



## Neoliberalism 2.0

[Link to publication record in Manchester Research Explorer](#)

### Citation for published version (APA):

Grimshaw, D., Rubery, J., & Lehndorff, S. (Ed.) (2015). Neoliberalism 2.0: Crisis and austerity in the UK. In *Divisive Integration: the Triumph of Failed Ideas in Europe* European Trade Union Institute.

### Published in:

Divisive Integration

### Citing this paper

Please note that where the full-text provided on Manchester Research Explorer is the Author Accepted Manuscript or Proof version this may differ from the final Published version. If citing, it is advised that you check and use the publisher's definitive version.

### General rights

Copyright and moral rights for the publications made accessible in the Research Explorer are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

### Takedown policy

If you believe that this document breaches copyright please refer to the University of Manchester's Takedown Procedures [<http://man.ac.uk/04Y6Bo>] or contact [uml.scholarlycommunications@manchester.ac.uk](mailto:uml.scholarlycommunications@manchester.ac.uk) providing relevant details, so we can investigate your claim.



# **Reinforcing neoliberalism: crisis and austerity in the UK**

*Damian Grimshaw and Jill Rubery*

## **1. Introduction**

Three years into the austerity programme introduced by the Conservative-Liberal coalition after the 2010 election it is clear that the policy objective is to bring about fundamental change in the UK social model (Grimshaw 2013a, Rubery and Grimshaw 2012) while leaving untouched the fundamental problems in the economic model which 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 UK 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 policy direction post 2010 therefore represents at least in part a free political choice – that is, not directly dictated by the markets – but also 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 three years of austerity policies, under three headings. We first consider macroeconomic policy 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 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, 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.

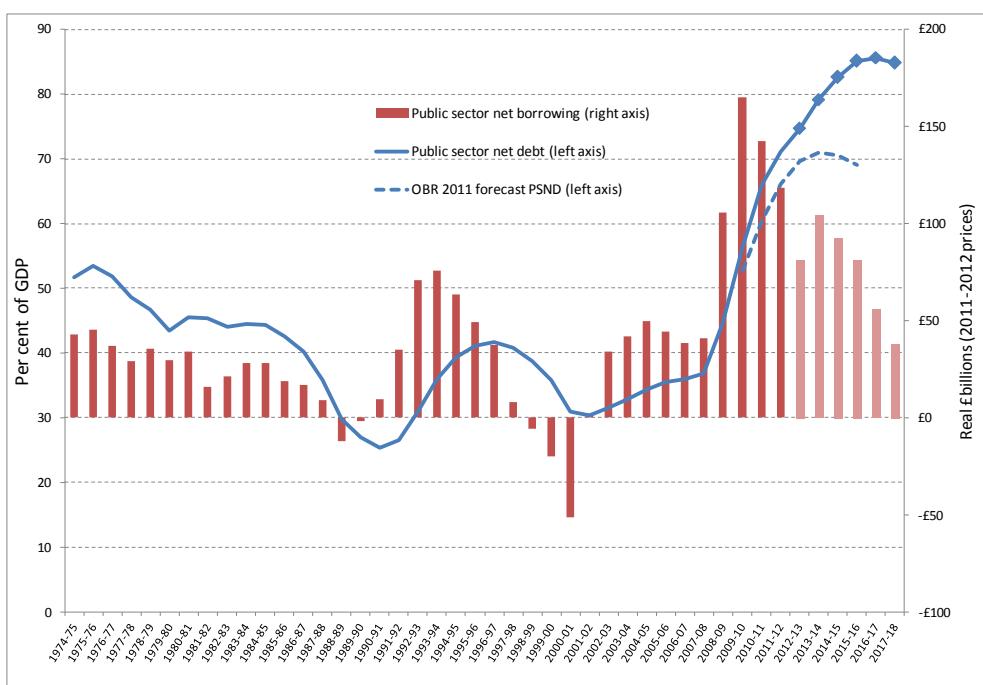
Despite the apparent flaws in the government's pre-crisis approach to macro policy, its response to the 2008-09 crisis and post-2010 design of austerity measures suggest few lessons have been learned. The UK is likely to witness a 'lost decade' of stalled economic output and investment, falling real 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. Mid-way through 2013, GDP remains 3 per cent below its pre-crisis level more than five years ago (comparing Q1 2008 to Q2 2013) and real median earnings are down 7 per cent (2009 to 2012) and in fact equivalent now to their 2003 level. Mirroring these trends, general expectations of Britain's economic performance have also slumped such that politicians made a big play during 2013 that the GDP was half-way to recovery, describing it as 'on the mend', while failing to mention that since the election of the coalition government in May 2010 the economy has managed just 0.2% average quarterly growth (2.1% growth over 12 quarters).

