# The economic crisis and policy change:
# The agenda and consequences of the Cameron government

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November 2011
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## Introduction

An analysis of the economic crisis in the UK, the policy responses and their consequences needs to be mindful of three peculiarities of this particular country case when compared to other European countries. First, it has a legacy of a strong and influential financial services sector, including the importance of London as a global site for financial trades, which means questions about how to reform, support or curtail the activities of banks since 2008 have been especially controversial. Second, compared against other advanced capitalist countries, the UK is well-known for its relatively strong pursuit since the late 1970s of a neoliberal economic agenda. Less well known is its development of a weak collectivist social model (when compared to the US say) especially in the policy areas of welfare and to a lesser extent labour market governance. Third, just at the point when the economic recession of 2008-2009 halted and the fiscal crisis of Europe began to erupt, the UK elected a new government in May 2010 that marked a radical shift in the direction of policy from 13 years of a left-leaning New Labour government to a right-wing Conservative-led coalition with the Liberal Democrat party. The new policy agenda of David Cameron has two notable characteristics. It seeks to strengthen the neoliberal framework of rules in economy and society and to weaken an already weak collectivist social welfare model (Grimshaw and Rubery 2012, Taylor-Gooby and Stoker 2011). Also, it seeks to redistribute the UK´s national product by imposing unprecedented cuts in public expenditures. While spending cuts are in part a response to the fiscal crisis, the UK is not like Greece and as such the character of reforms ought to be interpreted in large part as ideologically motivated.

In this paper we critically assess the radical change of government policy with respect to four specific areas: the public sector (including public expenditures, public sector pay and employment); active labour market policy interventions (including employment assistance and education/training); employment rights (especially employee security); and welfare benefits (including unemployment benefits, housing and incapacity benefits). In all four areas, the argument of the paper is that policy is characterised by a radical reinforcing of neoliberal principles and, in most cases, discontinuity with the past approach. This generates far greater scope for inequalities within UK society with especially harsh penalties for vulnerable groups of people who are losing income and opportunities to improve their standard of living.

The paper is structured as follows. Since the ongoing depression has its roots in the banking crisis of 2007-2009, section 1 describes the bailout of UK banks and assesses the costs and risks embraced by the government (and taxpayers). Section 2 provides a brief review of key indicators of the depression, including GDP, rates of employment and unemployment. The core of the paper's argument is presented in sections 3-6 with a critical analysis of the switch in policy approach in the four selected areas identified above, accompanied in each section by summary text tables. For each policy area, the analysis identifies the new and increased penalties experienced by particular groups of UK society. Section 7 ends the paper with a summary and conclusion.

## 1. The great banking bailout

Like the United States, the growth model of the UK was governed by a set of principles that pandered to the rising class of financial capitalists, guided by the rationale that free markets prosper better when financiers can act unhindered to help markets grow. Economic policy in the run-up to the crisis was characterised by the pursuit of low inflation, limited state assistance to firms and industries, shareholder value, deregulation of product and labour markets and liberalisation of capital flows. Early warnings of the financial risks were identified by both the Bank of England and the Financial Services Authority - including the booming housing market fuelled by a surplus of cheap credit made available to many low and middle-income households and a bubble of derivatives and futures trading among an increasingly highly paid and uncompromising financial elite. However, the institutions overseeing the banking sector are said to have failed to appreciate the new system-wide nature of market risk (Besley and Hennesey 2010, HC Treasury Committee 2008).

The first direct impact on the UK was a run on the retail deposits of the Northern Rock bank in September 2007 in response to its high exposure to sub-prime mortgage loans. Hoping for a quick acquisition by another private sector bank, the government acted to guarantee deposits and the Bank of England provided short-term liquidity support. No buyers came forward, however, and so the government was forced to pass legislation in February 2008[1] to take the bank into temporary public ownership. It subsequently divided the bank into a 'good bank' and a 'bad bank' with the intention of winding down the bad bank. The next casualty was Bradford and Bingley bank in September 2008 and in a similar fashion the government split the operations in half, nationalised the mortgage lending part (said to be a worse asset than that of Northern Rock) and transferred the remaining operations successfully to Santander bank. This period also saw growing panic among owners of HBOS (Halifax and Bank of Scotland) shares, presenting a significantly greater threat to the economy with its close to 10% share of the savings and mortgage market. The BBC reported the then Prime Minister, Gordon Brown, as intervening personally to persuade the better capitalised Lloyds TSB to acquire HBOS in order to prevent another run on bank deposits[2], using the condition of it being in the national economic interest to get around the competition regulations. By autumn 2008, the government intervened more systematically in the form of a recapitalisation plan in response to falling capital-asset ratios and a perceived need to raise the levels above those recommended by the Basel Accord (Edmonds et al. 2011, NAO 2009). This

[1] The Banking (Special Provisions) Bill, HM Treasury press release, 17-02-2008.
[2] The BBC report claims, 'The deal was negotiated at the very highest level, with Prime Minister Gordon Brown telling Lloyds TSB chairman Sir Victor Blank that it would be helpful if Lloyds could end the uncertainty surrounding HBOS by buying it.' http://news.bbc.co.uk/2/hi/business/7622180.stm

intervention involved the purchase of close to half the shares (43%) of the newly merged HBOS and Lloyds TSB bank (which at the time of the merger held around one third of the UK's savings and mortgage market[3]) and close to three fifths (58%) of RBS shares (Edmonds et al. 2011: 7-8), an initial spend of some £37 billion in total. Sustained weak confidence in the banking system forced the government to follow up on its recapitalisation efforts with a package of schemes in early 2009 aimed at reducing risks on inter-bank lending, supporting lending to the real economy and protecting up to 90% of bad loans ('asset protection scheme'), as well as, importantly, new provisions for the Bank of England to establish an asset purchase programme to increase corporate credit by for example purchasing corporate bonds. Thus by the end of 2009, the UK government had established itself as a major owner of shares in the Lloyds Banking Group and RBS as well as the smaller Northern Rock and Bradford & Bingley.

