Austerity is over? It never really began

UK fiscal policy has never conformed to the textbook definition of austerity. In this sense, and contrary to what Theresa May has been declaring, austerity is not over: it never really began. ***Craig Berry*** *explains what more the 2018 budget tells us about the austerity-ending hypothesis.*

Austerity has attained a rarefied status in British political discourse. Like 'equality' and 'freedom', it now seems to mean whatever the person uttering it wants it to mean. And so there is understandable disagreement about whether Philip Hammond's autumn budget has, in fact, ended austerity. In reality, the post-crisis fiscal policy dilemma ostensibly addressed by austerity is no longer pertinent – but this is not because of anything Hammond or his predecessor, George Osborne have achieved.

Brexit changes everything and, at the same time, nothing. Theresa May has declared austerity over not because Osborne's cuts are being halted, let alone reversed, but rather to distract from the government's mismanagement of the Brexit process. As fiscal policy, May has never really liked austerity, but also never objected it either. The Prime Minister's conservatism belongs in the Christian Democrat tradition. She is instinctively and continentally statist, but as Home Secretary, used cuts to police budgets to discipline the police service.

The Chancellor is a different proposition. He is similarly concerned by Brexit, but by its real-world implications rather than the stain it will leave on perceptions of his tenure. Hammond's budget dutifully played along with May's austerity-ending narrative, but was only pretending to care about this very slippery notion. The cold, hard, fiscal facts of Brexit are the only things that matter to the Chancellor now. Crucially, however, as I will argue below, he gets that the politics of the process matter as much as the economics of the event.

What does the budget tell us about the austerity-ending hypothesis? It is important to remember that, in most areas, Osborne back-loaded the most severe spending cuts, having quickly wised up to the economic devastation of his 'plan A' in 2010. The buck, he figured, would stop with his successor. Osborne probably reckoned that the economy would be back on its feet by that point, but he did not count on Brexit (at least not until it was too late).

There were new spending commitments in the budget. Helped by slightly higher tax receipt forecasts, Hammond is largely delivering on May's promises on health spending, and sprinkled the budget with some relatively low-cost initiatives such as more money for fixing potholes, more support for industrial R&D and infrastructure, and some cash for the 'little extras' in schools. Think-tanks such as the Institute for Fiscal Studies and the Resolution Foundation suggest that ending austerity would cost £20-30 billion per year, depending on how it is defined. In that sense, the budget has merely *eased* austerity. Hammond is, for the most part, taking forwards Osborne's back-loaded cuts. There is new money for the transition to Universal Credit, but many benefits remain frozen, and benefit incomes capped.

There is, however, the issue of tax. Any decent economics textbook would tell you that austerity means balancing the budget through raising taxes as well as cutting spending. Yet Hammond maintains Osborne's zeal for tax reductions for business and individuals. The budget announced a major cut in business rates for local retailers, and the acceleration of planned reductions in income tax (overwhelmingly benefiting the already affluent, at a cost of £2.8 billion in 2019/20 alone).

In this sense, austerity is not over. It never really began. But in our heads, it was *soooo* real. Austerity has never conformed to the textbooks because it was always more about instilling a sense of self-reliance on individuals, and undermining the state as the emblem of democratic collectivism, and therefore its legitimacy to levy taxes. Hammond opined in his 2018 budget statement that 'the hard work is paying off'. Yet with the exception of the 2011 VAT increase, the hard work has not really been done in any material sense – only ideologically. (The new digital services tax is, at best, a sideshow and, at worst, a fiction). From this perspective, the imaginary of austerity is far from over, and indeed the notion of Brexit (as distinct from the actuality of Brexit) as an opportunity to free ourselves from Brussels very much reinforces it.

The specific cut to business rates offers a depressing echo of the one area of public spending where Osborne's plan A was never abandoned. In the coalition era, Osborne targeted local government for drastic cuts while central government departmental spending was largely spared. He also began the process of localising the management of business rate revenues, partly in compensation for severe cuts in grants for local services, and partly as an additional emblem of self-reliance, this time imposed on disadvantaged cities and regions. Any centrally-mandated cut in business rates, however much it will be welcomed by small employers in a struggling sector, could hit many local authority balance-sheets, at the worst possible time.

Even judged in more conventional terms, there is a question of whether austerity ends when trying to prioritise deficit reduction, or when the associated targets are actually achieved. The Office for Budget Responsibility (OBR) has reported that, as a result of spending rather than banking the unexpected uplift in tax receipt forecasts, and particularly by cutting income tax so significantly, the government is now unlikely to meet its own long-term target to balance the budget by 2025. According to the OBR's logic – itself a highly contestable judgement, which has been decontested by the austerity imaginary – very poor growth forecasts mean fiscal circumstances remain incredibly fraught.

And despite the usual hullabaloo, there was little in the budget to warrant an upwards revision of the overall trend rate of growth. Increasing capital investment allowances, for instance, will be welcomed by manufacturers, but in practice the impact on the wider economy will be negligible.

Being on the wrong side of the OBR will be an uncomfortable position for Hammond. But it all comes back to Brexit – and unlike the OBR, Hammond has to worry about the politics too. On this, his judgement is highly nuanced, but undeniable. He is content to go along with the apparent easing of austerity, with a budget of mini-giveaways, but only in order to help May to stay in post just long enough to get some sort of Brexit deal. He knows this is the key to the future of the public finances, and that the cause would be hopeless if May was forced out before March 2019. At the same time, however, he is largely persevering with the cuts, because the risk of 'no deal' – and therefore fiscal calamity – remains high.

The UK's economic slump has reached the point where even the most austere of Chancellors would traditionally have been hitting the stimulus button, therefore actually ending austerity. But Hammond knows there is little point in acting until we know what the Brexit deals looks like. The UK economy's capacity to actually capitalise on (or multiply) any stimulus will be much diminished if 'no deal' stymies domestic investment even further. Such a stimulus would also rely on a level of borrowing that might be difficult to sustain if the City of London loses some of its single market privileges in the near future.

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About the Author

Craig Berry is Reader in Political Economy at Manchester Metropolitan University.