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. 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, since 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 for Britain's likely lost decade is the repeated shifting forward of the time 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 debt levels would peak at 71% of GDP in 2013-14. The latest projections forecast debt levels continuing to rise up to 86% by 2016-17, amounting to a three-year postponement of one of the government's central macroeconomic targets.

**Figure 1: UK public sector net debt and net borrowing, 1975–2011**



Source: own compilation from public finances data sourced from the ONS/HM Treasury Public Sector Finances Statistical Bulletin (August 2013).

The government has not responded by rewriting 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 pushing back of the forecast timescale required to turn around rising debt levels has simply persuaded government that it needs to be resilient and to stick to the

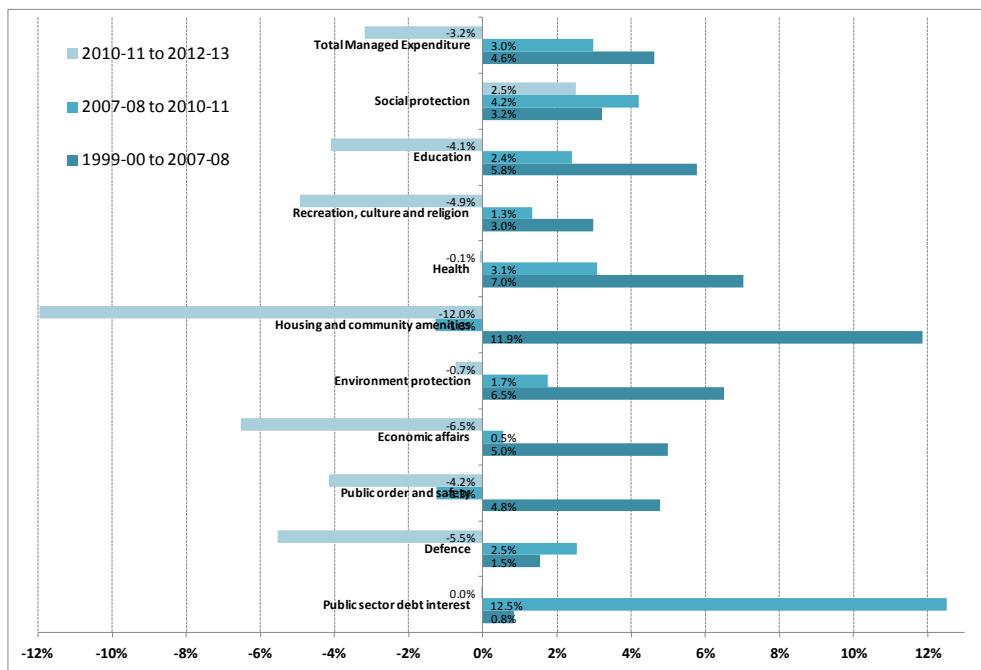
course by extending the period of spending cuts. Only with respect to investment spending has the government scaled back its planned reductions in light of lobbying from the IMF among other organisations that the cuts were damaging prospects for recovery.

Figure 2 compares the average annual change 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 (2007-8 to 2010-11) the New Labour government continued to raise spending, albeit at a slower pace than the previous decade in the major areas of education and health. As a direct result, jobs in the public sector increased by 92,000 from early 2008 to early 2010, providing some compensation to the loss of around 790,000 jobs in the private sector<sup>1</sup>. From 2010 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 2010-11 to 2012-13). The largest cuts are in defence, public order and particularly education (7.7%) resulting from the scrapping of Labour's 'Building Schools for the Future' programme, the continued shifting of university funding to students, 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 grown 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).

