1. Introduction

The financial crisis in 2008 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 UK's vulnerability to the crisis, but the UK's was also protected compared to other European countries from the follow-on sovereign debt crisis, notably by its position outside the Euro area (Eurozone) and its relatively long dated government debt (which means less frequent debt resale). The changes in the UK model introduced by the coalition government elected in 2010 therefore represent at least in part a free political choice – that is, not directly dictated by the financial markets or by the European Central Bank – but they do not represent a political choice mandated by the electorate. Labour lost but the Conservatives did not win the election outright and many of the changes they have made contradict manifesto commitments. This chapter assesses the actual or planned changes in the UK model since the crisis under three headings. We first consider macroeconomic policy before and during the crisis and now in the austerity phase. Second, we look at the approach taken to welfare and third, 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 the one that governs the USA. The neoliberal macroeconomic policy approach firmly rejected the Keynesianism of the ‘golden age’ post-war period and instead emphasised 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 their needs, with 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 Hennessey 2010; HM Treasury 2008). The UK economy thus witnessed the well-known conditions that led to the financial crash, namely a glut of cheap credit newly 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 macro 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, an emphasis on neoliberal economic policy and a distributional policy that favours capital over labour (for example, labour market flexibility, residual welfare policy and weakened collective employment rights). The combined result is a falling wage share, growing debt and instability. Growing debt and instability certainly characterise the 2008–11 period. The government has used the rise in the national debt, against the backdrop of the Greek crisis, as the main rationale for its current austerity policies. National data show that debt increased over the past decade from 31 per cent of GDP to 60 per cent by 2010–11 (Figure 1) and is forecast by the independent Office for Budget Responsibility (OBR) to grow to 70 per cent by 2013–14 (Treasury 2010: Table 1.3). Nevertheless, the UK is not among the most indebted EU countries; it ranks seventh out of 25 countries, behind Greece, Italy, Belgium, Ireland, Portugal and Germany.¹

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Figure 1  UK public sector net debt, percentage of GDP, 1975–2016


The instability of the UK model initially centred on the financial economy. September 2007 witnessed a run on the retail deposits of the Northern Rock bank. This was followed by an unprecedented £850 billion government bailout of the industry, increasing numbers 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 ‘fatcat’ bonuses in the City. However, the UK model’s neoliberal roots reasserted themselves in the policy response to public demands for stronger banking regulation. A widely anticipated government review, Project Merlin, in fact concluded by supporting the status quo; it argued against a re-regulation of the banking industry and rejected a tax on banks or on bonuses. Instead, the four largest British banks were requested merely to ensure that their 2010 bonus pool was

2. This figure includes the £76 billion purchase of shares in Royal Bank of Scotland and the Lloyds Banking Group, £290 billion of liquidity support to indemnify the Bank of England against losses incurred, up to £250 billion guarantee of wholesale borrowing by banks to strengthen liquidity, £40 billion of loans to Bradford & Bingley and the Financial Services Compensation Scheme, and £280 billion insurance cover for bank assets (The Independent, 04/12/09).

3. At a House of Commons Treasury Select committee, several senior hedge fund managers were questioned by Members of Parliament. One MP, John Thurso (Liberal Democrat) is reported as telling them their public image was that of ‘an opaque bunch of spivs gambling with public money’ (The Financial Times, 27/01/09).
lower than for 2009 (and only for their UK workforce), to agree lending targets to business (with more set aside for SMEs, also agreed by Santander bank), to link lending targets to bonus payments and to publish the pay of top earners. These have been subsequently monitored but no significant change in speculative behaviour or high pay culture has occurred. Moreover, lending to business in 2010–11 was below target, despite additional liquidity provided through the government policy of quantitative easing (QE).

The redistribution of national product in the form of the banking bailout and quantitative easing policy has occurred against a backdrop of a turnaround in government spending policy and a reversal of approach towards demand management. Up to 2010, government displayed a partial commitment to demand management, referred to as ‘coarse tuning’ (Clift and Tomlinson 2006) or ‘constrained discretion’ (Thain 2010). Interventions during 2008 through to early 2010 in six key policy areas are likely to have prevented further job losses through assisting business survival:

(i) financial interventions (especially QE and the credit guarantee scheme);

(ii) a temporary reduction in VAT (from 17.5 to 15.0 per cent through 2009);

(iii) the bringing forward of capital spending (£3 billion from the 2010–11 budget);

(iv) financial help for businesses (including relaxed tax rules for loss-making firms, government backed loans such as the Enterprise Finance Guarantee for small firms and a £750 million Strategic Investment Fund set up in April 2009);

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4. Evidence includes: bank bonuses decreased by 8 per cent in 2010–11 but basic pay increased by 7 per cent, compared to an average 2 per cent for the UK workforce (The Guardian, 26/04/11); continued use of multi-million ‘golden hellos’ and salaries to banking board executives and non-board executives (High Pay Commission 2011: 31–32); and an ongoing shareholder backlash over massive bonus payments (for example, at Barclays: http://moneyfacts.co.uk/news/in-the-papers/?id=204794).