These interventions brought huge liabilities for the government (and taxpayers) with little sign of a quid pro quo from the banking world. The case of RBS is illustrative. In early 2009, RBS suffered the biggest losses in UK corporate history, more than £24 billion despite the government's attempted bailout. It was therefore forced to agree terms as part of the government's asset protection scheme, placing £325 billion of bad assets with the government in return for an annual insurance fee, with the very real risk to taxpayers that the 90% share protected by government might be worthless[4]. RBS paid its 7-year, 6.5bn fee by issuing a type of preferential shares to government, such that the government owned more than four fifths of shares (82% as of July 2011). At the same time, and in accord with the UK's record of pandering to financial capitalists, the then Chief Executive secured an exit at the ripe age of 50 years old with a pension pot worth £16 million (£593,000 per year)[5] while a programme of massive job cuts proceeded from early 2008, totalling 27,000 by September 2010.[6] This particular case unsurprisingly drew strong criticism from trade unions. The leader of the largest union, Unite, said, '*These historic and humiliating losses bring into sharp focus just how recklessly RBS's former management team have behaved. The whole country is paying the price through job cuts and repossessions on a massive scale. It is time to take control and fully nationalise this bank. You cannot have a state bail-out on one hand while allowing the spectre of thousands of job losses to loom over staff on the other*.'[7]

During this early period of the crisis, homeowners faced falling house prices and repossessions. The housing and homelessness charity, Shelter, has consistently warned government of the rising trend of repossessions[8], from 8,200 in 2004 to 25,900 in 2007 and then a substantial rise to 40,000 in 2008 and 47,900 in 2009 (Ministry of Justice 2011). The government response was limited by comparison to its bailout of banks. During the second half of 2008 and early 2009, interventions included making an additional £9 million available to independent organizations (such as the Citizens Advice Bureau) providing debt advice, agreeing a protocol with the major lenders to encourage repossession as a last resort only and

[3] See http://news.bbc.co.uk/2/hi/business/7622180.stm.
[4] http://www.guardian.co.uk/business/2009/feb/26/royalbankofscotlandgroup-banking
[5] http://www.guardian.co.uk/business/2009/feb/26/sir-fred-goodwin-royalbankofscotlandgroup
[6] http://www.ft.com/cms/s/0/1d325eb6-b681-11df-86ca-00144feabdc0.html#axzz1cN12PkWb
[7] http://www.guardian.co.uk/business/2009/feb/26/rbs-record-loss
[8] http://england.shelter.org.uk/campaigns/housing_issues/the_housing_crisis

introducing a scheme based on a voluntary agreement with individual banks to discourage repossessions where payments of those who had lost jobs or suffered a temporary loss of income were in arrears by six months or less.[9] The reluctance to pass legislation inevitably led to a failure to win support among the banks. Only those partly nationalised signed up to the mortgage support scheme under direct pressure from government; other lenders, representing half of the loans market (eg. HSBC, Barclays, Santander) shunned the scheme.[10]

The initial reluctance to regulate extended to payments of bonuses. As with the mortgage support scheme, banks tended to stick with the status quo, quickly restoring mega-bonuses once recapitalisation had been addressed. At the end of 2009 the government did act and introduced a new 'super-tax' on bankers' bonuses - 50% on bonuses of more than £25,000 payable by the employer not the individual banker. However, in an anonymised survey conducted by the *Financial Times* early in 2010, most banks said they would absorb the tax by inflating their bonus pools.[11]

The ongoing, cumulative cost of the government's bailout of UK banks is very difficult to estimate because of the interaction with a raft of uncertainties, including the unknowable risk of providing guarantees and indemnities covering close to £300 billion of bank assets and the payback from eventual sales of government-owned shares. We do know, however, that the government spent a total of £131 billion purchasing bank shares and providing loans to banks (NAO 2009: 37-38). Several evaluations, including that of the independent National Audit Office, argue that the government was required to intervene on this scale in order to prop up the banking industry, since the cost of failure would have been much greater. Especially important was an IMF (2008) study, used by the Treasury, which provided a model to forecast GDP losses in the event of systemic banking failure, as well as associated costs of increased government borrowing among other variables (NAO 2009: 36). Others, however, have raised serious concerns about the inability of government to ringfence the bailout funds so as to prevent its use for risky investments or the payment of mega-bonuses. The governor of the Bank of England complained in late 2009 that, '*Anyone who proposed giving government guarantees to retail depositors and other creditors, and then suggested that such funding could be used to finance highly risky and speculative activities, would be thought rather unworldly. But that is where we now are*.'[12]

Despite its populist clamouring for regulatory actions while in opposition, the election of a new Conservative-led coalition government in May 2010 heralded an even lighter touch, regulatory approach towards the banks. Project Merlin, the much anticipated programme of banking reform, ultimately heralded little change. In February 2011, the five major banks

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[9] The Homeowner Mortgage Support scheme relies explicitly on the voluntary acceptance of banks rather than a legal obligation. The then Housing Minister stated, '*We are determined to do everything possible to ensure that hard working households have the option to stay in their homes, if they suffer a loss of income during the downturn. This scheme will give households the breathing space to get back on their feet again and help ensure they do not face or fear repossession. It shares the risk of home ownership at this difficult time across all the partners - the Government, the lenders and the borrowers.* ***We want to see all lenders signing up to this scheme*** *as part of their efforts to ensure that repossession is always an absolute last resort' (bold highlights added).* http://webarchive.nationalarchives.gov.uk/+/http://www.communities.gov.uk/news/corporate/1085999

[10] http://www.ft.com/intl/cms/s/0/8299ad98-2ed5-11de-b7d3-00144feabdc0.html#axzz1cN12PkWb

[11] http://www.ft.com/intl/cms/s/0/caffc078-fc97-11de-bc51-00144feab49a.html#axzz1cN12PkWb

[12] http://www.guardian.co.uk/business/2009/oct/21/mervyn-king-attack-banks-bailout

signed up to an agreement that involved increasing business loans (by just 6% from 2010 to 2011[13]), a bonus pot not in excess of the level in 2010 and to publish the pay packages of their highest paid five executives below board level. The deal on business loans and the pay pot only applies to the single year 2011.[14] However, even this weak voluntary agreement does not appear to have proven effective. Lending data collected by the Bank of England shows only £53 billion of lending by Project Merlin banks by the end of the second quarter of 2011, less than one third of that agreed for the entire year, and just £21 billion to small and medium-sized enterprises, slightly more than one quarter of the total expected.[15]