---

<sup>1</sup> 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](http://www.statistics.gov.uk/statbase/product.asp?vlnk=8284).

Figure 2: Average annual percentage change in real public expenditures over three periods - pre-recession, recession/recovery and austerity



Source: UK Treasury data, 'Public Expenditure Statistical Analyses 2013: Chapter 4', available at [www.gov.uk/government/publications/public-expenditure-statistical-analyses-2013](http://www.gov.uk/government/publications/public-expenditure-statistical-analyses-2013).

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 UK's mixed economy. Moreover, it has proven to be a great shock to the UK public services and to women's prospects for quality employment (given their over-representation in public sector employment, see below) to suddenly reverse 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 increasingly looks like a different country.

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 industry, increasing numbers of house repossession 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 and a widely anticipated government review, Project Merlin, concluded by supporting the status quo by arguing against a re-regulation of the banking industry and a tax on banks or on bonuses. Instead, the four largest British banks were requested merely to ensure that their 2010 bonus pool was 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.<sup>2</sup>

Far more significant has been the radical measure of Quantitative Easing, 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 mostly held by insurance companies, banks and pension funds. Starting in 2009, QE amounts to some £375 billion to date (roughly equivalent to the size of the UK’s annual GDP) and means the Bank of England 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 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 the one hand this reinforces 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 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 suspiciously higher than its pre-crisis peak level despite GDP remaining lower.<sup>3</sup> 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%, 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% of

<sup>2</sup> 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);

<sup>3</sup> This observation is taken from Ha Joon Chang’s 26 July 2013 column in *The Guardian*, available at: [www.theguardian.com/commentisfree/2013/jul/26/george-osborne-economy-orwellian-on-mend](http://www.theguardian.com/commentisfree/2013/jul/26/george-osborne-economy-orwellian-on-mend).

households an average of £175,000 it is easy to see the regressive impact of wealth changes. The Bank of England is quite transparent 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 arises because of the essentially hybrid nature of the UK'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 a belief in work discipline, deregulated labour markets and a flat-rate benefit welfare system providing minimum and often means-tested benefits, at the same time it simultaneously introduced new social rights and higher social floors, that modified the neoliberal effects and reinforced the model's hybrid character. The main policies under New Labour which provided for stronger social rights included extending 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).

While these policies together constituted a significant improvement in social rights, the implementation of these policies were still limited by or directly influenced by neoliberal ideology (Rubery 2011). With the exception of the national minimum wage, the new legal employment rights were primarily 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.<sup>4</sup> 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 for child poverty and thus went hand in hand with increasing pressure

---

<sup>4</sup> 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.

on lone parents to seek work. The extensive new forms of support for working parents were based on neoliberal markets 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 rights to flexible working no more than a right to request, 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 at 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 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. We discuss these in relation to four main areas of policy.

### ***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 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 on a test which is claiming that two-thirds of claimants are fit to work. However, 40 per cent of appeals against the test are successful (*The Guardian*, 26.07.2011) and in May 2013 a judge ruled that the test discriminated against people with mental health problems (*The Guardian*, 22.05.2013). Disability benefits have also been cut and means tested, with a particularly strong influence 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 are 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<sup>5</sup>.

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 resources provided. There is no space here to list the dozens of policy reforms that have cut incomes (see Grimshaw 2013a, TUC 2013 for details). One area of reform that is illustrative of the government's anti-poor approach is housing benefits. The government has cut entitlement to housing benefits and their real value through the following reforms:

- imposed 1% cap on annual uprating of housing benefits (as with all benefits);
- reduction in the maximum benefit (from the 50<sup>th</sup> to the 30<sup>th</sup> percentile of local private rents);
- raised age threshold for right to seek individual rather than shared accommodation (from 24 to 34);
- reduced benefits for social housing tenants with more bedrooms than needed (the so-called 'bedroom tax'); and
- overall benefit cap for working-age claimants (as part of universal credit reforms, 2013-2017) to be managed by reducing housing benefit payments.

