

## **Austerity and its impact on post-war British politics**

### **The historical context of austerity**

The concept of 'austerity' has a long and colourful history within the realm of British politics. Until recent times it would have been primarily associated with the period of recovery and reconstruction following the end of World War Two. With the country effectively bankrupted by war and struggling to create the promised 'New Jerusalem' of a comprehensive welfare state, the economist John Maynard Keynes declared that Britain faced a "financial Dunkirk"- a phrase which starkly alluded to the grim military struggles of wartime now being translated to dismal post-war economic fortunes. Keynes himself managed to negotiate a 50-year loan with the USA to fund the country's post-war recovery (\$3.75 billion at 2% interest), yet this arrangement diminished the UK's political international status and placed it effectively under American economic control. The Keynesian model of economics argued that government investment was the primary means of stimulating recovery from a slump, but it also advocated that a degree of retrenchment could be justified during periods of economic growth. This loan allowed for the construction of a more generous welfare state, but various historians have since observed that in order to fund this revamped post-war society, ordinary citizens had to endure ongoing austerity regarding their living standards. This practically meant that wartime hardships were prolonged into peacetime, with the maintenance of rationing and an ongoing shortage of basic everyday goods and foodstuffs. This sense of personal sacrifice for the greater national good has continued to resonate when austerity-related policies have been applied to more recent periods.

### **Living beyond our means?**

During the 1950s, personal austerity faded away and lifestyles improved amidst an era of affluence, with Prime Minister Harold Macmillan famously claiming in 1957 that people "had never had it so good". Yet by the mid-1960s, it was becoming evident that the UK economy and in turn personal living standards were coming under increased strain, and any post-war economic boom had certainly come to an end. Within this context, a growing number of politicians, particularly those on the conservative right, were arguing that the country had to

metaphorically 'tighten its belt'. The legacy of Hayek's 1944 seminal work 'The Road to Serfdom', the formation of the Institute of Economic Affairs (IEA) in 1955, and the resignation of several Conservative ministers in 1958 due to concerns over high public spending were all indicators of this emerging mood. This in turn had a gradual impact on public opinion, and the main source of concern was the expanding and increasingly expensive welfare state, which although popular in principle, generated some concerns about rising costs. Indeed, there was a growing feeling that Britain was living beyond its means, and although the term 'austerity' was rarely mentioned in an explicit sense, a revival of it was an implicit undercurrent as a suggested solution for the country's economic ailments. Such doom-laden fears of over-spending appeared to reach fulfilment when Labour's James Callaghan secured a substantial loan from the IMF in 1976, evoking an image of national economic humiliation that added weight to the narrative that successive governments were spending more money than they had. Consequently, Callaghan's administration began to impose austerity measures as part of the conditions of this loan.

Such a troubled scenario was tailor-made for the emergence of Margaret Thatcher and her ideology-driven 'New Right' policy agenda. Signalling a radical revision of the post-war consensus, she came to power in 1979 and boldly heralded that there would be "a rolling back of the state" on a more fundamental level. In practical terms this would entail a streamlining of government spending, a pursuit of policies that deregulated the economy, and the eventual widespread privatization of state-owned industries. Over the duration of her eleven-and-a-half-year premiership, personal taxation was also significantly cut as were broader levels of overall government expenditure, which dropped as a percentage of GDP from 49.7% in 1975-6, to 38.9% in 1988-9. Therefore, while the size of the state was indeed shrunk in line with Thatcher's ideological beliefs, high levels of unemployment and welfare claimants meant that its size and levels of spending didn't reduce as much as the Thatcher administration would have hoped for. Subsequently, a common and recurring criticism of the legacy of Thatcherism has been that despite some acknowledged improvements in economic efficiency and the re-sizing of the state, they were negated by further social hardships for specific poorer sections of the population, and inequality rose to record post-war levels. This reflected a negative social cost of a government seeking to restrict and control its financial outgoings, as was similarly the case for the period of austerity after 1945.

