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Austerity: Resurrection? The main parties' positions on fiscal policy and welfare spending at the 2019 general election

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Introduction

Is austerity over? Such claims have been made, hyperbolically, by Conservative chancellors since around 2014. It briefly appeared that the 2019 general election would see the UK political elite making good on this promise, as all main parties produced grand spending pledges. Yet the truth remains more complicated. This article examines the near-future of UK austerity politics through the prism of the fiscal and welfare policies proposed in advance of the election. It finds the Conservative Party is largely where it has been since 2010, despite another change of leadership and the associated post-Brexit bluster. Can those in favour of reversing austerity at least look to the Labour opposition for a fresh approach? Yes and no.

The politics of austerity

Austerity in the UK after 2010 was always both *l*ess and *more* than acknowledged in general political discourse (Berry, 2016). Firstly, despite the coalition government's pro-austerity rhetoric, a radical programme of spending cuts was actually put on hold after initial reductions in 2010/11 destroyed the economy's fragile recovery. There are exceptions to this pattern: principally local government, which has been systematically under-resourced in the past decade of Conservative rule. We can probably say the same about the National Health Service (NHS), whereby a commitment to maintain levels of expenditure was insufficient to match rising demand for healthcare.

Benefit rates were also cut for the vast majority of existing and new recipients. Yet benefit expenditure actually increased, partly because of the protection of pensioner benefits, and partly because low wages and chronic under-employment led to higher claims for in-work benefits. With the partial exception of VAT, the coalition austerity agenda also encompassed a significant tax reduction agenda (primarily for private firms and middle-class households). A textbook application of austerity would consist of tax *increases* alongside spending cuts.

Secondly, austerity served an ideological purpose instilling self-reliance among individuals, through engagement with financial services. 'Asset-based welfare' in the coalition era took the principal forms of encouraging saving in risky, individualised pension schemes, or subsidising indebtedness so that median earners could become home-owners. In both cases, higher public spending was required to achieve policy

aims – yet the narrative of austerity was employed to undermine the collectivist principles underpinning the welfare state and, to some extent, obscure the additional spending (Berry, 2014; Berry and Lavery, 2017; Montgomerie, 2019). There was a macro-economic imperative too: early coalition narratives around economic rebalancing and reducing household debt, as well as public debt, were quickly marginalised as it became clear that short-term growth continued to depend on consumer lending and the finance and real estate industries (Berry, 2016; Berry and Hay, 2016).

While there is evidence that austerity was accepted *in principle* by large parts of the electorate (Stanley, 2016), there is little doubt that it became increasingly unpopular as its impact on local services and the NHS became evident. Accordingly, both George Osborne and his successor as Chancellor of the Exchequer, Philip Hammond, claimed to have completed the austerity project. Theresa May, as Prime Minister, associated a need to rethink austerity with her wider agenda on post-Brexit economic renewal (ostensibly a revival of the Liberal Democrats' coalition-era industrial policies) (Berry, 2019c). In reality, it was around this time that the pace of spending cuts accelerated, as the Cameron majority and May minority governments implemented Osborne's postponed coalition-era cuts, particularly to public investment.

The current chancellor, Sajid Javid, has made the same austerity-ending claim (Jordan, 2019) and, for a while, it seemed rather plausible. With plans for a National Infrastructure Fund (at a multi-year cost of £100 billion), and (questionable) claims on investment in hospital construction, the Resolution Foundation (RF) predicted in early November 2019 that public spending under a Conservative government would rise above 41 per cent of GDP by the end of the next parliament. This would take the UK back to the 1970s, effectively erasing the state-shrinking agendas of previous Conservative governments (Whittaker, 2019). Labour's spending plans were projected to take spending above 43 per cent of GDP over the same period, owing to larger increases in public services expenditure, and an enormous uplift in capital investment through a National Transformation Fund focused around renewable energy.