5. Around 60,000 companies had deferred more than £1 billion by February 2009 (Williams 2009: 11).
(v) a new temporary Future Jobs Fund (approximately £1 billion), involving subsidies of up to £6,500 to employers who offered full-time jobs to long-term unemployed young people; and

(vi) sustained growth in public spending (including more generous support through social protection spending, so-called ‘automatic stabilisers’).

Figure 2 demonstrates that spending during 2008–2009 continued the upward trajectory in place since 1999. As a direct result, jobs in the public sector increased by 107,000 from early 2008 to early 2010, providing some compensation to the loss of around 980,000 jobs in the private sector. Importantly, most jobs generated in the public sector were full-time.

However, from 2010, spending dropped as part of an austerity package that initially sought to eliminate the structural budget deficit by 2014–15 and to achieve a declining public sector debt by 2015–16 through a mix of spending cuts and tax rises designed in a ratio of around four to one (Treasury 2010). The largest immediate percentage cuts (2009–10/2010–11) were in housing and community amenities (for example, house building and street lighting) and economic affairs (for example, economic development, including financial sector interventions). From

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7. Around half the increased real total managed expenditures was due to the rise in social protection spending, an additional £28 billion of the extra £61 billion spent over the two-year period (adjusted to 2009–10 price levels). The other half was largely made up of continued increases in health and education spending (£11 billion and £7 billion, respectively) plus economic affairs (additional £6 billion), the bulk of which went to enterprise and economic development (UK Treasury data).

8. The public sector data exclude reclassification of financial corporation workers associated with the three nationalised banks (RBS and Lloyds in 2008 and Northern Rock in 2007). 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’ (www.statistics.gov.uk/statbase/product.asp?vlnk=8284).


10. The June budget sets out a total spending reduction of £128 billion by 2015–16, consisting of spending cuts of £99 billion and a net increase in taxes of £29 billion (Treasury 2010: table 1.1).
2010–11, however, the cumulative cuts in social protection promise to deliver the single largest category of government spending reductions.

Figure 2  
**Average annual percentage change in real public expenditures for pre-recession, recession and austerity**

The adverse impact of spending cuts is already proving to be damaging recovery prospects. 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 UK’s mixed economy. Moreover, it will prove a great shock to the UK public services (and the economy) to suddenly reverse more than a decade of average annual rises of 5 per cent in public spending that have shifted the balance in the roles of the public and private sectors in generating labour demand. Moreover, the implications of spending cuts vary significantly by region, such that areas outside London and the South East are placed at significantly higher risk.

11. The most recent OECD forecast at the time of writing predicts 0.1 per cent growth during the third quarter of 2011 and less than 0.1 per cent during the last quarter (see www.oecd.org/document/18/0,3746,en_2649_37443_20347538_1_1_1_37443,00.html).
3. Continuity in welfare reform but without the social objectives

The New Labour approach to welfare was to maintain and reinforce most of the dimensions of a neoliberal welfare and employment policy, namely a belief in work discipline, deregulated labour markets and a flat-rate benefit welfare system providing minimum and often means-tested benefits. Within this framework New Labour nevertheless made four significant changes compared to the previous Conservative policy, namely introducing a range of legal 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).

These variations on a pure neoliberal model were nevertheless strongly influenced and constrained by neoliberal ideology. With the exception of the national minimum wage, the set of legal employment rights was limited to those already agreed under the EU Social Charter and followed from the decision to give up the opt-out from the Social Charter. Once these had been agreed the UK continued its opposition to any new employment rights from the EU. The higher minimum entitlements and income guarantees provided mainly through tax credit systems ran into complexities and contradictions, linked for example to overpayment problems (CAPG 2008) and hours thresholds for claimants. In some contexts they reduced work and savings incentives that are central to neoliberal policy, leading in the case of pension credits to a U-turn even before the coalition was elected. The policy of reducing poverty, particularly child poverty, was pursued without any constraints on incomes at the top end. The support for children, while

12. Three exceptions to this ban on more employment regulation included the extension of paid holiday 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.