## 2. A sketch of the UK depression

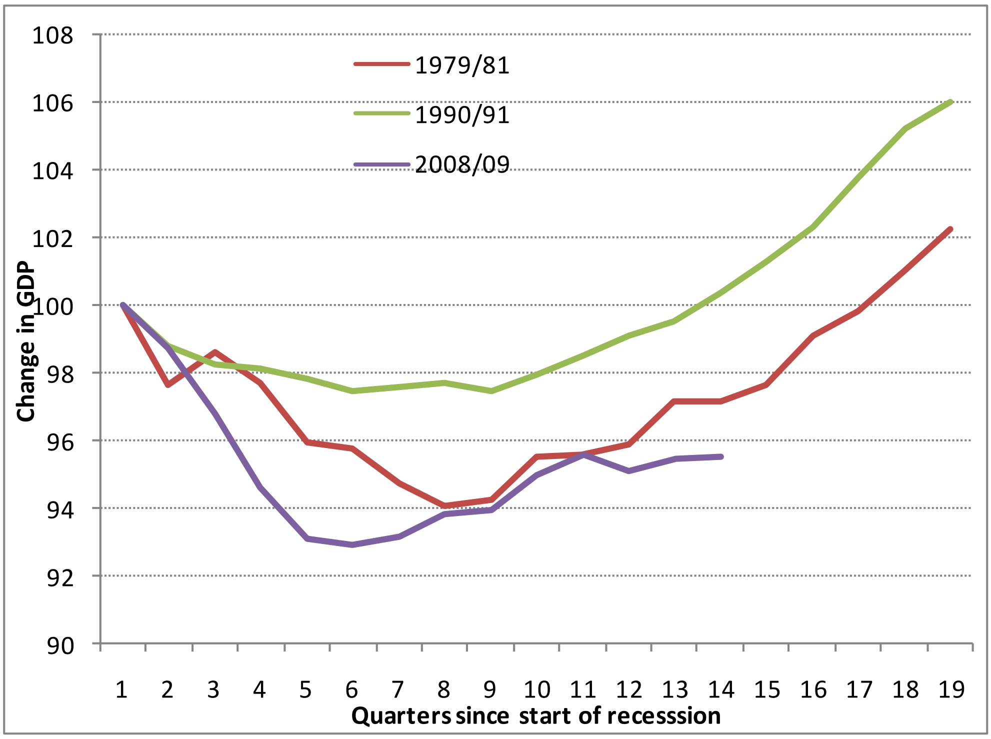
The banking crisis led directly to an economic recession (a period of falling output) during 2008-09 that was characterised by a steeper and larger drop in GDP than the previous two recessions. Figure 1 shows a peak to trough fall (first quarter 2008 to second quarter 2009) of 7.1 percentage points. Recovery seemed relatively steady but then halted in the third quarter of 2010, coinciding with the change of government. The risk of a double-dip recession remains very high at the time of writing. Especially notable is the extraordinarily long duration of the depression (the period when GDP remains below its pre-recession level). Given unconfirmed estimates that growth in the third quarter of 2011 was just 0.5% (NIESR 2011), by the end of 2011, three years on, GDP is likely still to lag some four percentage points below its previous peak, making this a longer depression than witnessed in 1930-34 (op. cit.).

**Figure 1. Comparison of GDP fall and recovery with previous recessions**

[13] The banks agreed to lend an additional £190 billion of new credit to business in 2011, with £76 billion of this allocated to small and medium-sized enterprises. www.bankofengland.co.uk/publications/.

[14] BBC news 9 February 2011, www.bbc.co.uk/news/business-12406495.

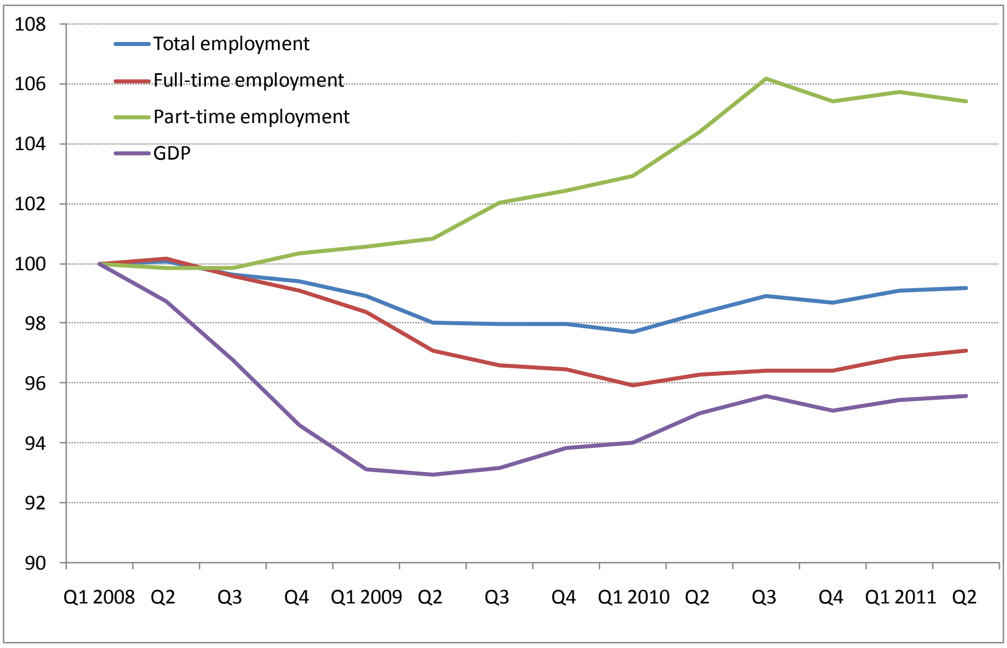
[15] Bank of England data for Project Merlin, www.bankofengland.co.uk/publications/other/monetary/additionaldata.htm. The figure is disputed by government which refers instead to alternative data that suggest a figure double the size. This alternative data are nevertheless described as 'misleading' by the governor of the Bank of England, (*Financial Times*, 02-09-2011). www.ft.com/intl/cms/s/0/563b44ec-d571-11e0-bd7e-00144feab49a.html#axzz1cN12PkWb.




Note: 2008-09 trend runs from Q1 2008 to Q2 2011.
Source: ONS, September 2011 GDP update release.

A second distinctive feature of this recession and depression is that the fall in employment has been relatively limited, which is at first sight curious given the evident flexibilisation of the UK labour market when compared to its state in the late 1970s or early 1990s. During the 1990-91 recession, for example, employment losses exceeded the contraction in GDP, at 4 percent and 2.5 percent respectively. During the 2008-09 recession, employment fell by slightly less than 2 percent compared to the much higher 7 percent drop in GDP. One possible reason for this apparent inelasticity of employment is that the UK's flexible labour market provides the capacity for employers to switch from full-time to part-time employment. Another reason is the unassociated change in welfare rules (see below) that obliged a greater share of the inactive and unemployed to take up low wage part-time jobs. Figure 2 shows that during the recession the fall in full-time employment was to a great extent offset by rising part-time employment. Full-time employment fell by 4.1 percent from 2008 to early 2010 and part-time employment increased by 2.9 percent. Subsequently, while full-time employment remained sluggish, part-time employment grew a further 2.8 percent in size. As a result, during 2008-09 the share of employees in part-time employment increased from 25.4 percent to 26.6 percent. Significantly, this rise was distributed among both women and men – women did not act as the principle flexible buffer as found in previous recessions (Rubery 1988): the part-time share of female employment increased from 42.1 to 43.0 percent and among men from 11.2 to 12.2 percent, representing an increase of approximately 100,000 and 85,000 female and male workers, respectively. Also, the particular form of employer-led flexibility in the UK model is revealed by the rise in the share of involuntary part-time employment among both women and men[16] (Grimshaw and Rafferty 2011: 538-9).

**Figure 2. The varied employment impact of the depression, disaggregated by full-time/part-time, 2008-2011, headcount**




Source: ONS, September 2011 GDP update release.

