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The Legitimation of Post-Crisis Capitalism in the United Kingdom: Real Wage Decline, Finance-Led Growth and the State

Abstract

Since the 2008 financial crisis, capitalist development in the UK has been marked by both continuity and change. Whilst the Coalition government effectively re-established the UK's 'finance-led' growth model, it simultaneously broke with the legitimation strategy which New Labour had advanced in the pre-crisis conjuncture. The Coalition advanced a distinctive 'two nations' strategy which sought to secure a limited but durable base of support in a context of fiscal consolidation. This strategy was conditional upon the deep and unprecedented period of real wage decline which took hold in the post-crisis conjuncture. However, the Coalition successfully transformed this potential liability into a political asset, constructing a series of 'moralised antagonisms' between wage earners and welfare recipients, on the one hand, and private and public sector workers, on the other. Whilst this strategy secured a limited base of popular support, it also re-embedded a series of structural weaknesses within post-crisis UK capitalism. These imbalances are likely to undermine the stability of the UK's finance-led growth model in the future and will condition British politics as the country embarks upon the process of leaving of the EU.

Introduction

Since the 2008 financial crisis, the UK economy moved from a phase of prolonged stagnation towards a putative recovery. Although steady economic growth returned in 2013, there were clear signs that all was not well within post-crisis UK capitalism (Green & Lavery, 2015). The Coalition government² set itself the objective of 'rebalancing' the UK economy away from debt and domestic consumption and towards rising private investment and net trade (Osborne, 2010). However, when growth returned, it was delivered through increased levels of domestic consumption, falling household savings and rising private debt (Berry & Hay, 2015). The financial sector's share of total UK output increased whilst industrial production failed to surpass 2008 levels. For these reasons, it has been argued that the Coalition effectively re-established the dysfunctional 'finance-led' growth model which had been in place throughout the pre-crisis conjuncture (Gamble, 2015; Hay, 2013a, p. 81; Montgomerie & Büdenbender, 2015).³

Amidst this continuity, there has also been a discernible shift in the ways in which post-crisis UK capitalism has been sustained and legitimised by policymakers. Drawing on Bob

Jessop's early work on the UK's political economy – and in particular on his distinction between 'One Nation' and 'Two Nations' projects – the article argues that the Coalition deployed a distinctive *legitimation strategy* in the post-crisis conjuncture (Jessop et al., 1988; Jessop, 1990).⁵ Whilst the Coalition effectively re-established the conditions for a renewed wave of finance-led growth in the UK, it broke with the legitimation strategy which New Labour had deployed in the pre-crisis conjuncture. New Labour had advanced a distinctive 'One Nation' legitimation strategy which attempted to build a popular base of support through increasing spending on public services and by engaging in limited forms of redistribution.⁷ In contrast, the Coalition advanced a qualitatively distinct 'two nations' legitimation strategy which sought to secure a base of support by constructing a series of 'moralised antagonisms' between two distinct sets of social groups: workers/welfare claimants on the one hand and private/public sector workers on the other. Crucially, the deep and unprecedented period of real wage decline which occurred between 2008 and 2015 in the UK created the conditions which allowed for the mobilisation of this 'two nations' legitimation strategy.⁸ This allowed the Coalition to transform a potential liability – deep real wage decline and the attendant drop in UK living standards – into a political asset, deploying this distributional shift in order to justify a series of regressive interventions into the UK's labour market and welfare system.

This argument is substantiated empirically through an analysis of welfare restructuring and public sector retrenchment under the Coalition. In the immediate aftermath of the 2008 crisis, the incomes of wage earners declined more rapidly than the incomes of out-of-work households. The Coalition exploited this novel distributional context in order to mobilise support for its programme of welfare retrenchment, constructing a series of 'moralised antagonisms' between 'workers' and 'welfare claimants'. At the same time, public sector pay growth was (temporarily) protected relative to pay growth in the private sector. The Coalition exploited this novel distributional context in order to mobilise support for sustained rounds of public sector employment retrenchment and pay cuts. In both cases, the Coalition advanced a distinctive 'two nations' legitimation strategy which aimed to secure a popular base of support

for its political programme. However, this strategy also re-embedded a series of structural weaknesses⁹ at the heart of post-crisis UK capitalism.

