is despite research (for example, Sung and Bennett 2007) that shows that the current system is important for the well-being of children. The government defends its approach in terms of the sanctity of the family, stating that: ‘making decisions over household finances and budgeting in the most appropriate way to meet family needs is best done by the family itself. It has been suggested that Government interference in household budgeting arguably undermines individual responsibility’ (DWP 2011a).

The proposed Universal Credit will also reduce work incentives for second-income earners (mostly women) and over 2 million potential or existing second-income earners will see a rise in their participation tax rate from a range of 30–33 per cent to 45–65 per cent. This is defended on the grounds that ‘incentives for first earners have been given priority over second earners’ (DWP 2011b). In pursuing this approach it is failing to appreciate that reduced employment among second earners today will reduce the likelihood of employment participation tomorrow, for example, among those who become lone parents following the break-up of families (WBG 2011b).

This policy change is accompanied by major cutbacks in the already limited support for childcare and a decision to treat issues of childcare and women’s employment as an entirely private and family-based decision area, except for lone parents who, because they would be a ‘burden’ on the state are not allowed to choose not to work after the youngest child is five. The only positive policy in this area is the implementation of rights for shared parental leave; fathers have already been allowed to take up leave entitlements and statutory leave pay if the mother returns from maternity leave early and from 2015 maternity leave will be converted into parental leave that can be shared but there will be no additional rights for fathers and proposals to allow part-time leave that would have increased take up because statutory pay is very low have been dropped (IER 2013).

Support for the elderly

There are two main elements in policies for supporting older workers and the elderly; one is pensions, the other is social care. State pensions are very low in the United Kingdom, providing a replacement rate of
37 per cent, on average, of gross median earnings in 2011, compared with an OECD (34-country) average of 61 per cent (OECD 2011). Aware that support for the Conservative Party is stronger among the elderly, the government has protected current pensioners from many of the cuts (for example, the 1 per cent cap) and has restored the link to average earnings for the uprating of pensions, as planned by Labour. As earnings growth is very low, however, this has not yet brought improvements, but the coalition is also merging the basic and second state pension to form a flat-rate pension from 2016 (£7,488 pa in 2016), which should benefit future pensioners who have either spent long periods not in work – mainly women – and the self-employed, although many who would have claimed the second state pension will lose (Crawford et al. 2013).

However, future pensioners will have to wait longer for their benefits: the coalition has brought forward increases in retirement ages (to 66 by 2020, and 67 by 2026) and plans to link retirement age to life expectancy trends, so further rises can be expected. Little has been done to resolve the key problem of the closing of good quality occupational pension schemes in the private sector, which were central to the maintenance of living standards for the elderly, except to reduce the generosity of public sector pensions in the name of ‘fairness’. A new savings scheme has been introduced, again planned by Labour, but this provides for only very low contributions by both employees and employers and is not compulsory, although employees are automatically enrolled so have to actively opt out not to participate.

Elderly care provision has traditionally been relatively extensive in the United Kingdom, but has become less available as demand has increased. Most care is financed by public spending, although the bulk of care is provided by private sector (and some voluntary sector) organisations. Cuts in funding to local government – one-third reduction in resource spending over 2009/10 to 2014/15 – have had a particularly serious impact on elderly care provision and have required many local authorities to renegotiate the terms of outsourcing contracts with private sector companies and reduce levels of care entitlement. The core focus of government action in social care has been capping limits to private

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6. In fact the policy change guarantees a rise equivalent to the larger of average earnings growth, the consumer price index or 2.5 per cent (referred to as the ‘triple lock’).
spending on care to reduce the costs of care for families due to inherit assets, but nothing has been done to increase the supply of care and to provide better pay for care workers, who are often paid the minimum wage and even illegally deprived of pay for work-related time, such as travel between clients.

Labour market regulation

With regard to labour market regulation the coalition has done much to reverse the policies of improving statutory minimum floors adopted by New Labour. Furthermore, reducing statutory employment rights is one of the key objectives of the Conservatives in renegotiating the United Kingdom’s position in Europe. In practice, the coalition has not been able to dismantle two of the most important rights Labour established: first, the national minimum wage, as this has proved popular, although increases recommended by the Low Pay Commission during the coalition government’s term of office have been below inflation; and second, the statutory entitlement to paid holidays (which increased from zero to 20 and then to 28 working days under Labour’s watch and thereby significantly increased holidays for part-time workers), as this provision is covered by the EU’s working time directive.