While total employment numbers suggest a relatively modest adverse impact of the recession, this is not true of unemployment figures. After many years of a relatively stable rate of unemployment, the recession had an immediate and powerful impact, causing a rapid rise from 5.3 percent at the beginning of 2008 to 8.1 percent by the end of 2009, that is, from 1.61 million to 2.47 million. It has since fluctuated with ominous evidence of a further rise up to 8.3 percent (2.54 million) during the third quarter of 2011 (figure 3a).

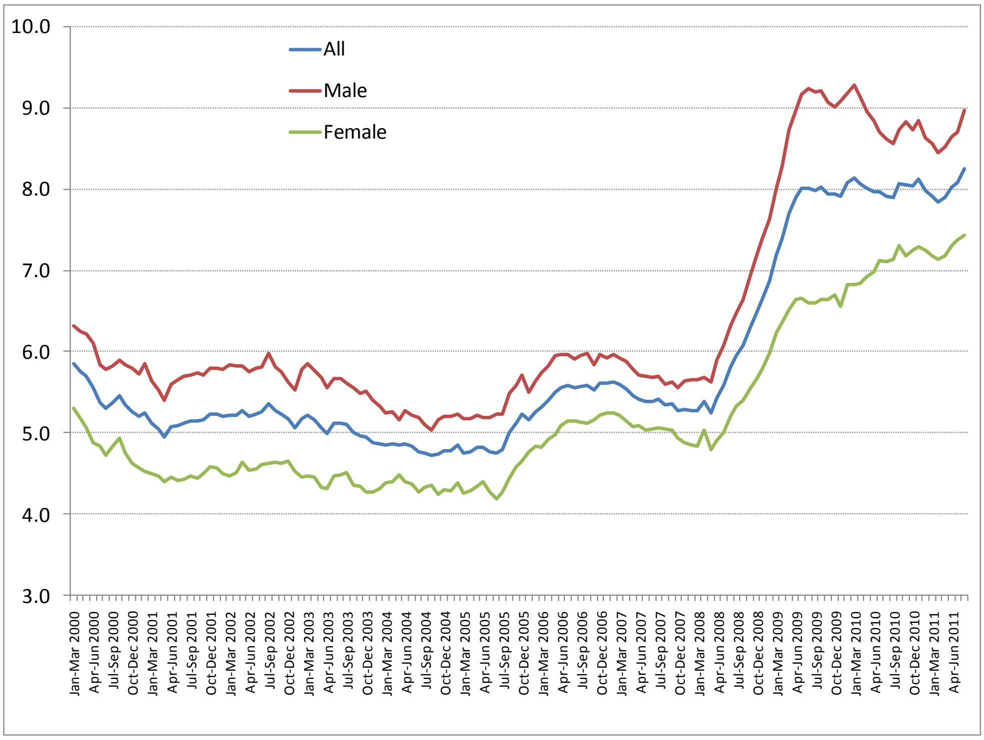
Men suffered a greater increase in unemployment than women primarily because the recession initially impacted the male-dominated sectors of manufacturing and construction more than female-dominated sectors. The female-dominated public sector in particular provided an important shelter for women's employment. Because twice as many women as men work in the public sector, women benefited twice as much from the sustained growth in public spending and job growth during the recession; equally, women will bear most of the brunt from spending cuts following the austerity budgets started in 2010 (see below). However, the gender gap in unemployment rates has narrowed as the depression has lingered on. When unemployment peaked at the end of 2009, women's rate of unemployment was 2.5 percentage points below men's; the latest data for June-August 2011 show a gap of 1.5 points.

16 Among women the share of involuntary part-time workers increased from 7 to 10 percent and among men from 17 to 25 percent (Grimshaw and Rafferty 2011: 538).

By far the greatest adverse impact is being experienced by young people in the labour market. Among youth aged 16-17, unemployment increased to a rate of 37.4 percent and among those aged 18-24 years up to a rate of 19.1 percent. Figure 3b presents the data disaggregated by sex. While most young people aged 16-17 years old are in education, a significant minority (37 percent, or 550,000 - third quarter 2011) is still active in the labour market; the tough labour market conditions mean that more than one in three are unemployed. Numbers of people aged 18-24 in the labour market are far higher, around 3.3 million in 2011, which means some 785,000 are unemployed according to the official claimant count data. Altogether, close to 1 million young people (990,000) - around one in five young people - were registered as unemployed in the latest available data.

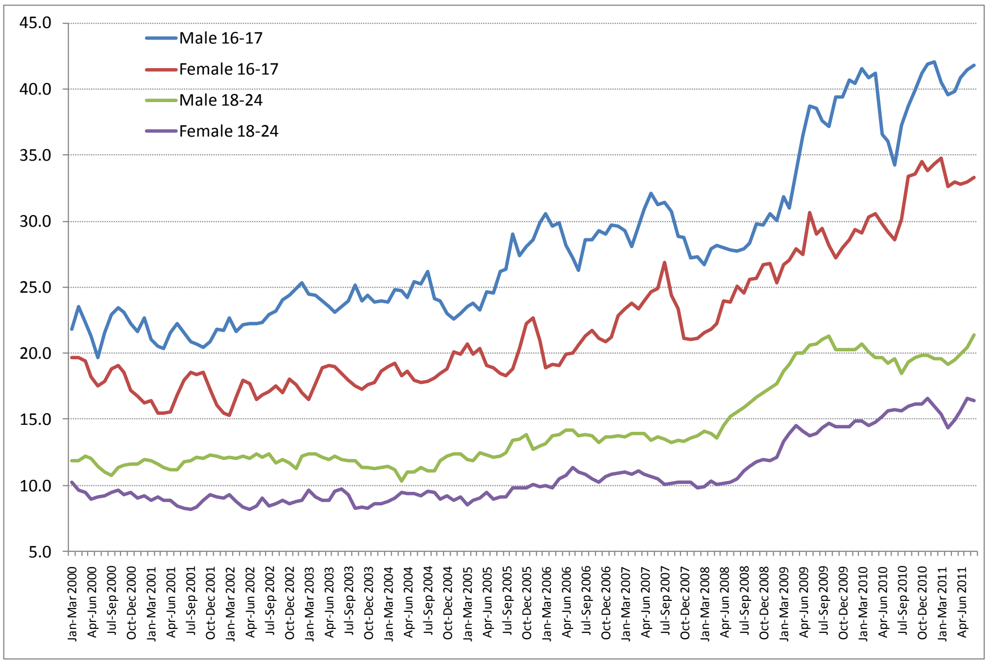
**Figure 3. Unemployment rates (claimant count) by male/female and for youth, 2000-2011**

**a. Total, male and female**




Note: Reference group is all aged 16-64 years old.
Source: ONS data (A02 Labour Force Summary), own compilation.

**b. Youth, aged 16-17 and 18-24**




Source: ONS data (A02 Labour Force Summary), own compilation.