The argument proceeds as follows. Section One advances a distinctive account of the relation between distribution, legitimation and the state, focussing on the ways in which policymakers can *actively shape* and *discursively construct* underlying distributional processes in order to build support for a given political programme. Section Two argues that New Labour established a distinctive ‘hybrid’ regime of social and economic development in the pre-crisis period which combined a ‘finance-led’ growth model with a ‘One Nation’ legitimation strategy. Section Three turns to the post-crisis conjuncture and argues that whilst the Coalition effectively re-established the UK’s finance-led growth model, it simultaneously deployed a distinctive ‘two nations’ legitimation strategy in office. This strategy attempted to secure a popular base of support by constructing a series of ‘moralised antagonisms’ between workers/welfare recipients and private/public sector workers. In this way, the Coalition transformed a potential liability – the UK’s unprecedented decline in real wages – into a political asset. The final section concludes, highlighting some of the implications of the analysis for future research into post-crisis capitalist development in the UK and further afield.

Distribution, Legitimation Strategies and the State

Within advanced capitalist societies, policymakers¹³ at the peak of the executive and legislative branches of the state apparatus are driven to secure the conditions for continued *accumulation* and *legitimation* over time (Block, 1981; Habermas, 1975; O’Connor, 1973).¹⁴ If these conditions are not established, threats to the prevailing social and economic order are likely to emerge. However, neither of these outcomes emerges ‘automatically’ as the result of agentless, ‘structural’ processes. State managers play a key strategic role in securing both economic growth and the legitimation of the prevailing social order. As Jessop argued in his earlier work, a useful analytical distinction between different forms of state intervention can be drawn in this regard. *Accumulation strategies* refer to attempts by policymakers to privilege

certain economic sectors, subjectivities and patterns of development over others (Jessop, 1990, p. 198). *Legitimation strategies*, on the other hand, refer to more comprehensive programmes oriented towards securing a popular base of support within society.

A legitimation strategy can be defined as a relatively coherent and integrated governing programme which seeks to secure a base of popular support within society (Gamble, 1988, p. 1; Gramsci, 1971). Such programmes attempt to mobilise a base of popular support by constructing themselves as in the 'general' interest of society as a whole. This construction of a 'general' interest can be achieved through both ideological and distributional mechanisms (Jessop, 1990). Through the dissemination and cultivation of 'common sense' ideas, policymakers can seek to build support for their favoured programme of development.¹⁵ Similarly, governments can channel resources to strategically significant sections of the social base in order to integrate subordinate groups into their governing programme. Therefore, growth models which might otherwise exclude large swathes of the population can be flanked by discretionary forms of redistribution which serve to (partially) incorporate subordinate social groups and stabilise capitalist development.

The question of distribution lies at the heart of legitimation strategies. However, the state's position as a distributional agent is curiously absent within the literature on the UK's political economy and in particular within those accounts which identify and critique the UK's 'finance-led' growth model (Crouch, 2009; Hay, 2013b; Montgomerie & Büdenbender, 2015; Watson, 2010, p. 415). This omission is perhaps surprising. After all, the core dynamic underpinning the UK's regime of 'privatised Keynesianism' – the expansion of private debt as a substitute for real wage growth – is at its core a distributional claim (Crouch, 2009; Hay, 2013b). However, the growth model perspective conceives of the state's relation to this dynamic in largely functionalist terms. Government policy is presented as bringing about the *conditions* for finance-led expansion, for example through liberalising capital markets or through implementing counter-inflationary policy. But the state's position *itself* as a site of distributional

agency – exemplified by its capacity to impose tax liabilities or to expand public expenditure – is not itself explicitly theorised within the growth model perspective.

The state's capacity to shape distributional processes is rooted in its formal separation from the economy (Jessop, 1990). Within advanced capitalist societies, there exist socially determined and legally codified limits on the legitimate scope of government intervention within the 'private sphere' of economic activity. This means that the capitalist state is in essence a 'tax state' (Gamble, 2014; O'Connor, 1973). If it is to perform its core functions – for example to maintain social order or to provide basic services – it must ensure that the conditions for continued taxable economic activity are in place (Gough, 1985). Consequently, government policies are likely to be strongly shaped by the preferences of business (Block, 1981; Przeworski, 2014). At the same time, state managers must also navigate the social and political demands of strategically significant social groups, represented for example by entrenched welfare coalitions or by powerful electoral constituencies. The capitalist state is therefore not contingently implicated within distributional processes. The capitalist state is *necessarily* a distributional state, driven to relentlessly engage in forms of intervention which privilege certain social groups and economic fractions whilst imposing costs on others.