## **Post-Thatcherite society and economics**

After 1990 Thatcher's Conservative successor John Major sought to relax some of the financial restrictions imposed by her government, and there was a mild revival of public spending during the mid-1990s. However, by the time the Conservatives were comprehensively ousted from power in 1997, public spending as a percentage of GDP was again back to below 40%, and many voters indicated that under-investment in seemingly 'crumbling' public services was a factor in the fall in Conservative support. On this basis, it could be argued that the political debate had gone full circle in 30 years, with evident public concerns about overspending in the 1960s now replaced by anxieties about underspending in the 1990s. This was the situation that greeted the incoming 'New Labour' government of Tony Blair, whose election campaign had notably proclaimed that there were only "24 hours to save the NHS", a message which implied further government investment as being part of the solution to bringing such key public services up to the required standard.

Although Blair and his 'prudent' Chancellor of the Exchequer Gordon Brown adhered to Conservative spending levels for the first two years in power until 1999-2000, by the early 21<sup>st</sup> century public expenditure began to steadily rise. This could be said to have been in response to the public mood, and it resulted in some significant investment in schools and hospitals, with record levels of money being pumped into the NHS in particular. On this basis, by the time Labour left office in 2010, figures from the Institute for Fiscal Studies (IFS) indicate that total public spending as a percentage of national income rose from 39.9% in 1997, to 48.1% by 2010-11 (an increase of 8.2%), which equated to levels not seen since the early 1980s. During Blair and then Brown's premierships (covering thirteen continuous years), investment in public services averaged an increase of 4.4% a year, as compared to an average of 0.7% under the Conservatives between 1979-97. Indeed, perhaps the most dramatic indicator of such inflated public spending was that during Blair's second administration between 2001-5, NHS expenditure grew at an annual average of 8.6% in real terms. This rate of public spending suggested a reversion to the previous era of the 1970s, with overall spending levels again approaching 50% of GDP. This appeared to be the very opposite of austerity, fuelling claims that a Labour government was once again spending beyond its

means, albeit at a time of steady economic growth which could possibly justify such a rate. Yet in a similar vein to the 1970s, those that worried about such escalating levels of expenditure would have their fears realised by an unforeseen external event- the global economic crash of 2007-8.

### **The 2007-8 economic crash and its impact**

The economic crash that began in American mortgage markets in 2007 and in turn resulted in collapsing banks, soon spread across the world, and Britain particularly felt the impact from 2008 onwards. Many commentators have concluded that it was the most significant economic 'crash' since the 1930s, placing major strains on existing and fairly generous levels of UK public spending. Immediate reductions in expenditure were therefore required and identified by Brown's administration, and the Conservative opposition was critical that the government seemed unprepared for this cataclysmic event, declaring in metaphorical language that "it had failed to fix the roof when the sun was shining". This was despite the fact that the Conservatives had supported the major public spending investment of the previous years, notably since the fiscal trend began to rise upwards after 2001. Some measures of mild austerity were therefore imposed, but pre-existing commitments meant that public spending still increased by 3.5% between 2008-10. However, Brown and Labour indicated that if re-elected at the 2010 general election, more concerted austerity would have to be implemented to 'balance the books'. On this basis, there was some cross-party support about the need for austerity to deal with the implications of the economic crash, although differences to what extent. Yet with the Conservatives returning to power in 2010 at the head of a coalition with the Liberal Democrats, incoming Prime Minister David Cameron and his Chancellor George Osborne made it quite clear that a much tougher version of austerity would now be applied.