Already more than 20 London local authorities have 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 live in social housing and is applied even though there is a 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 (*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. The most recent concerns a court victory for a disabled tenant in social housing in which the judge argued 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 those 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% until 2016. These policies are reversing the pattern of cuts compared to the initial phase of the cycle which affected middle to

<sup>5</sup> *The Guardian* 16/03/2013, page 5 and *The Guardian* 22/03/2013, page 12.

higher income families more; in 2015-16 it is the poorest families who will 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 £18 billion having been taken out of the benefits budget even before the 1% 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 of course find that many of the benefit policies described above are having a particularly strong negative impact on families with children who have been identified as the main losers – and especially lone parent families (Browne 2010, 2011) from coalition policy changes. 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.

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 breach for the first time the Beveridge principle of universal support for children but also it cut from households where at least one member paid the higher rate of income tax (40 per cent on annual incomes of 41,000–175,000 euros) as there is no data source on total household income. 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 relate to young people,

particularly the youth guarantee scheme. Those staying on at school from low income households 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 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 they 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). 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 the unavoidable consequences 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 direct to the carer and instead insists that all household benefits are 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) showing that the current system is important for the well-being of children. The government defends this by arguing for 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 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 among those who become lone parents following the break-up of families (WBG 2011b).

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, 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 have been dropped which would have increased take up because statutory pay is very low (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 UK, providing a replacement rate of 37%, on average, of gross median earnings in 2011 compared to an OECD (34-country) average of 61% (OECD 2011). Aware that support for the Conservative party is stronger among the elderly, current pensioners have been protected from many of the cuts (for example the 1% cap) and have had the link to average earnings for the uprating of pensions restored as planned by Labour. As earnings growth is very low this has not yet brought improvements<sup>6</sup> 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 accelerated 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.

---

<sup>6</sup> In fact the policy change guarantees a rise equivalent to the larger of average earnings growth, the consumer price index or 2.5% (referred to as the 'triple lock').

Elderly care provision has traditionally been relatively extensive in the UK 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, discussed above, have had a particularly serious impact on elderly care provision and has involved renegotiating the terms of outsourcing contracts with private sector companies and reducing levels of care entitlement. The core area of government action in social care has been to cap limits to private 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 at the minimum wage and even illegally deprived of pay for work-related time such as travel between clients.

### ***Labour market regulation***

With respect to labour market regulation the coalition has done much to reverse the policies of improving legal minimum floors adopted by new Labour. Furthermore reducing legal employment rights is one of the key objectives of the Conservatives in renegotiating UK'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 to popular, though increases recommended by the Low Pay Commission during the coalition government's term of office have been below inflation, and second the legal 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 to workers wishing to claim 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 which provided protection for new employees under outsourcing contracts from the public sector, requiring them to be paid on 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 Conservatives in renegotiations with the EU. The clear turn to neoliberalism is absolutely evident in the bizarre new policy (in force from September 2013) to exchange worker rights for company shares. It involves the creation of a new legal

category of ‘employee shareholder’ who has to give up *inter alia* rights to claim unfair dismissal, redundancy rights, maternity and adoption leave, flexible working, etc., 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 is turning rights into market goods rather than human rights as we discuss in the section below.

### **3. The shrinking public realm**

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. This involves a restructuring and considerable narrowing of the public space or 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 an abolition or a commodification of citizens’ individual or collective human rights; and third a shrinkage and downgrading of the remaining public sector.

The acceleration in privatisation has occurred in the large areas of job placement (as discussed above), justice (including the probation service, some policing, and prisons) health and education. Health has been subject to incursion 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.<sup>7</sup>

---

<sup>7</sup> See, for example, the statement by Unison ([www.unison.org.uk/acrobat/A11839.pdf](http://www.unison.org.uk/acrobat/A11839.pdf)).

In education, schools have been largely 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 free schools outside of government regulation including the need to employ qualified teachers. 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 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 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 permissions and the restrictions of health and safety inspections to only high risk workplaces from 2013. The conversion of rights into commodities includes not only access to higher education but also now 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 effectively means that recourse to the law is no longer a citizenship right and 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 UK. This applies to 61% of women, 58% 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 increasingly rationed, 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 company internships.