State managers can attempt to secure legitimation through two key mechanisms: through *actively shaping* and *discursively constructing* distributional processes. Policymakers can *actively shape* distributional processes by exercising core macroeconomic policy functions. The state's capacity to impose tax liabilities, to shape credit conditions through monetary policy and to target strategically significant social groups through discretionary expenditure programmes together represent crucial mechanisms through which governing legitimacy can be secured. For example, in a context of economic growth, policymakers can choose to cut taxes or increase public expenditure in order to bolster their base of support.¹⁷ In addition, policymakers can *discursively construct* underlying distributional trends in order to secure a base of popular support. Capitalist expansion involves the constant disruption of established social and

distributional relations (Peck et al., 2013; Polanyi, 2001). However, these reconfigurations do not independently produce patterns of social and political change; they must be interpreted and acted upon by social agents (Hay, 2016, p. 528). Policymakers within the 'peak' executive and legislative branches of the state play a crucial role in this regard, insofar as they are well-placed to construct and give political meaning to underlying distributional processes in ways which advance their own strategic objectives (Hay, 2014).

The state's position as a site of distributional agency gives rise to two 'ideal typical' forms of legitimation strategy, originally identified by Jessop in his early work on Thatcherism (Jessop, et al., 1988; Jessop, 2002). On the one hand, Jessop identifies what he terms 'One Nation' strategies. These aim for an 'expansive' hegemony which seeks to build a mass base of support through channelling 'material concessions' and 'symbolic rewards' to the social base (Jessop et al., 1988, p. 168; Jessop, 1990, p. 207). In contrast, 'two nations' legitimation strategies - of which Thatcherism was a leading example - seek to secure a more 'limited' hegemony (Jessop, 2016). Projects of this form seek to secure the support of strategically significant sections of the population by actively constructing the interests of a 'privileged' social bloc as contingent upon the retrenchment of the position of a subordinate 'Other'. As such, 'two nations' legitimation strategies seek to discursively construct what I term 'moralised antagonisms' between relatively privileged and subordinate groups.

The distinction between 'One Nation' and 'Two Nations' legitimation strategies provides us with a useful analytical device through which to interrogate processes of continuity and change within advanced capitalist societies. However, it is necessary to offer a number of qualifications to the concept before proceeding to the empirical analysis.

First, policymakers (at least within the modern democratic state form) are typically driven to justify their interventions in terms of a 'national' or 'general' interest; at the same time economic policy interventions *necessarily* involve the privileging of some social groups over others.¹⁹ As such, evidence of both 'One Nation' and 'Two Nations' strategies are likely to be

found across all advanced capitalist social orders. The predominance of one legitimation strategy over another can be established only through concrete empirical research.

Second, the concept of a legitimation strategy should be distinguished from the narrower concept of an electoral strategy. As outlined by the 'statecraft' approach, elites' attempts to secure re-election can strongly condition the content of their economic policies (Gamble, 2014a; Griffiths, 2015; Heppell & Seawright, 2012). However, this attentiveness to the link between electoral strategy and economic policy tends to focus on short-term, 'day-to-day' political manoeuvrings. In contrast, the concept of a legitimation strategy seeks to capture how the strategic orientation of state managers is conditioned by underlying, longer-term distributional trends. For example, as shall be argued subsequently, the unprecedented decline in real wages between 2008 and 2015 produced a context within which the Coalition could justify sustained cuts to welfare payments and public sector pay and employment.²⁰ In contrast to 'statecraft' approaches, then, the legitimation strategy concept seeks to uncover the ways in which underlying, longer-term distributional dynamics interact with and can shape state strategy over relatively prolonged periods.

The legitimation strategy concept therefore operates at both an abstract and more concrete level of analysis. At the more abstract level, it seeks to capture the relation between *distribution, legitimation* and *the state*. It abstracts from the daily tactical manoeuvres made by policymakers and seeks, instead, to establish the ways in which recurrent 'patterns' of state intervention oriented towards securing legitimation can emerge and assume a relatively coherent form over time. The claim is *not* that policymakers work with a pre-given legitimation strategy that functions as a kind of pre-planned 'blueprint' in office. *Ad hoc* manoeuvrings and short-term tactical 'fixes' are always evident within policymakers' interventions. Nonetheless, underlying distributional shifts can give rise to distinctive *strategic orientations* which can in turn become an embedded feature of the political landscape. These recurrent patterns of state intervention can give rise to relatively coherent regimes of legitimation over time. The 'One

Nation' / 'Two Nations' distinction therefore embodies a useful heuristic device through which we can distinguish – in necessarily broad terms – between the 'characters' of distinctive legitimisation strategies across different phases of capitalist development.