## 3. The public sector

The 13-year period of the New Labour government was characterised by a sustained effort to improve the level and quality of public services provision using a combination of measures - increased spending (from 1999), regulatory reforms under the banner of 'new public management'(such as performance targets and quasi-markets) and privatisation of many areas of public services provision. The incoming Conservative-led coalition has quickly established an alternative approach towards what ought to constitute the state's role in providing services, repeating the mantra that there is no justification, in any area of the public sector, for a state monopoly.[17] The scale and speed of change has been very controversial with a series of mass protests in defence of the public sector. Even the governor of the Bank of England has expressed concerns, telling the Treasury Select Committee in 2011 that the billions spent bailing out the banks and the need for public spending cuts were the fault of the financial services sector: '*The price of this financial crisis is being borne by people who absolutely did not cause it ... Now is the period when the cost is being paid, I'm surprised that the degree of public anger has not been greater than it has*.'[18] This section assesses the new anti-statist vision in four key areas - spending, employment, pay and pensions, and privatisation - and identifies the losers resulting from implemented and proposed reforms (table 1).

Public spending during the 2008-2009 recession continued its upward trajectory established by the New Labour government since 1999. Spending rises in the core areas of education and health were especially significant. During the period from 1999-2000 to 2007-2008, New Labour authorised annual spending increases averaging 6.4% and 5.2%, respectively.[19] This

[17] See, for example, *The Guardian* 11.07.2011, www.guardian.co.uk/society/2011/jul/11/.
[18] http://www.guardian.co.uk/business/2011/mar/01/mervyn-king-blames-banks-cuts.
[19] Data cited are 'total managed expenditures', own calculations using Public Expenditures Statistical Analyses (2009, sourced from HM Treasury (www.hm-treasury.gov.uk).

trend continued during the recession, suggesting that Gordon Brown and his team were applying Keynesian demand management, albeit in a relatively weak form. Again, focusing on education and health, the two years of the recession witnessed rises in real spending of 5.1% and 6.9% in education and 3.1% and 5.0% in health. Against a changed backdrop of austerity crisis during spring 2010 (the first hints of a sovereign debt crisis in Europe, the risk of default by the government in Greece, etc.) the incoming coalition government announced a medium-term plan of spending cuts on an unprecedented scale with the goal of eliminating the structural deficit by 2015-16, which had ballooned in part due to the banking bailout. Tax rises play a role in achieving this goal but are significantly outweighed by spending cuts by a factor of around four to one, the 2010 budget forecast spending cuts to account for 77% of total planned consolidation over the 5-year period (HM Treasury 2010: table 1.1). The plans set out a total reduction of £128 billion by 2015-16, consisting of spending cuts of £99 billion and a net increase of taxes of £29 billion (op. cit.: table 1.1). The largest cumulative cuts will be in the area of social protection (that is, welfare spending, see below).

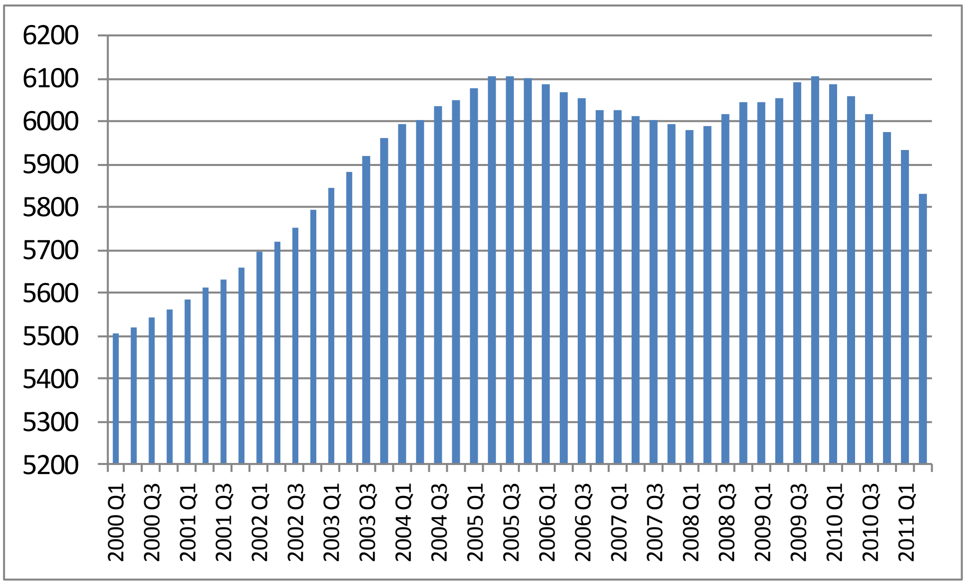
**Table 1. Change in public sector policy since 2008**

| | **New Labour policy** | **Conservative-led coalition policy** | **Losers from policy changes** |
|---|---|---|---|
| Public spending | Strong record of spending increases, continued during the recession 2008-2009 | Unprecedented spending cuts despite (because of?) absence of economic recovery | Regions outside London with high dependence on public sector economic activity |
| Employment | Increase in employment in line with spending rise, including during 2008-2009 | Planned jobs cut of 490,000 announced in the 2010 budget | Women lose more than men since over-represented in public sector; also represents a challenge to trade unions |
| Pay and pensions | 1-year pay freeze in 2010 and 1 percent cap during 2011 and 2012 for high paid groups | Pay freeze for all except the lowest paid who receive a small flat rate supplement; proposed increase in pension contributions and switch from a final salary to a career average pension | Public sector workers suffer a cut in real earnings, including the lowest paid, and substantial cut in pensions |
| Privatisation | Continued Thatcher´s programme of privatisation, especially in social care, Private Finance Initiative and outsourcing of ancillary services | Intensified approach backed by explicit ideology against 'monopoly state' provision | Public sector organisations likely to lose as private sector entrants cherry pick profitable activities |

The government's 2010 budget forecast a reduction of close to 10 percent (490,000 jobs) in public sector employment (OBR 2010: table 1). Current data available up to the second quarter of 2011 suggest this forecast will in fact be substantially exceeded. Approximately 270,000 jobs have been cut already since early 2010, an average rate of 45,000 per quarter, although it is notable that 105,000 jobs were lost in the second quarter of 2011 alone, half of which were in local government. If this rate of job losses continues over the 5-year period the UK will witness a total cull of 900,000 jobs from the public sector (figure 4). This represents a key win in the ideological battle around the role of the state as employer, with several policy institutes coming forward in the last couple of years to promote the argument that the public sector is parasitic on the private sector and on taxpayers and that it crowds out more entrepreneurial and innovative private and voluntary sector activities (eg. IoD 2011). It is also an ideological win in the battle against trade unions and the improvement of terms and conditions of employment through collective bargaining, since union membership is strongly biased towards the public sector; around three fifths of union members were in the public sector in 2010 (up from 52% in 1995) despite it accounting for less than three tenths of total employment.[20]

One group of losers from this radical reversal of state spending and investment in employment are those regions outside London where dependence of the local economy on the public sector is relatively strong. In several localities in the North East of England, Scotland and Wales, for example, the public sector accounts for more than 30 percent of employment, while the figure is less than 15 percent in many areas in the South of England. These localities tend be characterised by deprived living standards and high unemployment. The second group of losers is women since they are over-represented in the public sector – a ratio of around two to one compared to men (Matthews 2010). The continued rise in female unemployment despite the ending of the economic recession (figure 3a) is a clear signal of the stronger adverse impact of public spending cuts on women than on men.