However, other rights have come into the coalition’s firing line: New Labour reduced the period of continuous employment that applied in the case of workers’ claims of unfair dismissal from 24 to 12 months but this was quickly reversed by the coalition. Also, from April 2013, the minimum consultation period for collective redundancies was reduced from 90 to 45 days for large-scale redundancies and workers on fixed-term contracts are excluded. Also shredded is the Two Tier Code that provided protection for new employees under outsourcing contracts from the public sector, requiring them to be paid at public sector wage rates, thereby enhancing the protection offered by the EU directive on Transfer of Undertakings. Abolishing TUPE regulations and the working time directive are top of the wish list for the Conservative Party in renegotiations with the EU. The further entrenchment of neoliberalism is starkly evident in the bizarre new policy (in force from September 2013) enabling the exchange of worker rights for company shares. This involves the creation of a new legal category of ‘employee shareholder’ who, among other things, has to give up rights to claim unfair dismissal, redundancy rights, maternity and adoption leave, flexible working and
so on, but take up is expected to be low. Perhaps the most negative development in labour market policy has been the introduction of relatively high fees that have to be paid by any employee taking a case to an employment tribunal; this turns human rights into market goods, as we discuss in Section 3.

3. The shrinking public realm

Taylor-Gooby and Stoker (2011) argue that the coalition is set to dismantle the so-called ‘big state’ and its institutions in such a way as to prevent its re-establishment by a new government of a different political persuasion. This involves a restructuring and considerable narrowing of the public realm in many dimensions. Three dimensions to this strategy can be identified: first, a rapid acceleration in the widening of the policy of privatising public services; second, a trend towards either abolition or commodification of citizens’ individual or collective human rights; and third, a shrinkage and downgrading of what is left of the public sector.

Privatisation has been accelerated in the large areas of job placement (as already discussed), justice (including the probation service, some policing and prisons), health care and education. Health care has been subject to incursions from the private sector since the 1990s, particularly in the form of private finance investments in new buildings and ancillary services, but radical changes in governance structures under the coalition are expected to herald a massive expansion in the scope for private services involvement. Post-2010 reforms devolve responsibility for commissioning of an estimated £60 billion of health services to consortia of general practitioners (and much of the commissioning task itself will be subcontracted to private sector business services firms) that will have the task of making available to patients a choice of private and public sector health service organisations. Reforms will oblige these consortia to commission services from ‘any qualified provider’. But the reforms are controversial; they were temporarily blocked in 2011 but were eventually passed with minor modifications. They continue to be opposed by the main trade unions and professional associations, who argue it will lead to profits being prioritised over care.  

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7. See, for example, the statement by the trade union Unison, available at: www.unison.org.uk/acrobat/A11839.pdf
In education, most secondary schools (56 per cent in 2014) have been taken out of local government control due to incentives or even requirements on schools to adopt ‘academy’ status, which ties schools to central government accountability and, in addition, community groups are being encouraged to set up so-called ‘free schools’ outside government regulation, including the need to employ qualified teachers in all classrooms. There are strong grounds for expecting the next stage to be to allow these academies and free schools to be run by profit-making companies (leaked documents suggest that this is the secretary of state’s plan, Independent 10.2.2013). Likewise the policy of ending state tuition subsidies for higher education is explicitly designed to open up the market for higher education to bring in ‘for profit’ providers.

The second line of attack on the public realm is the narrowing of citizens’ individual or collective rights, a weakening of enforcement of rights or their conversion into ‘liquid commodities’ to be purchased only by those who can afford it. The narrowing of rights or weakening of enforcement is justified by the standard arguments for a ‘bonfire of regulations’; examples include relaxing rules on planning permission and the restrictions of health and safety inspections to ‘high risk’ workplaces from 2013. The conversion of rights into commodities includes not only access to higher education, but now also access to the legal system as legal aid for the poor has been largely abolished and access to employment tribunals requires the payment of a significant upfront fee. This means in effect that recourse to the law is no longer a citizenship right and the ending of legal aid for family breakup will have major implications also for children. Another development is the restriction on choice of spouse for those without sufficient resources. Those who do not earn at least £18,600 per annum are not able to marry a non-EU citizen and bring them into the United Kingdom. This applies to 61 per cent of women, 58 per cent of young people aged 20–30 years old (Migration Observatory 2013) and undoubtedly to the vast majority of both men and women from ethnic communities. Social care is also being rationed increasingly, so that those with substantial needs may have no access except through private payment, even when they have limited resources. Access to many desirable areas of employment is also now increasingly conditional on being able to fund an unpaid internship, while those graduates who cannot do this face periods of unpaid internships in return for unemployment benefit, but in the most routine ‘McJobs’ rather than in blue chip companies.
The shrinkage and downgrading of the public realm is taking place along many dimensions. The shrinkage applies not just to the public sector but also to public support for third-sector organisations in the arts and charities sector and or semi-autonomous areas, such as universities, now reclassified as private sector organisations. This could soon happen to schools and hospitals as privatisation accelerates. Direct public sector employment is declining, reflecting both the growing privatisation and the expenditure cuts, particularly in local government (Grimshaw 2013b). Public sector employment is planned to decline by one million from 2011 to 2018 out of a total employment of just under five and a half million in 2011. The rate of job loss has been strong but is forecast to further increase from 34,000 per quarter to 36,000, so the worst is yet to come (OBR 2013: 76–77). The explicit government policy is to lower the level of terms and conditions in the public sector, particularly with respect to pay and pensions, but also working time (with much talk of the problems of the working time directive in restricting doctors’ and hospitals’ working hours and thereby operational effectiveness). Opportunities to employ non-qualified teachers in free schools can also be considered part of the denigration of professional public service work. These cuts will have particularly negative impacts on women, as they constitute the majority of the public sector workforce (Rubery and Rafferty 2013). It is legitimate to argue therefore that the coalition government’s austerity measures have been strongly sex-biased.