### **Post-2010 austerity**

Cameron and Osborne made reducing the deficit their number one political and economic priority, with it standing at over £150 billion when the Conservatives came to power. Public spending was therefore targeted for reduction across all departments, and 'austerity' became

the narrative that explicitly drove the coalition government's broader policy agenda. Waste and bureaucracy were a particular focus for spending cuts, with various layers of the political system identified for reductions, namely local government, welfare benefits, public sector pay and parts of the civil service. Some of the more radical supporters of this approach argued for policy areas like the NHS to also be included, but Cameron resisted and 'ringfenced' this expensive item from the main thrust of austerity policies. In addition to this, Cameron's 'Big Society' agenda argued for a 'post-bureaucratic' approach to politics with less focus on centralised government structures and an emphasis on more localised activities to ostensibly save costs. He also famously declared that "we're all in this together"- echoing the sense of self-sacrifice (notable in previous historical eras) at times of national economic crisis and austerity.

The impact of post-2010 austerity on British politics and society has been much debated since. The national deficit has indeed been reduced, from almost 10% of GDP in 2010 to approximately 2.5% in 2016 (to less than £50 billion) when Cameron resigned, although this was not as drastic as hoped. Supporters of this deficit-reduction approach argue that it ultimately strengthens the UK economy in the longer term and makes it more resilient regarding any possible future crashes. However, critics of this agenda have highlighted that the government failed to 'balance the books' as Chancellor Osborne had promised, continuously missing and then revising its economic targets. Of further negative significance is that the national debt actually rose during this period, and while there has been some post-2010 economic growth, it has been largely sluggish and slow in nature. On a more human level, many negative social trends seem to be linked to austerity politics. Rough sleeping has more than doubled since 2010, homeless families have risen by more than 60%, while foodbanks have flourished, with an estimated 41,000 users in 2010 increasing to over 1 million users by 2016/17. Such developments appear to be linked to various significant reforms affecting the welfare benefit systems, and in particular high-profile new policies such as Universal Credit and the 'Bedroom Tax' being launched after 2010. Critics have claimed that such reforms were mistakenly instigated alongside spending cutbacks, which then resulted in unnecessary hardship and even deaths. Public spending savings in terms of a prolonged pay freeze has also impacted on key workers such as teachers, nurses and police officers, while actual police numbers have fallen by 20,000 since 2010. On an even more

damning level, an academic study published in late 2018 argued that austerity policies could be equated to 'social murder' in relation to some of the most vulnerable and poorest members of society who have been disproportionately affected by it. Much of the criticism linked to such developments claims that the post-2010 Conservative administrations have pursued austerity in an extreme and harsh manner, influenced by lingering Thatcherite ideology, and with an economic mindset that has been indifferent to the social and human costs.

### **Beyond austerity?**

It can be argued that the political impact of austerity has been clearly visible in the last two UK general elections. In 2015 it seemed to work to the Conservatives' advantage, with their responsible economic attitude regarding deficit-reduction viewed as a positive among floating voters compared to Labour's ongoing inclinations to spend more of the public purse. However in 2017, various commentators and academics have acknowledged that the prolonged and relentless nature of austerity politics eroded Conservative support and played a part in the loss of its parliamentary majority. Consequently, chastened Conservative politicians indicated a relaxation of austerity in some areas such as police pay, and at the 2018 Conservative Party conference Prime Minister Theresa May took a bold step further. In her flagship speech she offered a tempting vision of a post-Brexit future for British politics, namely the formal ending of austerity once the country leaves the European Union in March 2019. With austerity cited by some as a key factor in the vote for Brexit in 2016, some have welcomed this prospect as a 'Brexit dividend'. However, whether it will be delivered is debatable, with some questioning the Conservatives' sincerity on the matter. The Labour opposition can point to the various degrees of social suffering seemingly caused by post-2010 austerity policies, and have openly declared that if returned to power, austerity would be consigned to the political dustbin far more comprehensively. Labour's radical programme of public spending commitments seemed to reap some electoral benefits in 2017, and if this policy agenda was indeed mandated by voters in the near future, it would represent a clear rejection of austerity and yet another about-turn in the cycle of post-war British politics.

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