In more concrete terms, the legitimisation strategy concept can be operationalised by focussing on the ways in which policymakers seek to *actively shape* and *discursively construct* distributional processes in order to secure a base of popular support within different historical conjunctures. This involves conceptualising state managers' interventions as being embedded within and conditioned by underlying, longer-term distributional shifts. The remainder of this article advances a distinctive account of the Coalition's legitimisation strategy in office with this in mind. In particular, it outlines the ways in which a sustained period of real wage decline throughout the post-crisis conjuncture created a context whereby the Coalition could attempt to secure a popular base of support by entrenching a series of 'moralised antagonisms' between distinct social groups.

New Labour's 'One Nation' legitimisation strategy

In the pre-crisis conjuncture, New Labour established a distinctive 'hybrid' regime of social and economic development within the UK. On the one hand, New Labour advanced a finance-led accumulation strategy. The Blair and Brown governments actively privileged the preferences of international creditor institutions and encouraged financialised patterns of economic expansion (Brassett, et al; Green & Hay, 2015). This was reflected in Labour's 'light touch' regulation of the City and in its efforts to cultivate 'financialised subjectivities' amongst UK citizens (Brassett et al., 2009; Talani, 2012). Financial services emerged as a key driver of growth and a crucial source of tax revenue for the Treasury in this period, with the City's trade surplus rising from £8.7 billion to £25.1 billion between 1996 and 2006 (Shaw, 2012, p. 231). Bank balance sheets tripled between 2000 and 2006 whilst the UK sustained the highest level of private debt amongst the advanced economies (Thompson, 2013, p. 477).

New Labour's programme was simultaneously organised around a distinctive – albeit imperfect and limited - 'One Nation' legitimisation strategy. This strategy sought to secure and extend New Labour's popular base of support by channelling material concessions to the social base through public expenditure increases and targeted fiscal interventions.²¹ From the March 2000 Budget onwards, the Labour Chancellor Gordon Brown began to increase spending on public services substantially. Between 2000 and 2005, New Labour increased real terms spending by 8.1% per year on the NHS and 6.1% per year on education (Tomlinson, 2012: 210; see also: Hindmoor, 2004: 106). This legitimisation strategy was driven by a range of political considerations, including internal party pressures, electoral calculations and a residual commitment to some redistributivist social goals.

New Labour's 'One Nation' legitimisation strategy served to incorporate social groups who might otherwise have been relatively excluded from the dominant finance-led growth model. This was reflected in the changing composition of the UK's labour market throughout the pre-crisis conjuncture. Public sector employment increased by 700,000 throughout the New Labour period (Cribb et al., 2014: 7). At the same time, 57 per cent of net job creation was concentrated in sectors which were in large part or wholly dependent upon public funding (Buchanan et al., 2009: 16). This form of 'para-state' work became increasingly important in the ex-industrial regions, where autonomous private sector job creation was particularly weak (Tomlinson, 2012a, 2012b). For example, in the North East of England, 73.1 per cent of net job creation was in the state or para-state sectors, whilst in the West Midlands the figure was 179 per cent as autonomous private sector employment effectively contracted (Ertürk et al., 2011: 11). This expansion of public expenditure and state-led employment was paralleled by a range of redistributive social policies which channelled resources to low-to-middle income households (Corry, 2011: 132; Gamble & Kelly, 2001: 181). These policies played a key role in reducing child poverty and contained (to a limited extent) inequality growth relative to the previous Conservative government (Sefton et al. 2009: 44). The UK's finance-led growth model therefore developed in *combination* with a legitimisation strategy which sanctioned a sustained

expansion of spending on public services, driven primarily by large increases in the health, education and transport budgets (Chote et al., 2010, p. 1). For example, between 1997 and 2008, real terms spending on the NHS increased by 6.3 per cent per annum and spending on education increased by 4.3 per cent on average (Smith 2014: 605). This represented the largest increase in spending on services of any peacetime UK government (Tomlinson, 2012b, p. 210).