**Figure 4. Trend in public sector employment, 2000-2011**




Source: ONS data, public sector excluding financial corporations, www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?dataset=lms.

Pay policy became a key focus during the recession under the New Labour government with press releases in late 2009 warning of problems of a 'culture of excess' among some of the higher paid groups. Recommendations by the independent senior salary pay review body for

[20] Labour Force Survey data for 2010 records 4.068 million union members in the public sector (density of 56%) and 2.467 million members in the private sector (density of 14%) (Achur 2011).

small pay rises for the affected groups – doctors and dentists, senior civil servants, senior military and judges - were rejected and the government instead implemented a pay freeze in 2010-11 followed by two years of a 1 percent cap on basic pay rises, estimated to generate £3.4 billion towards cutting the deficit.[21] The policy of pay freeze was picked up by the coalition government and applied more rigorously across all areas of the public sector for 2011 and 2012, with the exception of awarding a small fixed annual supplement of £250 to the lowest paid (annual earnings less than £21,000). What is interesting about the policy is that it received support by the ostensibly independent pay review bodies (separately constituted for the various professions, including teachers, health service workers, prison staff, and so on), which caused an outcry from trade unions on the basis that the pay bodies had failed to question government thinking and had thereby compromised their independent status[22]. With the retail price index running at around 6% in 2011, the pay freeze (and the small £250 supplement) will cause a significant erosion in real earnings over forthcoming years. The coalition government also intends to generate savings in pensions and has followed a course of first publicly attacking what it calls 'gold-plated' public sector pensions and then setting out a policy prior to negotiations with unions that seeks to increase workers' pension contributions and decrease the payouts, switching from a final salary scheme to a career average calculation.[23]

Finally, the coalition government has made far more explicit its determination to open up public services as a competitive market for new entrants from the private and voluntary sectors. While the foundations for a policy of marketisation were laid under the Thatcher and Blair governments, especially with the privatisation of elderly care services, the private finance initiative and various programmes of outsourcing of ancillary services across the public sector, the current reforms promise to go much further. In the health sector, for example, new legislation will on the one hand establish consortia of doctors who will be responsible for commissioning services from 'any willing provider' with the explicit objective of 'liberating provision of National Health Service services' and, on the other, expand the role of the current monitoring body to take responsibility for ensuring competition and access in procurement for health services. This particular reform has faced sustained criticism in the media and by both professional associations and trade unions.[24]

## 4. Active labour market policy

[21] Available from Hansard's written ministerial statements for 24 March 2010, www.publications.parliament.uk/pa/cm/cmtoday/cmwms/archive/100324.htm#hddr_15.

[22] For example, Unison said the NHS Pay Review Body was 'hidebound' by government 'diktat', the National Union of Teachers said the School Teachers Pay Review Body had 'colluded' with ministers and the Prison Officers Association argued the pay review body had failed in its duties by not compensating for prison officers' inability to take strike action (*Public Finance* 21 March 2011, www.publicfinance.co.uk/news/2011/).

[23] The proposed rises are tiered for different income groups – no change for incomes less than 15,000, up to 0.6 percent rise for 15,000-21,000 and up to 2.4 percent for the rest. The proposed payout is known as the career average revalued earnings scheme'.

[24] Unison, the largest public services union, argues the revised Bill (under review in the House of Lords at the time of writing) 'continues to permit competition in the health service based on price, encouraging private companies into the service to engage in a cost cutting frenzy that damages patient care. And the legislation continues to point a dagger at the NHS principles of equity and fairness, with private companies allowed to walk off with the most profitable contracts and private patients jumping the queue on NHS patients.' www.unison.org.uk/healthcare/pages_view.asp?did=13427.

Compared to other EU member states the UK has a patchy record in the area of active labour market policy. Various studies describe the UK approach as broadly non-interventionist with low levels of recorded expenditures (Bonoli 2010, Clegg 2010). Nevertheless, during the recession the New Labour government did apply a number of interventions (table 2). It continued funding for its provision of part-time childcare (up to 15 hours per week) for 3-5 year olds and provided special funding for childcare centres located in deprived neighbourhoods (known as Sure Start centers). In direct response to the recession it implemented three specific new programmes. First, the Young Person´s Guarantee that promised all young people unemployed for six months or more a job, training or work experience. This programme was underpinned by a £1 billion investment in a Future Jobs Fund to provide employers with a subsidy up to £6,500 in return for creating a full-time of more than six months duration. It focused in particular in supporting the long-term unemployed in areas of relatively high unemployment. The available evidence suggests it was relatively effective (HC 2010); it created 92,000 subsidised job starts during the period October 2009 to January 2011.[25] Second, the government increased funding to Job Centre Plus (the organizations that provide advice and distribute benefits to the unemployed) by £1.3 billion in late 2008 and a further £1.7 billion in the 2009 budget in response to the need to manage increasing volumes, as well as to fund additional long-term employment programmes (Hansard,20 July 2009).[26] Third, it introduced a Return to Work Credit in April 2008 for people coming off Employment Support Allowance of £40 per week (non taxable) for their first year of paid employment where gross annual earnings were less than £15,000 (which was a little above the 30th percentile in the wage distribution in 2008, ASHE earnings data).

**Table 2. Changes in active labour market policy since 2008**

| | **New Labour policy** | **Conservative-led coalition policy** | **Losers from policy changes** |
|---|---|---|---|
| Childcare | Continued funding for free childcare up to 15 hours per week plus special funding for Sure Start centres | 3-year freeze of child benefits; reduced funding for Sure Start centres; reduced percentage subsidy of childcare costs claimable through working tax credits | Low income working families, families in deprived localities and lone parents |
| Jobs subsidies | Future Jobs Fund provided up to £6,500 for employers who take on young unemployed people; Return to Work Credits for first 12 months in a low paid job for aged 50+ and lone parents | Abolished the Young Persons' Guarantee and accompanying Future Jobs Fund because too expensive; 3-year freeze of the basic Working Tax Credit; Return to Work credits for 50+ abolished; new funding for apprenticeships | Long-term unemployed youth and low-income families |
| Funding | Additional funds of £1.3 billion (2008) and £1.7 | Reduced funding for Job Centre Plus with expected | Users of Job Centre services and Job Centre staff who |