13. In response to a report into pensions (DWP 2006) New Labour recognised it could not use means-tested pension credits as its main policy to reduce pensioner poverty as these were destroying incentives to save and that higher universal pensions would be needed, as well as new savings schemes.
significant, was based on a belief that the key solution for child poverty linked to single parenthood was to move single parents into employment. The support for working parents, while providing tax credits for childcare, longer paid leaves and rights for flexible working again were based on neoliberalism and residual welfare models, involving private and high cost childcare provision, leave payments at low flat-rate levels and rights to flexible working no more than a right to request, thereby leaving decisions up to employers. The New Deal programmes for the unemployed introduced by New Labour signalled an increased government responsibility for helping the unemployed into work but New Labour 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.

In the first phase of the credit crisis the New Labour government stuck to its low benefits policy and failed to increase benefit levels, or extend coverage, unlike some other EU countries. It did, however, introduce new schemes for young people, particularly the youth guarantee scheme and the £1 billion Future Jobs Fund (see footnote 6). It also reinforced its support for families by increasing and bringing forward rises in child benefits and for the first time raised taxes on the higher paid – to 50 per cent for those earning more than £150,000. It also continued with policies to extend rights to request flexible working and postponed rather than cancelled the introduction of longer paid maternity leave. While recognising the increasing difficulty of finding employment for young people, it nevertheless continued with its work first policy for other groups, particularly lone parents and disability claimants and pushed ahead with privatisation of job centres, based on the principle of paying private sector organisations for success in job placements.

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. The key area of continuity and indeed intensification is the approach to work requirements for the

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14. For example, France extended coverage of unemployment insurance by reducing the minimum employment record from six to four months, extended the duration of unemployment benefits and introduced a new benefit for unemployed people with employment experience below the minimum threshold (Gautié 2011: 231).
non-employed dependent upon benefits. This includes continued and intensified pressure on lone parents and disability claimants to enter employment. Thus the maximum age of the youngest child before which lone parents can avoid pressure to enter employment has been further reduced from 7 to 5 and all disability claimants are being reassessed for fitness to work on a test which is claiming that two-thirds of claimants are fit to work but 40 per cent of appeals against the test are successful (*The Guardian*, 26.07.2011). Furthermore disability benefits have been cut and means tested. The programme of job centre privatisation has been accelerated and all active labour market programmes axed.

Five main areas of change can be identified: (i) the poor are no longer protected from the austerity package with the coalition government taking £18 billion out of the benefits budget even as unemployment continues to rise; (ii) state support for children and families is being dramatically reduced, for both the poor and the not so poor; (iii) state support for young people is being reduced and families expected to contribute more; (iv) the coalition is choosing not to interfere in household finances or the gender division of labour; and (v) labour market deregulation is back on the policy agenda.

Some of the details of these policy changes can be summarised as follows. The cuts in benefits are to be made in three main ways. The first is by uprating using a different price index, the consumer price index, that provides lower estimates of price inflation than the previously used retail price index. Second, there are to be limits put on housing benefits. Means-tested housing benefits are added to low rates of basic unemployment benefit and provide one of the main costs of the welfare system due to the inflation of housing costs in the UK as a consequence of the housing bubble. High housing costs contribute to disincentives to enter employment (Hills 2007) but the decision to cap housing benefits without any reform of the housing or rental system risks many being made homeless and required to move to cheaper areas, thus shifting the poor and unemployed out of certain areas of the south east. Third, there have been major changes made and planned to the in-work credit system with the future plan involving a universal credit system to provide a more unified benefits and credit system. While there is widespread agreement that there is a need for simplification and the removal of some high penalty thresholds that created work disincentives in New Labour’s system, government
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pronouncements that the new universal credit will be fairer and that no-one will lose out apply only after the benefits have been cut by £18 billion, that is, before the universal credit is introduced. Furthermore, as we discuss further below, the new system will be entirely household-based with major disadvantages for women. Families with children are the main losers – and especially lone parent families (Browne 2010, 2011) – due to changes to tax credits and the freezing of child benefits, as well as their removal from families where at least one member pays the higher rate of income tax (40 per cent on annual incomes of 41,000–175,000 euros). These changes are significant as 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 are now quickly being put into reverse.