New Labour's 'hybrid' regime of development played a key role in stabilising pre-crisis UK capitalism. The state did not simply facilitate financialisation processes in line with a 'finance-led' accumulation strategy. It was also oriented towards securing popular support through actively shaping distributional processes. This resulted in a recycling of resources to subordinate social groups who might otherwise have been excluded from the dominant financialised growth model. However, the 2008 crisis undermined this hybrid regime of development. As tax revenues declined and the budget deficit rapidly appreciated, the mechanisms which had temporarily and provisionally stabilised pre-crisis capitalism came under intense pressure. The phase which followed – the post-crisis conjuncture – saw the Coalition government effectively re-establish the UK's finance-led growth model. However, this period also involved a qualitative shift to a new legitimisation strategy which would re-embed a series of structural weaknesses within the emergent framework of post-crisis UK capitalism.

The Coalition's 'Two Nations' Legitimation strategy

When David Cameron assumed the Conservative Party leadership in 2005, he initiated a 'modernisation' process in order to overcome the perception that the Conservatives were unfit for office (Dommett, 2015). Between 2005 and 2007, the Conservative leadership pursued a strategy of policy emulation which aimed to incorporate core elements of New Labour's policy platform into the Conservative's position (McAnulla, 2010). A key dimension of this strategy was to counter claims that the Conservatives would neglect key public services and cut public expenditure (Gamble, 2012, p. 62). At the 2006 Party conference, Osborne tackled tax-cutting agitators on the right of the Party, arguing that, "we will never [win the argument on the

economy] if people believe our tax policy comes at the expense of their public services...to those who still want us to make upfront tax cuts now, we say: we will not back down" (Osborne, 2006). In accordance with this approach, in September 2007 Osborne committed to match Labour's spending plans for the subsequent three years (Barker, 2007). As such, in the first two years of the Cameron opposition, the Conservative Party incorporated key elements of New Labour's 'One Nation' orientation – at least insofar as this was exemplified by its commitment to increasing expenditure on public services – into its own political programme.

As documented within the UK political studies literature, the 2008 crisis generated a marked reorientation in the Conservative opposition's political and economic strategy (Dorey & Garnett, 2012; Gamble, 2010; Hay, 2010; Kerr et al., 2011, p. 200; McAnulla, 2010). Conscious that Labour's economic credibility had been threatened by the 2008 crisis, Osborne and Cameron quickly abandoned the strategy of 'policy emulation' in favour of a strategy of *differentiation* from the incumbent Labour government (Dorey, 2009: 266). The key shift took place in November 2008, when the Conservatives opposed Brown's 'Keynesian' fiscal stimulus package on the grounds that it would add unacceptably to the public debt and deficit (McAnulla, 2010: 291). Subsequently, the Conservatives sought to 'frame' the crisis as 'Labour's debt crisis', arguing that the severe economic downturn had been caused by reckless borrowing and spending by profligate Labour budgets (Hay, 2013). This narrative increasingly assumed the core organising principle of Conservative strategy in both opposition and subsequently in government (Gamble, 2014a). However, whilst this strategy consolidated the Conservative's position as 'credible' custodians of the public finances, it also sharply delimited the kind of legitimisation strategy which the Party leadership could deploy in office.

The Conservatives came to power as senior partners in a Coalition government with the Liberal Democrats after the May 2010 general election. From the outset, the Coalition's economic strategy was dominated by the Conservative leadership (Bale, 2011: 6; Gamble, 2012: 64). In the first year of the new parliament, the Chancellor Osborne outlined how he planned to

rejuvenate the UK's ailing economy. He set himself two key objectives. First, in his June 2010 Budget he promised to eliminate the budget deficit within one parliament (HM Treasury, 2010a). Second, he pledged to 'rebalance' the UK economy: to move the UK's economic model away from its reliance on consumption and debt-fuelled growth and to establish a new growth model, based on exports, increased savings and private investment (Osborne, 2010). However, by the end of the parliament, neither of these objectives had been achieved (Berry & Hay, 2015; Lee, 2015). Instead, the Coalition effectively re-established the 'finance-led' growth model which had been in place throughout the pre-crisis conjuncture (Gamble, 2012: 73, 2014: 14; Grimshaw, 2013; Hay, 2013a). Real wage repression not only continued but intensified, with real wages declining by 8 per cent between 2008 and 2014.²² At the same time, asset-price inflation continued, sustained by low interest rates, successive rounds of Quantitative Easing (QE) and through the deployment of a range of discretionary 'credit easing' measures (Green & Lavery, 2015; Schwartz, 2015: 44). In a context of deep real wage decline, loose monetary policy and declining savings rates, it was calculated that household debt-to-income ratios were set to surpass their pre-crisis peak by 2019 (OBR, 2015: 73). 'Privatised Keynesianism mark II' had emerged in the UK - with all the deleterious consequences which that entailed (Hay, 2013a, p. 81).