Born to rule

By the time its manifesto was published at the end of November 2019, the Johnson government had significantly scaled back its spending plans. Additional current spending will amount to less than £3 billion per year, and additional capital spending around £8 billion per year, by the end of the parliament (compared to £83 billion on current spending alone under a Labour government, and even £63 billion under the Liberal Democrats) (Mason, 2019). What changed? We can probably point to the initial reaction to the Labour Party's manifesto launch a week earlier, which centred on Labour's plans to fund spending increases through borrowing – with the Conservatives seeking to emphasise the contrast between the two parties. A fuller answer to the question however, requires consideration of the fiscal rules that both main parties (and the Liberal Democrats, to an even greater extent) are promising to adhere to.

The coalition government initially eschewed the application of fiscal rules such as those employed by Gordon Brown as Labour chancellor: Osborne knew that he could not effectively restrain borrowing, for example, without inflicting further unnecessary damage on the economic recovery. Instead, he opted for the *illusion* of fiscal constraint by establishing the Office for Budget Responsibility (OBR), a government agency which monitors the public finances, but has no formal power or even independence. The OBR simply judged the coalition's record against their own stated deficit reduction objectives (Berry, 2016; Berry and Lavery, 2017).

The tune changed in 2015, when Osborne established strict spending controls via the Charter for Budget Responsibility, which ignored the advice of most macroeconomists by instituting limits to both current and capital expenditure, and committing the government to reduce borrowing each year (in 'normal' circumstances). The charter was designed to set a trap for the new Labour leadership; Osborne expected Jeremy Corbyn and John McDonnell to reject the rules because they imply near-permanent austerity – and thus undermine their credibility as stewards of the public finances in the eyes of the electorate.

The 2016 Brexit vote interfered with this masterplan. Yet all parties continue to subscribe to the view that fiscal controls are an economic and/or political necessity. Consequently, even the proliferation of pre-election spending pledges was accompanied, paradoxically, by the pretence that there are limits to the public debt and budget deficits that might result (Berry, 2019a; Wren-Lewis, 2019). Both parties will aim to reduce debt, and debt interest payments. The main change to the limits concocted by Osborne is that now only deficits in the current budget – ignoring investment – will be targeted.

There are two main differences between the rules proposed by Labour and the Conservatives. Firstly, while Labour has a rolling target for balancing the current budget – a five-year plan which resets each year – whereas the Conservative Party has a much tougher, fixed three-year target to eliminate the current budget deficit. Secondly, in relation to debt, Labour will adopt an approach whereby public assets are used to offset public liabilities – crucial if the nationalisation of some industries is to be deemed compatible with fiscal rules. It is worth noting that the Liberal Democrats' proposed approach resembles Labour's – yet their austerity pedigree is underlined by a commitment to targeting a permanent 1 per cent *surplus* in the current budget.

The fiscal rules help us to understand why the Conservatives scaled back their public spending ambitions: Johnson's promises would have jeopardised both the debt and deficit targets. Even if we view the targets as largely performative (which we probably should), nonetheless a pre-election forecast from, say, the Institute for Fiscal Studies (duly amplified by the BBC) that disputed the Conservatives' fiscal probity would also be part of the performance. There are two other relevant factors worth considering. Firstly, the Conservative Party is strongly committed to *not* increasing taxes (even pledging to cut National Insurance rates), whereas Labour has proposed sharp tax rises for some groups (see below), with the latter helping to fund increased current spending. Secondly, Brexit: calling a general election allowed the government to delay the budget statement, and therefore the publication of the first OBR fiscal forecasts since Johnson agreed a much 'harder' approach to EU withdrawal than the May government. Yet this reckoning will come (see UKICE, 2019).

Crucially, Labour can ignore the potential fiscal impact of Brexit in its own proposals, since the party has yet to commit to any particular approach to leaving the EU. It argues, at worst, that the UK and EU will agree a trade deal which replicates all of the benefits of existing membership. Nevertheless, Labour remains keen to be judged as fiscally 'responsible' in rather narrow terms. A more radical approach to fiscal responsibility would be to adopt the New Economics Foundation's approach to 'fiscal space', whereby constraints would only apply on the basis of evidence that fiscal expansion would have an adverse impact upon the economy (Stirling *et al*., 2019).