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 organisation 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 34k per quarter to 36k, so the worst is yet to come (OBR 2013:76-77). The explicit government policy is to reduce job quality 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 professional denigration of 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).

Some of these policies are made explicit - in particular the downgrading of pensions and pay in the public sector - while others are indirectly imposed through, for example, major cuts to local government budgets, so that local politicians can take the blame for the precise distribution of cuts. Furthermore restrictions on, or the commodification of, rights has gone hand in hand with further promotion of the consumer choice agenda to justify radical reforms in health and education. Yet choices under limited resources are not real choices. The stripping away of rights and services embedded in public sector and government institutions was legitimised in the early years of this government by 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 absence of evidence of an army of big society volunteers has led to a downplaying of this rhetoric.

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 can be ignored as these tend to be electorally Labour strongholds. 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' (Guardian 14.5.2011). The government is also using critical reports of NHS performance to persuade the public of the urgent need for change and reform.

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 resistance has come from the incompetence of private sector providers and the clear inadequacy of commissioning processes. Not only was the army drafted in to provide 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 38% of appeals against ‘fit for work’ assessments have been upheld (*The Guardian* 8.02.2013) and the private security G4S has been found guilty of causing unwarranted death during a deportation). Markets fail to develop and deliver according to government plans. For example, universities all set roughly the same student fees- the maximum- thereby failing to differentiate provision by quality. The markets being established in the NHS can also be guaranteed not to deliver what was 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.

#### **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 cutbacks in public expenditure but fragmentation of the organisations of public services including health and education to allow 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 north and south, increased. In many senses the policies can be interpreted as an acceleration of well established trends under governments of all different hues- including the denigration of welfare recipients and the increasing coercion to work, the blurring of public/ private sector divides and the flexibilisation of labour markets. However the new policy approach of the Cameron/Clegg coalition government can be considered distinctive in a number of respects; first it is eroding many of the safety nets that in the UK 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 reversing explicitly policies of supporting working parents (albeit with some inconsistent policies to restore some marginal support); thirdly it is extending privatisation into areas previously considered sacrosanct, most notably health, education and justice. The veil of macroeconomic necessity is steadily turning into an Orwellian excuse for a long term squeeze as fiscal health has not been restored due to stagnation induced in large part by the cuts. The medicine prescribed is ‘more of the same’ so that the UK is at present set on a policy of austerity without end, which in turn may end any pretence at our having a social model.

## References

- Bank of England (2012) ‘The distributional effects of asset purchases’. Available at:  
[www.bankofengland.co.uk/publications/Documents/news/2012/nr073.pdf](http://www.bankofengland.co.uk/publications/Documents/news/2012/nr073.pdf).
- Besley, T. and P. Hennessy (2009) ‘Letter to HM the Queen from the British Academy’, based on the British Academy forum, The global financial crisis – Why didn’t anybody notice? London: British Academy.
- Bonoli, G. (2010) ‘The political economy of active labour market policy’, REC-WP 01/2010 Working Papers on the Reconciliation of Work and Welfare in Europe, RECWOWE Publication, Dissemination and Dialogue Centre, Edinburgh.
- Brewer, M., Browne, J., Hood, A., Joyce, R. and Sibieta, L. (2013), The Short- and Medium-Term Impacts of the Recession on the UK Income Distribution. *Fiscal Studies*, 34: 179–201.
- Browne, J. (2010) ‘Distributional analysis of tax and benefit changes’, London: Institute for Fiscal Studies.
- Browne, J. (2011) ‘The impact of tax and benefit reforms by sex: some simple analysis’, Institute for Fiscal Studies. Available at: <http://www.ifs.org.uk/publications/5610>.
- CAPG (2008) ‘Tax credits: improving delivery and choice – a discussion paper’. Available at: [http://www.cpag.org.uk/info/briefings\\_policy/CPAG\\_tax\\_credits\\_response\\_0908.pdf](http://www.cpag.org.uk/info/briefings_policy/CPAG_tax_credits_response_0908.pdf).
- Clift, B. and J. Tomlinson (2006) ‘Credible Keynesianism? New Labour macroeconomic policy and the political economy of coarse tuning’, *British Journal of Political Science*, 37: 47–69.
- Crawford, R., Keynes, S. And Tetlow, G. (2013) *A single-tier pension: what does it really mean?* IFS Report R82
- Crouch, C. (2009) ‘Privatised Keynesianism: an unacknowledged policy regime’, *Journal of British Politics and International Relations*, 11: 382–399.
- Dickens, R. (2011) ‘Child poverty: did work work?’, in P. Gregg and J. Wadsworth (eds), *The labour market in winter: the state of working Britain*, Oxford: Oxford University Press.
- DWP (2006) *Security in retirement: towards a new pensions system*, Cm 6841. Available at: [http://www.dwp.gov.uk/pensionsreform/pdfs/white\\_paper\\_complete.pdf](http://www.dwp.gov.uk/pensionsreform/pdfs/white_paper_complete.pdf)
- DWP (2011a) ‘Universal credit policy briefing note 2:the payment proposal’. Available at: [www.dwp.gov.uk/docs/](http://www.dwp.gov.uk/docs/) (accessed 12.08.2011).