However, this underlying continuity was paralleled by a distinctive shift in the legitimisation strategy deployed by the Coalition in office. In the June 2010 Budget, the Conservatives - with the assent of their coalition partners, the Liberal Democrats - began to implement a large austerity programme. Spending cuts as opposed to tax increases accounted for 77 per cent of deficit reduction (Gamble, 2014; HM Treasury, 2010a: 15). The envisioned scale of the fiscal consolidation was larger than any other programme of fiscal retrenchment in modern UK history (Ferry & Eckersley, 2012: 21; Lee, 2011b: 21). Even the NHS, which was protected relative to other departments, saw the tightest squeeze on its real terms budget since the 1950s (Lee, 2011a: 15). The majority of government departments faced cuts of 19 per cent over the following four years which implied that 'public service spending [would decline]

rapidly as a share of national income, falling from 31.7% in 2009–10 back to 25.6% of national income in 2014–15' (Crawford et al., 2011a: 135).

The Coalition's austere strategy was not without its risks. Large-scale fiscal consolidation ensured that the Coalition was committed to an economic programme which ostensibly imposed large losses on broad swathes of the population (Stanley, 2016: 2). The key political question for the Coalition was therefore how it might sustain a base of support whilst simultaneously reducing the incomes of large swathes of the population. As shall be argued below, the Coalition's retrenchment programme was sustained through the deployment of a distinctive 'two nations' legitimisation strategy. Crucially, this strategy sought to transform the sustained decline in real wages from a potential liability into a political asset, utilising this deflationary context in order to cultivate a series of 'moralised antagonisms' in relation to two social groups in particular: working age welfare claimants and public sector workers.

Workers and Working Age Welfare Recipients

Spending on welfare typically accounts for approximately 30 per cent of public expenditure in the UK (IFS, 2014c).²³ From the beginning of the parliament, the Coalition placed reducing the size of the welfare bill at the centre of its deficit reduction programme.²⁴ The principal area of welfare which became earmarked for cuts was working age benefits (Cameron, 2012).²⁵ The Coalition's 'two nations' legitimisation strategy aimed to mobilise support for its deflationary economic programme by passing the burden of retrenchment onto this social group. The context of sustained real wage stagnation was crucial to the emergence of this strategy. As outlined in Figure 1, between 2007 and 2013, income inequality fell in the UK. This was the lowest level of income inequality recorded – at least on the gini measure – in the UK for over two decades (IFS, 2014a: 34).²⁷

[FIGURE 1 HERE]

Real wage decline was a key driver of this drop in income inequality. Since 2008, 'in-work' households lost approximately 8 per cent of their incomes as a result of unprecedented and sustained real wage cuts across the income distribution. As a result, inequality measured in terms of the 'market income' – the distribution of income between those who derive their income from employment, self-employment and capital – did increase in the first three years of the downturn (Exell, 2013). However, during this same period the income of *non-working households* remained relatively protected, largely because welfare payments are indexed to inflation and therefore act as 'automatic stabilisers' in periods of recession (IFS, 2014b: 3). As the income of non-working households fell less rapidly than the incomes of in-work households, this led to a decline in the overall level of income inequality between 2008 and 2013 (Lupton et al., 2015: 49).