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 related to young people, particularly the youth guarantee scheme. Those staying on at school from low income households have also lost the educational maintenance allowance, a means tested benefit to support young people in such circumstances continuing in education. For those entering higher education there has now been a tripling of student fees to £9,000 per annum at most institutions. This extra burden will be felt primarily in the future by this age cohort as all fees are funded upfront by the government but nevertheless the new system places a heavy extra burden on the current cohorts of young people and, potentially, their families. Young people are also a major target of the housing benefits cuts, with the age at which someone can claim for independent accommodation instead of shared housing raised from age 25 to age 35. This is expected to displace at least 60,000 young adults who claim housing benefits, to which the government minister responsible responded that they should consider moving in with their parents (Shelter 2011).

The change of approach towards gender relations is clearly signalled in the briefing documents that have been prepared for the new universal credit (DWP 2011a, b). The new credit is requiring the government to address its attitude towards household-based tax and benefit systems. There has been a long standing campaign, supported by research evidence (for example, Sung and Bennett 2007), in the UK to ensure that
benefits that relate to children are normally paid to the mother. However, in a marked departure from the previous policy the government has taken the line that while there will be a single recipient of the household benefit for each household, it argues 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). This approach is paving the way for a major switch of resources from the (female) purse to the (male) wallet. The second issue is the impact of the new system on work incentives for second income earners. Again, the government explicitly states that in its new policy ‘incentives for first earners have been given priority over second earners’ (DWP 2011b). 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. The government anticipates a decrease in the number of second earners, arguing that this will reflect positive work–life balance choices. But it does not admit that most second earners are women. Thus fewer second earners will represent fewer women with access to independent income from employment. Moreover, it fails to understand the gender dynamics: reduced employment among second earners today will reduce the likelihood of employment participation tomorrow among those who become lone parents following the break-up of families (WBG 2011).

This policy change coincides with 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. The only positive policy in this area is a consultation on whether to allow fathers more access to parental leave, although because this will be on a low flat-rate benefit basis at best the likelihood of it being taken up by fathers would be low.

As already noted, New Labour did very little to restore collective employment regulation but did provide some new legal employment rights, the most important of which were the minimum wage and the legal entitlement to paid holidays, which increased from zero to 20 and then to 28 working days under Labour’s watch, with significant positive effects, especially for part-time workers. Many of these changes either cannot be wound back, as they are underpinned by EU law, or have so far been left alone – for example, the national minimum wage is in place
even if only rising at a low rate – due to their popularity. Nevertheless some changes have been put on the agenda, including extending the period before one can claim unfair dismissal from one to two years, ending pay protection for newly hired workers under public sector outsourcing and seeking to end it also for transferred public sector workers, although EU law may prevent this policy being enacted. There is talk of ‘an employers’ charter’ and a bonfire of regulations, especially for small firms, but the final outcome is not clear as most changes are currently out for consultation rather than ready to enter the statute books.

4. Public sector, governance and the ‘Big Society’

So-called modernisation of public services under New Labour involved the following key policies and practices:

(i) the promotion of outsourcing through the Best Value framework which allowed for some consideration of quality in choice of contractor but did not allow for a preference for public sector providers;

(ii) the fragmentation of the public sector through the formation of quasi-independent schools and hospitals with separate funding and accountability, with the dual objectives of reducing local government control over education and limiting the integration of the health service in order to allow for more private capital and competition;

(iii) the adoption of a choice agenda for public services that stressed the needs of the individual user; and

(iv) the establishment of a wide ranging set of targets, quality controls, regulations and audits of public bodies to increase central government control over the increasingly fragmented public services.

All but the fourth policy principle have been taken up and developed to an extreme level by the coalition government. However, it is the absence of a national policy and national accountability system, coupled with the extension of competition and fragmentation that perhaps heralds a major step change in the role of the state in the UK. Taylor-Gooby and Stoker (2011) argue that the coalition is set to dismantle the ‘big state’ and its institutions so as to prevent its re-establishment by a new government of
different persuasion. Thus fragmentation is proceeding through the establishment of most schools as quasi-independent organisations outside local government control and often under a private sector sponsor. University fee arrangements have been changed not to save the public purse but in order to encourage new private suppliers to enter the market. However, a proposal to fragment the health service through commissioning led by consortiums of general practitioners, potentially supported by private health organisations, has had to be partially rethought because of widespread objections to the breaking up of the health service. The fragmentation extends to many new areas, such as local planning which is to be taken out of local government control and placed in the hands of local unelected communities and groups. This fragmentation is justified ideologically under the slogan of ‘the Big Society’, which implies that local groups, charities and volunteers should take over responsibility for what have been regarded as key state functions and state responsibilities. This approach can thus be seen as in conflict with the centralising tendencies and target-driven philosophy of New Labour (Humphrey 2003) and in line with this notion of local responsibilities and the ending of the ‘big state’. The policy is to rid society of targets and auditing, to free up local communities and the like to respond to the new ‘Big Society’ agenda. The policy is deliberately vague, particularly with regard to where accountability lies for these proposed new modes of governance.