[25] Sourced from http://research/dwp.gov.uk.
[26] www.publications.parliament.uk/pa/cm200809/cmhansrd/cm090720/text/90720w0029.htm.

| | | | |
|---|---|---|---|
| | billion (2009) for increased volumes and new programmes at Job Centre Plus | 20% job losses | lose their job |

One of the most remarkable actions of the newly elected coalition government was to abolish New Labour´s flagship Young Persons' Guarantee and the associated Future Jobs Fund with effect from April 2011, despite the absence of an evaluation (subsequently commissioned and expected to report early in 2012) (Hansard, 8 July 2011[27]). While the scale of the programme's positive effect is debateable it is not doubted that it made a positive contribution to restraining the rise in youth unemployment. Moreover, the coalition government cut funding for Job Centre Plus organisations and for childcare centres with the expected consequences involving job losses of around 20% of people working in job centres (approximately 2,500 people in order to fit with the government's mistaken projections of a smaller caseload given forecasted falling unemployment in 2011, as well as the desired productivity improvements from fewer people working harder) and the closure of an estimated 250 Sure Start centres out of a total 3,500 in England.[28]

The coalition has nevertheless introduced two programmes which serve as a partial replacement. First, in the 2011 budget it committed £180 million to fund up to 50,000 apprenticeship places for young people. Second, the government claims that its new 'Work Programme', introduced in June 2011, is a superior mechanism for incentivising job creation. Described as 'the centre-piece of the Government's plans to reform welfare-to-work provision in the UK' (DWP 2010: 2), it pays job search organisations three tiers of tariffs for successful job placements and sustained employment, instead of providing a subsidy to the employer or to the job seeker. It thus heralds a privatization of the work formerly undertaken by Job Centre Plus (as part of the Department for Work and Pensions[29]) and has issued 40 contracts, each valuing £10-50 million, to the usual global business services firms to run the programme in each region. For example, in the North West of England, Avanta, G4S and Seetec won the contracts. The government claims that having at least two job search organizations in each region 'will ensure there is ongoing competition between providers to drive up performance' (op. cit.: 6).

## 5. Worker rights

A reasserted neoliberalism since the coalition government came to power is clearly seen in the area of worker rights. In the two areas of job security and protection for outsourced workers, both of particular importance during the ongoing depression with downsizing and marketisation of an increased range of public services, the government has implemented or intends to implement a weakening of worker rights (table 3). The previous government had reduced the period of continuous employment that applied to workers wishing to claim unfair

[27] Sourced from the written evidence from the Permanent Secretary, Department for Work and Pensions, www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/.

[28] On the Sure Start closures see *Public Finance* 7 April 2011, www.publicfinance.co.uk/news/2011/.

[29] As part of this change the website for the Department for Work and Pension has been reformed to include a special section for business suppliers of DWP services.

dismissal from 24 to 12 months but this has now been reversed. The policy change is justified by government on the basis that it encourages employers to hire without the risk of wasting time and resources in tribunal cases. However, it is unclear why the government is willing to provide an extra 12 months grace to employers who break the law and dismiss people illegally. The coalition government is also seeking to reduce the minimum consultation period for collective redundancies (more than 20 workers in a single establishment) from 90 to 30 days in a further effort to weaken job security. Why this has provided such a strong area of focus for the government when the UK was already ranked bottom among OECD countries, alongside Canada and the US, in strength of employment protection rights remains unclear (see Venn 2009).

Staff transferred as part of outsourcing contracts – a very common practice in the outsourcing of cleaning, catering and security services from public to private sector organizations, as well as IT outsourcing – have enjoyed protection of basic terms and conditions at the point of transfer under TUPE legislation.[30] Shortly before the recession the New Labour government supplemented this basic protection through agreements with unions in the public health sector and local authorities by implementing a 'Two-Tier Code' designed to extend the employment conditions and pensions agreed in public sector collective agreements to all private sector contractors providing outsourced services. Because the collectively agreed rates paid to low-wage occupational groups in these two sectors have been significantly above the statutory minimum wage (which tends to be the going rate paid in the private sector – see Low Pay Commission 2010: 69), the Code had a significant impact in raising pay and conditions for low-wage workers. However, the coalition government abolished the Code with effect from 2011, arguing, remarkably, that it 'did little to protect staff'.[31]

**Table 3. Changes in worker rights since 2008**

| | New Labour policy | Conservative-led coalition policy | Losers from policy changes |
|---|---|---|---|
| Job security | No change | Unfair dismissal period increased to 24 months; proposal to reduce consultation period for collective redundancies | Workers with limited job experience dismissed unfairly (especially youth) |
| Outsourcing protection | Supported health sector collective agreement that extended conditions to private sector contractors (Two-Tier Code) | Abolished the Two-Tier Code; questioning applicability of EU TUPE legislation | Workers transferred from public to private sector with outsourcing of services |
| Working time and maternity leave | Continued policy of right to request flexible working for workers with young children; new options for shared paternity leave | Extended right to request to all workers with children under age 17; extended options for shared paternity leave | n.a. |
| Low wage protection | Implemented below- | Implemented below- | No policy change but |

[30] The Transfer of Undertakings Protection of Employment legislation, implemented in the UK as part of the EU Acquired Rights directive (revised in 2006).
[31] Statement by Francis Maude, Minister for the Cabinet Office, cited from the Cabinet Office website, www.cabinetoffice.gov.uk/news/two-tier-code-withdrawn.

| | | | |
|---|---|---|---|
| | inflation rises recommended by the Low Pay Commission | inflation rises recommended by the Low Pay Commission | low paid lose from fall in real value of minimum wage |

In the other two selected areas shown in table 3 the coalition government has as yet not acted to weaken worker rights. Indeed, in the case of maternity and paternity leave, it is seeking to follow in the direction of previous reforms implemented by Gordon Brown, announced just prior to the 2010 election, which allow fathers to share the remaining six months of maternity leave with mothers who return to work (implemented in April 2011). The new proposals, to be implemented in 2015 if agreed, seek to establish greater flexibility in the sharing of leave, including the possibility that both parents take more than two weeks of leave simultaneously. This appears to be the only area where the influence of the Liberal Democratic party within the coalition government appears to have had some purchase. Similarly, with respect to the statutory national minimum wage, the coalition government has not implemented any policy change. It does have the right to reject the minimum wage rise recommended by the independent Low Pay Commission but in its first opportunity to do so in April 2011 it in fact accepted the recommended rises in rates for adults, youths and apprentices. The response was in part because the 2.5 percent increase in the adult rate was very modest and significantly below expected inflation for 2011, but also because while the Conservative party opposed the minimum wage in the past its 2010 election manifesto made an explicit commitment of support.