This dynamic was of considerable political utility to the Coalition in the debate over austerity in the UK. The government – sensitive to opposition charges that its policies had precipitated a 'cost of living crisis' – argued that the fall in income inequality was proof that the burden of its austerity programme had been shared equitably across society.²⁸ However, there was a profound irony at the heart of this narrative (SPERI, 2015: 5 – 7). As of April 2013 the pace of cuts to benefits and tax credits was substantially accelerated as the provisions of the Welfare Reform Act (2012) came into effect (HM Government, 2012). This legislation introduced a number of reforms which disproportionately reduced the living standards of lower income groups. For example, it implemented a 'welfare cap' which set a limit on the total sum of benefits that working age households could claim (Hamnett, 2014). However, households in the lower half of the income distribution were more dependent on benefits which had been 'capped', which meant that the cap disproportionately targeted benefits claimed by the least well off.²⁹ In addition, Osborne announced that most working age benefits and tax credits would be up-rated by one per cent (below inflation) for the three years from April 2013 to April 2016, a measure which was estimated to achieve savings of £1.7 billion (IFS, 2014a: 9). Again, this had a disproportionate impact on households at the lower end of the income distribution who were

more reliant on social security payments (ibid: 33). The tax and benefit changes implemented between April 2013 and April 2015 therefore had a clearly regressive impact, such that households in the bottom four income deciles experienced a net loss to their incomes, whilst households in the upper deciles saw their incomes protected in both absolute and relative terms (IFS, 2014c: 54).

The tension in the Coalition's narrative was clear: on the one hand, the government highlighted the fall in income inequality as evidence of the 'fairness' of its austerity programme; at the same time, through its programme of benefit and tax credit cuts, it set about actively dismantling the very mechanisms which had produced this (small) reduction in inequality in the first place. As a result, the initial drop in income inequality which occurred after the crisis began to go into reverse.³⁰ Once the Coalition's tax and benefit changes were taken into account, net household income inequality as well as relative and absolute poverty were all projected to increase substantially by 2020 (Brewer et al., 2012).

In one sense, the temporary decline in income inequality between 2008 and 2013 was driven by structural factors: real wages declined as economic activity dried-up whilst the path dependent nature of inflation-indexed welfare provision (temporarily) protected the incomes of those at the lower end of the income distribution. However, these broader distributional shifts do not of themselves produce political outcomes. Rather, these processes are always mediated by social actors who interpret and construct responses to these broader changes (Hay, 2002). Policymakers occupying the 'peak' executive and legislative branches of the state have a privileged position in this regard insofar as they can deploy the power of the governmental apparatus to set the legislative agenda and to advance particular constructions of underlying distributional shifts. It is here, in the interpretation and construction of post-crisis distributional trends, where we can identify the emergence and cultivation of a distinctive 'two nations' legitimisation strategy under the Coalition.

In justifying their welfare reforms, the Coalition drew-upon a long-standing distinction between the 'deserving' and 'undeserving' poor (or, in the contemporary parlance, 'strivers' .v. 'skivers') (Garthwaite, 2011; Hills, 2014; Valentine & Harris, 2014). For example, the White Paper *21st Century Welfare*, stated that, 'any reforms should...establish a fairer relationship between the people who receive benefits and the people who pay for them' (DWP, 2010: 5). Similarly, in 2012, Osborne stated that, 'it's unfair that when that [working] person leaves their home early in the morning, they pull the door behind them, they're going off to do their job, they're looking at their next-door neighbour, the blinds are down, and that family is living a life on benefits. That is unfair...and we are going to tackle that as part of tackling this country's economic problems' (Eaton, 2012). This broad distinction between a 'deserving' and 'undeserving' poor has a long pedigree in Conservative thought and governing practice (Evans, 1997: 607; Hickson, 2009: 351). However, the Coalition's utilisation of this discourse involved more than just an abstract appeal to traditional anti-welfarist principles. It also involved narrating its particular interventions in terms of the context of sustained real wage decline which had emerged in the post-crisis period.

In January 2013, the Coalition aimed to drive its *Welfare Benefits Up-Rating Bill* (2013) through parliament. This aimed to impose a below inflation 'cap' of 1 per cent on a range of benefits which working age households could claim over a three year period. The goal was to achieve savings of £270 million per annum from 2014-15 onwards. However, crucially, the Coalition did not only justify this on the grounds that it would contribute to deficit reduction. They also sought to frame this intervention in terms of 'fairness' and as a measure which showed that they were 'standing up for hard working families' (Tepe-Belfrage, 2015), arguing that in a context of falling wages it was unfair that unemployed households should receive more than in-work households. As the Labour Party voted against the measures, the Conservatives responded with an advertising campaign which sought to portray Labour as 'soft' on welfare, making the point that Labour were 'voting to increase benefits by more than workers' wages' (Conservative Home, 2013).