- DWP (2011b) 'Universal credit policy briefing note 5: Second earners'. Available at:  
[www.dwp.gov.uk/docs/](http://www.dwp.gov.uk/docs/) (accessed 12.08.2011).
- Elliott, L. and D. Atkinson (2008) *The gods that failed: How blind faith in markets has cost us our future*. London: The Bodley Head.
- Fitzpatrick,S., Pawson, H., Bramley, G. and Wilcox, s. (2012) *The homelessness monitor:Great Britain 2012* Institute for Housing, Urban and Real Estate Research, Heriot-Watt University and Centre for Housing Policy, University of York  
[http://www.crisis.org.uk/data/files/policy\\_research/TheHomelessnessMonitor\\_GB\\_ExecutiveSummary.pdf](http://www.crisis.org.uk/data/files/policy_research/TheHomelessnessMonitor_GB_ExecutiveSummary.pdf)
- Gautié, J. (2011) 'France: Protecting the insiders in the crisis and forgetting the outsiders?', in D. Vaughan-Whitehead (ed.), *Inequalities in the world of work: the effects of the crisis*, Geneva: ILO.
- Grimshaw (2013a) 'The UK social model: the rapid descent from liberal collectivism to a 'market society', Report for the International Labour Organisation, Geneva: ILO.
- Grimshaw (2013b) 'Austerity, privatisation and levelling down: Public sector reforms in the United Kingdom', in D. Vaughan-Whitehead (ed.) *Public Sector Shock: The Impact of Policy Retrenchment in Europe*, Cheltenham: Edward Elgar and Geneva: ILO.
- Grimshaw, D. and Rubery, J. (2012) "The end of the UK's liberal collectivist social model? The implications of the coalition government's policy during the austerity crisis." *Cambridge Journal of Economics* 36, no. 1: 105-126.
- High Pay Commission (2011) 'More for less: What has happened to pay at the top and does it matter?', Interim Report. Available at: <http://highpaycommission.co.uk> (accessed 16.07.2011)
- Hills, J. (2007) 'Ends and means: the future roles of social housing in England', CASE Report 34, ESRC Research Centre for Analysis of Social Exclusion.
- House of Commons Treasury Committee (2008) 'The run on the Rock', 5th Report 2007-08, HC 56-I. London: Stationery Office.
- Humphrey, J.C. (2003) 'New Labour and the regulatory reform of social care', *Critical Social Policy* 23(1): 5–24
- IER (Institute for Employment Rights) Shared parental leave unlikely to improve gender equality 3 July 2013 <http://www.ier.org.uk/news/shared-parental-leave-unlikely-improve-gender-equality>
- Lavoie, M. and E. Stockhammer (2011) 'Wage-led growth: concept, theories and policies', Paper presented at the ILO Regulating for Decent Work conference, Geneva (July).
- Le Grand, J. (2006) 'The Blair legacy? Choice and competition in public services', Public lecture, LSE. Available at: <http://www2.lse.ac.uk/publicEvents/> (accessed 16.07.2011)
- McCulloch, A., J. Mohan and P. Smith (2011) 'Patterns of social capital, voluntary activity and area deprivation in England', Third Sector Research Centre, University of Southampton. Available at: [http://www.ncvo-vol.org.uk/sites/default/files/UploadedFiles/NCVO/Research/Research\\_Conference/McCulloch\\_et\\_al\\_o.pdf](http://www.ncvo-vol.org.uk/sites/default/files/UploadedFiles/NCVO/Research/Research_Conference/McCulloch_et_al_o.pdf).
- Migration Observatory(2013) Family Migration Inquiry written submission. The All-Party Parliamentary Group on Migration  
<http://www.appgmigration.org.uk/sites/default/files/Migration%20Observatory.pdf>