The state of welfare

What does all of this mean for welfare? In relation to Conservative Party plans (2019a; 2019b), the answer is simple: not a lot. There are no major policies announced, with only small additional spending allocated to support unpaid carers, and to extend the period before Personal Independence Payment (an out-of-work benefit for people with disabilities) eligibility is reassessed. The Universal Credit (UC) rollout is championed – which seems to imply support for the prospective application of the UC conditionality regime to in-work recipients (Jones *et al.*, 2019). Austerity in the form of welfare retrenchment will not, in any sense, be reversed – and may indeed be advanced.

Labour's plans ask far more intriguing questions about the future of welfare provision (Labour Party, 2019a; 2019b). The most important point – overlooked by most sympathetic observers – is that Labour promises no reversal of austerity measures for the vast majority of benefit recipients. This is despite the fact that social security cuts by the coalition targeted the deindustrialised areas which comprise Labour's traditional 'heartlands' (see Beatty and Fothergill, 2017). For the most part, coalition cuts are baked into the baseline. The most significant policy announcement by Labour is the abolition of UC – but this policy has not actually been costed, since it will only be developed once Labour is in office.

Meanwhile, there will be a number of quite significant policy shifts on social security (all meticulously costed). The cuts to tax credits encapsulated by the UC system will be aborted, including the two-child limit. Employment and Support Allowance payments (for people with disabilities) will be increased, and PIP assessments reformed. Within Housing Benefit, the 'bedroom tax' will be scrapped, and Local Housing Allowance rates increased. The sanctions regime within Jobseeker's Allowance, and the household 'benefits cap', will also end.

The impact of these changes would be progressive in relation to a continuation of Conservative rule. However, overall a Corbyn government would still be overseeing a social security regime significantly less generous than that developed by the Blair government (for working-age recipients). Arguably, however, Labour's most ambitious plans for the welfare state are to be found elsewhere in its programme, insofar as they overlap with plans for public services investment. The planned nationalisation of broadband services and reintegration of higher education funding into the conventional education budget (by abolishing tuition fees, one way or another), for example, embrace the idea of 'universal basic services' (UCL-IGP, 2017) or 'universal basic infrastructure' (the other 'UBI'; Barker *et al.*, 2017). This suggests a reorganisation of welfare around universalist principles, benefiting all households rather than simply the worst off. No funds for universal basic income (the original UBI), which fits this mould, are allocated in the Labour manifesto – but a pilot project is promised.

Is Labour's caution (or conservatism) on social security a product of its commitment to current spending limits? Only partially. It is also a product of its caution on tax. For example, Labour has trumpeted its decision to increase taxes on the wealthiest individuals, but changes to income tax, and bringing wealth taxes in line with the income tax regime, are expected to raise only £5.4 billion and £14 billion per year (respectively) by 2023/24. Changes to corporation tax will lead to a higher yield of £30 billion – yet firms will still be paying a lower rate than in 2010.

As such, Despite expanding the welfare state to encompass new services for all households, the UK middle class – up to the 95th percentile of earners – will not be asked, in any direct sense, to support this agenda financially. The accusation that Labour's redistributive agenda, as a result of largely protecting all but the top five per cent of working-age taxpayers, consists primarily of redistribution from the bottom (and

very top) to the middle (and beyond) is a little simplistic, but nonetheless understandable. In fact, According to analysis by RF of parties' spending pledges that can be attributed to different income groups (a disclaimer, therefore: not all spending), the Liberal Democrats' plans are slightly more progressive than Labour's insofar as they will make the poorest households better-off, in terms of both cash and in-kind benefits. This is largely as a result of their proposals on supporting second-earners and the self-employed within UC, and a more substantive policy on subsidised childcare (Gardiner, 2019). Moreover, Labour has no substantial plans to support low-earners currently being enrolled into poor-quality workplace pensions – despite promising an estimated £12 billion per year to compensate women who claim to have been unjustly treated by plans to increase state pension age. This pledge (which, incredibly, is not included in the actual manifesto) represents the only measure by which Labour intends to actually *reverse* a coalition welfare cut for the recipients directly affected. Labour's manifesto also does not include any direct measures to alleviate household indebtedness.