Some of these policies are explicit – in particular, the downgrading of pensions and pay in the public sector – while others are imposed indirectly through, for example, major cuts to local government budgets, to shift the blame for the precise distribution of cuts to local politicians. Furthermore, restrictions on, or the commodification of, rights have gone hand in hand with further promotion of the ‘consumer choice’ agenda to justify radical ‘reforms’ in health and education. But of course choices under limited resources are not real choices. The stripping away of rights and services embedded in public sector and government institutions was legitimated in the early years of this government with reference to the development of a more informal ‘big society’, based around third-sector organisations and volunteers, ready and willing to fill in the gaps in services and to be more responsive to consumer needs. However, the widespread cuts to third-sector organisations and the continuing absence of any sign of an army of ‘big society’ volunteers led to a downplaying of this opportunistic rhetoric from 2012 or so.
So far resistance to these changes has been limited, possibly due to the uneven distribution of cuts, so that the complaints from the hard hit areas – which tend electorally to be Labour strongholds – can be ignored. Resistance briefly halted the health reforms, but the Liberal Democrats finally supported only moderately changed reforms rather than break the coalition, lending substance to the view that support from the Liberal Democrats has enabled the Conservatives to push through more radical policies than the electorate were willing to endorse. The outcome, according to the political writer and historian David Marquand, is that ‘the present coalition is the least legitimate peacetime British government of modern times’ (The Guardian 14.5.2011). During 2013 and 2014, the coalition government has sought to use critical reports of NHS performance to persuade the public of the urgent need for change and (implicitly) to support privatisation.

There is still active and lively criticism of the policy agendas and some movements to modify their impact – for example, a new national commission on living wages headed by the Archbishop of York and a series of public sector strikes and protest actions by public sector trade unions. Perhaps the most effective obstruction has arisen from the sheer neglect and incompetence of private sector providers and the clear inadequacy of public sector commissioning processes. Not only did the British army have to be drafted in to cover shortfalls in security for the Olympics but a whole raft of problems have arisen with providers withdrawing from contracts (for example NHS Direct, rail franchises), or being found guilty of systematic fraud and poor performance (Work Programme job placement services) or their behaviour and actions have been found wanting (for example, as already mentioned, 38 per cent of appeals against ‘fit for work’ assessments have been upheld, The Guardian 8.02.2013), while the private security firm G4S has been found guilty of causing unwarranted death during a deportation. Moreover, markets have failed to develop and deliver in accordance with government plans. For example, predictably, universities all set roughly the same student fees – the maximum – thereby failing to differentiate provision by quality. It is also certain that the markets being established in the NHS will not deliver what the government has promised. But the key question for the UK electorate is whether the re-establishment of an integrated and accountable NHS and a clear and extensive public realm will ever be possible, particularly in light of the proposed TTIP trade agreement.
4. Conclusions

The radical nature of the changes taking place and planned for the UK employment and social model cannot be overestimated. Under cover of the financial crisis a large-scale restructuring of the core institutions of the social and welfare model is taking place, involving not simply cut-backs in public expenditure but fragmentation of the organisations of public services, including health care and education, to clear the way for permanent and growing private sector involvement. Citizens’ rights have been commodified or eroded, the size and status of the public services workforce downgraded and inequalities, particularly between men and women and between north and south, increased. In many senses the policies can be interpreted as an acceleration of well-established trends under governments of different hues, including the deliberate denigration of welfare recipients and the increasing coercion to work; the blurring of the public/private sector divide; and the flexibilisation of labour markets.

However, the new policy approach of the Cameron/Clegg coalition government can be considered distinctive in three respects; first, it is eroding many of the safety nets that in the United Kingdom have been more extensive than in, for example, the United States and were considerably improved under New Labour; second, it is withdrawing support from families and social care and explicitly reversing policies in support of working parents (albeit with some inconsistent policies to restore some marginal support); and third, it is extending privatisation into areas previously considered sacrosanct, notably health care, education and justice. The veil of macroeconomic necessity is steadily turning into an Orwellian (‘Newspeak’) excuse for a long-term squeeze as fiscal health has not been restored due to economic stagnation induced in large part by government cuts. The medicine prescribed is ‘more of the same’ so that the United Kingdom is at present set on a policy of austerity without end, which in turn may end even the pretence that the United Kingdom still has a social model.
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