- NAO (2013) 'Universal Credit: Early progress?', London: National Audit Office, HC 621.  
Available at <http://www.nao.org.uk/wp-content/uploads/2013/09/10132-001-Universal-credit.pdf>.
- NAPF (National Association of Pension Funds) (2012) 'Exceptional times, exceptional measures? Economic developments and the impact on pension schemes and members'.  
Available at: [www.napf.co.uk/PolicyandResearch/DocumentLibrary.aspx](http://www.napf.co.uk/PolicyandResearch/DocumentLibrary.aspx).
- OBR (Office for Budget Responsibility) (2013) *Economic and fiscal outlook* March  
<http://cdn.budgetresponsibility.independent.gov.uk/March-2013-EFO-44734674673453.pdf>
- Rubery, J. (2011) "Reconstruction amid deconstruction: or why we need more of the social in European social models." *Work, Employment and Society* 25, no. 4: 658-674
- Rubery, J. (2013) "Public Sector Adjustment and the Threat to Gender Equality." In *Public Sector Shock*, ed. D.Vaughan-Whitehead, 43-84. Cheltenham: Edward Elgar in association with the International Labour Organisation,
- Rubery, J. and Rafferty, A. (2013) "Gender, recession and austerity in the UK." In M. Karamessini and J.Rubery, eds. *Women and Austerity*, Routledge,123-44
- Shelter (2011) 'Response to the Social Security Advisory Committee's consultation - Housing Benefit Amendment Regulations 2011. Available at:  
[http://england.shelter.org.uk/data/assets/pdf\\_file/0011/361289/SSAC\\_Shelterresponse\\_SAR2011.pdf](http://england.shelter.org.uk/data/assets/pdf_file/0011/361289/SSAC_Shelterresponse_SAR2011.pdf)
- Sung , S. and Bennett , F. (2007) 'Dealing with money in low- to moderate-income couples: insights from interviews', *Social Policy Review*, 19: 151–173.
- Taylor-Gooby, P. and G. Stoker (2011) 'The coalition programme: a new vision for Britain or politics as usual?', *The Political Quarterly*, 82 (1): 4–15.
- Thain, C. (2010) 'A very peculiar British crisis: Institutions, ideas and policy responses to the credit crunch', Mimeo, University of Birmingham. Available at:  
[http://colinthain.com/images/pub\\_uploads/](http://colinthain.com/images/pub_uploads/) (accessed 14.06.2011).
- TUC (2013) 'Keeping up with the cuts', Economic and social affairs department, Mimeo.
- Waldfogel, J. (2011) 'Family-friendly policies', in P. Gregg and J. Wadsworth (eds), *The labour market in winter: the state of working Britain*, Oxford: Oxford University Press.
- Williams, D. F. (2009) 'Companies, tax and the recession', KPMG Tax Business School, Discussion Paper. Available at: [www.kpmg.co.uk/pubs/Recession\\_accessible\\_Marcho9.pdf](http://www.kpmg.co.uk/pubs/Recession_accessible_Marcho9.pdf).
- WBG (2011a) 'Welfare reform bill 2011: Universal Credit payment issues',  
<http://www.wbg.org.uk/>.
- WBG (Women's Budget Group) (2011b) 'Welfare reform bill: evidence to public bill committee 22.3.11'. Available at: [www.wbg.org.uk/RRB\\_Reports\\_6\\_3769269156.pdf](http://www.wbg.org.uk/RRB_Reports_6_3769269156.pdf).