## 6. Welfare benefits

What distinguished the New Labour government´s approach to the provision of welfare benefits was a continuation of a legacy of providing a low level minimum floor with reliance on means testing for most benefits but complemented by an explicit policy focus on reducing the rate of poverty, particularly among children. The reforms since 2010 suggest an abandonment of poverty targets (although this has not been admitted publicly), a diminishing of the value of minimum floors and the planned implementation of a new, less generous 'universal benefit' that unifies benefit and in-work tax credit payments (table 4). In this fourth policy area it is again possible therefore to witness a reinforcing of neoliberal principles (especially the discipline of work and access into deregulated labour markets) and the ridding of the 'human face' to New Labour´s approach constituted by improved minimum income levels and more resources for children in low-income families.

Despite growing numbers of unemployed during the recession, New Labour did not consider implementing even a temporary improvement in benefits to unemployed people. Other countries did make such a pragmatic policy response, including France and the Netherlands, for example (Gautié 2011). The coalition government has gone one step further, however, and from April 2011 switched the inflation index that regulates annual increases in unemployment benefits from the Retail Price Index, which includes housing costs, to the Consumer Price Index, which is typically one or two percentage points lower. Indeed, this change in the uprating index has been applied across a sweep of benefits, including housing benefits and Working Tax Credits (although the basic element has in fact been frozen for three years). The expectation in the 2010 budget is that this change will generate a significant saving, estimated to contribute one third of the total planned saving in welfare spending.

Housing benefits are another key area of spending cuts promising increased immiseration among low-income families under the coalition government. Several changes are planned or have already been implemented including a highly controversial new cap fixed at the 30th percentile of local rents, the radical introduction of time-contingent benefits reductions and an increase in the age threshold (from 25 to 35 years old) for those seeking to claim independent accommodation. The maximum cap introduced in April 2011 was greeted with outcry among many commentators who pointed to the likely 'social cleansing' of many affluent neighbourhoods along with a rise in homelessness (eg. Polly Toynbee writing in *The Guardian*[32]). The introduction of time-linked housing benefits is completely new and (in an explicit mimicry of aspects of US welfare policy) reduces housing benefits by 10 percent for each year the claimant is without work. Moreover, the switch in index to the CPI means that benefits will be far outpaced by rising rents, which in the last decade outstripped the CPI measure by a factor of more than three to one.

**Table 4. Changes in welfare benefit policy since 2008**

| | **New Labour policy** | **Conservative-led coalition policy** | **Losers from policy changes** |
|---|---|---|---|
| Unemployment benefits | No improvement | Switch to CPI inflation index reduces real value considerably; planned new Universal Benefit | People claiming unemployment benefits |
| Housing benefits | No improvement | New cap at 30th percentile of local rents; time-based reductions in benefits; switch to CPI index; increased age threshold for shared accommodation; | Low income households both in work and out of work |
| Lone parents out of work | `Work First' approach increased value of benefits alongside new pressures to find work by reducing eligibility to income support by age of child (up to age 11 in 2008 and age 9 in 2009) | Reduced real value of benefits; further pressure on lone parents to enter work by reducing eligibility to income support only to those with children less than six | Lone parents |
| Disabled out of work | New health test required for means-tested benefit in 2008, Employment Support Allowance | Abolished mobility allowance; stringent application of new health test | Non-employed disabled people |

[32] Toynbee goes further and claims that '*Ministers know what will happen, since the housing minister has set aside £10m to £12m for "transition costs" – the cost of removing families and their belongings from London boroughs to places like Hastings, or Shoeburyness. London councils told the work and pensions committee that they are already block-booking bed and breakfast and cheap properties in far away places*.' (25 October 2010, *The Guardian*).

This policy area is proving a major battle ground and one where the coalition government appears most determined to enact a radical shrinking in state support for those with social and economic needs. Its approach also extends to the most vulnerable groups with specific needs, such as lone parents and people with physical disabilities or mental health problems. Both groups are experiencing a fall in real value of their benefits because of the new uprating index. Lone parents with children as young as seven years and over since October 2010 lose entitlement to income support and must therefore join the ranks of the unemployed. People with disabilities out of work had their mobility allowance cut, described by one respected social policy commentator, David Brindle, as 'the meanest cut of all'.[33] Moreover, the coalition government is proceeding more vigorously with a policy reform initiated by the previous government aimed to reduce the number of disabled people reliant on income support and move them into the labour market. The speed and aggressiveness of the government´s handling of this programme has generated considerable anger and frustration among relevant associations representing the interests of people with disabilities, especially concerning the poor quality of the health test and its non-suitability for people with cancer and mental health problems in particular.[34]

## 7. Summary and conclusion

In place of directing its energies towards designing regulations to recoup taxpayer losses from bailing out the banks, the Conservative-led coalition government instead turned the tables with a determined attempt to recoup the losses through radical cuts in public expenditures on a scale that, according to IMF data, promises to take the level of state intervention below that of the United States within five years (Taylor-Gooby and Stoker 2011). The current policy reforms are undoubtedly therefore indicative of a radical change in approach. The cuts represent an assault on the incremental development of various publicly provided goods and services to UK citizens, establishing a clear change in the expected conditions of what welfare state scholars refer to as a country´s social settlement (eg. Lewis 2007). At the same time, while the previous government made a half-hearted attempt to intervene in the labour market as the recession gathered pace, to assist the young and the unemployed in particular, as well as to shore up social safety nets, the coalition government has since 2010 pursued a strongly deregulatory agenda, abolishing many high profile active labour market programmes and cutting the real value of welfare benefits despite the ongoing economic depression.

The most high profile indicator of likely consequences of the policy reforms is the share of people living below the poverty threshold. One of the last pieces of legislation passed by the New Labour government, with cross-party support, was The Child Poverty Act, which sets a series of poverty targets to be achieved by 2020. What is clear, however, is that the policy reforms imposed since 2010 in order to eliminate the structural budget deficit will reverse past progress in reducing poverty. The independent Institute of Fiscal Policy forecasts a rise

[33] Cited from *The Guardian* newspaper (12 January 2011).
[34] See, for example, the report by the organization Citizens Advice (2010) and the statements by the organizations representing people with mental health problems, Mind, Mencap and the National Autistic Society on their websites.

in relative poverty among children and working-age individuals of around 800,000 and a rise in absolute poverty of around 900,000 between 2010-11 and 2013-14 (Brewer and Joyce 2010). Beyond 2013-14, there is a strong likelihood the upward trend in poverty will continue as a result of the falling real value of welfare benefits and the diminished capacity for workers to bargain for better pay and working conditions. Moreover, other adverse consequences arising from cuts in public services are less visible, but nevertheless apparent to users of worse quality and less accessible services in health and social care, local government services and public infrastructure, in particular. What we are witnessing, therefore, is a radical shift in orientation of the UK employment and welfare model towards a clearer domination of neoliberal principles in framing the rules and a raft of adverse consequences especially for vulnerable groups in UK society. Whether or not groups in UK society can mount a concerted campaign of resistance remains to be seen.

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