Labour's plans for fiscal policy are borne of a political calculation that middle-class voters will not tolerate an increased tax burden, perhaps blended with a little 'modern monetary theory' (which suggests, among other things, that tax is not primarily levied to fund government activities) (see Meadway, 2019 and Murphy, 2019). But they also arise, less directly, from a growing disconnection between Labour and working-class communities, which has led to universal services being prioritised over measures targeted to support low-income households. Labour's Brexit policy is, ostensibly, a populist nod to perceived working-class preferences – but one which over-estimates pro-Brexit sentiment in Northern England, and which is based more generally upon a misunderstanding of working-class politics (Berry, 2018; Berry, 2019b).

While both Labour's and the Liberal Democrats' welfare plans are progressive overall, under neither party would the rate of child poverty, for instance, actually *fall* as a direct consequence of their policies – rather both parties would simply mitigate expected increases, to around 30 per cent of children. Under a Conservative government, it will rise to 34 per cent (Gardiner, 2019). We should not discount the possibility that Labour's wider economic agenda helps to reduce child poverty by improving household incomes via higher earnings: this assumption lies beneath Labour's as-yet-unverifiable claim that it will eradicate in-work poverty within five years. While most austerity-related cuts will be left untouched (for now), arguably Labour's investment programme is explicitly designed to rectify the *economic* damage wrought by austerity. In time – Brexit notwithstanding – the rising tide may well lift all boats.

Nevertheless, for a party of the radical left not to produce a plan to significantly and immediately prevent almost one in three children from growing up in poverty, despite the ready availability of suitable fiscal levers and policy mechanisms, is difficult to forgive. But it is perhaps less difficult to *understand*, if we view the Labour offer not as a programme for a single term in office, but as a sketch of what a generation of Labour rule might deliver. New Labour's success in addressing poverty and inequality was not only partial, it was also easy to unpick, as successive governments adjusted downwards the rates of an array of means-tested benefits, with limited opposition from middle-class groups (possessing political capital) given that they had not directly benefited from Labour's social security policies. It may be that an initial focus on recasting the welfare state as a universal system benefiting *all* citizens lays the groundwork for a more redistributive agenda in future years.

Conclusion: austerity undead

The notion that austerity will be resurrected depends, of course, on the pre-requisite that it had in fact died. There was a moment in mid/late 2019 when such a verdict felt plausible – but the moment quickly passed. That Boris Johnson *et al*. felt the need to indicate that spending on public services would increase substantially tells us something about the waning salience of austerity, but the UK political elite remains largely committed to the operation of fiscal constraints – whether based on an economic or political rationale. If, as expected at the time of writing, the Conservative Party is returned to government, the likely impact of Brexit on the public finances, in conjunction with strict fiscal rules, means austerity will remain a significant feature of the social and economic policy landscape, even if the concept's ideological value weakens.

In a sense, however, neither main party has ever fully embraced a conventional approach to fiscal tightening, insofar as they have resisted tax rises. While this is business-as-usual for the Conservative Party, it is rather more incongruous that a self-consciously radical Labour leadership – with a transformative economic policy agenda – exhibits such reticence about tax adjustments for anybody but the top 5 per cent of earners. A failure to fully address the impact of austerity on benefits is one of the implications, and a likely failure to significantly reduce child poverty one of the highly regrettable consequences. Yet this commitment on tax may be one that neither party sticks to in office. A Conservative government may need to raise taxes to address the fiscal impact of Brexit. Similarly, a Labour government could well adopt the strategy that worked so well for the Blair and Brown governments; that is, increasing taxes mid-term, once the salience of manifesto pledges declines (especially if the wider economic programme and new universalist approach to welfare fails to quickly increase living standards).

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