The important context for this change is the major cutbacks to public expenditure in the austerity packages which are having a significant negative impact on the third sector. This has fostered a high level of scepticism towards the notion of the Big Society replacing the role of the state. One of the major consequences of the Big Society reform along with the cutbacks in public expenditure is the opening up of the social model towards even wider regional disparities. Not only have the cuts in expenditure been disproportionately targeted on the poorer or more deprived regions but these are also the areas where the community has less capacity to respond to calls for more volunteering as alternatives to state provision. McCulloch et al. (2011) find that although volunteering is related to social capital and trust in an area, once deprivation is controlled for this relationship is no longer significant, suggesting that there is very limited capacity for any deprived areas to transform their neighbourhoods through the Big Society agenda.

15. McCulloch et al. (2011) find that although volunteering is related to social capital and trust in an area, once deprivation is controlled for this relationship is no longer significant, suggesting that there is very limited capacity for any deprived areas to transform their neighbourhoods through the Big Society agenda.
protected from the cuts and have more capacity to engage in the types of activity mooted under the Big Society slogan.

What still remains unclear is whether either the press or the electorate is willing to allow the state to abdicate responsibility for areas of public service. The dismantling of state-based institutions such as local government that previously could be held accountable at local level may in fact result in central government being taken more to task for failings in public services. This already occurred when a major care home provider tipped towards bankruptcy and the central government, which has no direct responsibility for social care, felt obliged to give nationwide guarantees that no elderly resident would be left without a suitable care home place.

4. Conclusions

It is three years since the recession and the UK, like several other EU countries, is gripped by the politics of austerity and debt with severe consequences for large segments of the workforce and other groups outside formal employment, including the unemployed, lone parents outside the labour market and pensioners. The UK case is particular, however, on two counts. First, it entered the recession with a strongly neoliberal socio-economic model that set strong constraints on the types of policy responses available. The then New Labour government had somewhat modified the UK neoliberal approach by strengthening the commitment to public provision of services through enhanced expenditure, which continued throughout the recession, introducing a new statutory national minimum wage and opting in to EU directives, both of which provided important floors to the flexible labour market in a context of crisis. But the range of policy responses during the recession was limited, with few examples of social partner agreements, for example, no adjustments to welfare entitlements for the increased flows of job-seekers made redundant and only partial efforts to support business investments and expenditures as aggregate demand fell. The second particularity of the UK experience is the radical shift in approach to the role of the state and the shelving of a policy concern for poverty in the immediate aftermath of the recession. It is therefore relatively difficult in the case of the UK to distinguish the role of macroeconomic policy as opposed to anti-statist political ideology in driving the policy approach during the austerity crisis. The principles of
neoliberalism, while undoubtedly a cause of the recession and a reason for the slow recovery, are therefore witnessing a remarkable renaissance in the UK with a resurgence of voices and opinions from free market economists and policy institutes that were last taken seriously under Margaret Thatcher’s government. The withdrawal of central government in favour of voluntary groups or, more realistically, the private sector in the governance of many areas of public life, the emphasis on spending cuts over tax rises as the means to cut the deficit and the very speed of change all add up to a reinforcing of neoliberalism which promises to generate adverse consequences for indicators of poverty and inequality. The slow jobs recovery, difficult income conditions of the long-term unemployed, questions over how households manage their reduced welfare entitlements and evident problems experienced by young people all point to an urgent need for a radically different programme of policy actions. There is an accumulation of evidence from respected academics and the main independent policy institutes that the coalition government’s policy programme is causing unnecessary pain and hardship among the most vulnerable groups of the population. Trade unions can give voice to many of the social and economic problems but for this to gather momentum in the UK’s weak collectivist model a wider political alliance is needed to stop the current juggernaut of neoliberal policy reforms.

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