The Coalition's programme of welfare restructuring was therefore premised upon the construction of a 'moralised antagonism' between a privileged group ('workers') and a marginalised group (benefit claimants). This social cleavage was relentlessly exploited by the Coalition. For example, the Department for Work and Pensions impact assessment stressed that as a result of the uprating policy, 'workless households will no longer receive more in benefits than the average weekly wage received by families in work' (DWP, 2012). Iain Duncan Smith – Secretary of State for Work and Pensions – justified the policy in similar terms by claiming that, 'for too many people, it pays more to languish on benefits than to enter work... [the policy would therefore ensure] fairness to those who work hard and pay into the system in the process' (Smith, 2013).

The sustained decline in real wages since 2008 formed the crucial precondition of this 'two nations' legitimisation strategy. By focussing on the distributional cleavage between 'workers' and 'welfare claimants', the Coalition transformed a potential liability – the steep decline of wage earners' living standards – into a political asset, mobilising support for retrenchment whilst deflecting blame for the failures of its own economic programme. Duncan Smith explicitly appealed to the sustained drop in workers' wages in order to justify and build support for his department's below-inflation benefits 'uprating':

“The reality is that over the last five years following the recession, the gap has grown between what people in employment have been getting and what people on welfare have been getting – those in work seeing incomes rise half as quick as those on benefits. This is not fair, particular for taxpayers. Under the last government they saw taxes rise, they saw spending rise, they saw borrowing rise and they have left that for the next generation. They think helping people is about trapping more and more people in benefits.

(Duncan Smith, cited in: Hall, 2013)

This juxtaposition of 'hard working taxpayers' and 'welfare claimants' is evident throughout Coalition attempts to build popular support for its welfare retrenchment programme. In his 2012 Autumn Statement, for example, Osborne defended the benefits

uprating bill on the grounds that, “families out of work will not get more than the average family gets for being in work...today we have helped working people” (Osborne, 2012).

However, the Coalition’s construction of a ‘moralised antagonism’ between ‘workers’ and (workless) ‘welfare claimants’ also concealed the distributional implications of its welfare retrenchment programme. The effect of the welfare cap was to reduce the incomes of 9.5 million households. Of these only 2.5 million were out-of-work; 7 million of the affected households were in fact in low-paid employment (Mason, 2013). Despite this, the Coalition’s ‘two nations’ legitimisation strategy in the field of welfare retrenchment was successful. For example, by a three-to-one majority, the public (incorrectly) thought that the benefit cap would primarily hit the unemployed as opposed to low-paid workers (TUC, 2013a). In encouraging identification and mobilisation against a (largely constructed) ‘workless’ underclass, the Coalition successfully secured broad-based support for a policy which might otherwise have failed. Partly as a result of this, on the eve of passing the legislation, 74 per cent of the population were in favour of the cap as opposed to 11 per cent who were against it (YouGov, 2013). The Coalition had successfully transformed the potential liability of sustained real wage decline into a political asset, discursively constructing this underlying distributional shift so as to bolster popular support for a welfare retrenchment programme which imposed cuts on the incomes of both in-work and out-of-work households.

Private Sector and Public Sector Workers

Under New Labour, spending on public services increased rapidly throughout the pre-crisis conjuncture, such that public sector employment increased by 700,000 between 2000 and 2010 (Cribb, et al., 2014). In contrast, the Coalition’s programme of fiscal consolidation outlined cuts of 19 per cent across non-protected departments (Ferry & Eckersley, 2012: 17). Since wages account for approximately 30 per cent of all general government expenditure, one of the key tasks for government departments was to cut to the size of their wage bills (Bozio & Disney, 2011: 163). The Coalition aimed to secure this through three principal mechanisms: through

wage cuts, public sector pensions reform and through large scale redundancies (Bach & Stroleny, 2013: 345). An economic crisis which had originated within the banking sector was thereby reconstituted as a fiscal crisis of the state, with a significant portion of the burden of adjustment passed on to those working within the public sector (Burnham, 2011; Gamble, 2012: 61).

The Coalition's programme of public sector employment retrenchment bore the hallmarks of a classic 'two nations' legitimisation strategy. In the June 2010 Budget it was predicted that 490,000 jobs would go in the public sector by 2014-15 in order to save £3.3 billion by the end of the parliament (Exell, 2010: 29; Grimshaw, 2013). However, less than two years into the Coalition's period in office, 420,000 public sector workforce cuts had already been implemented (Grimshaw, 2013). By 2013, the OBR projected a net loss of one million public sector jobs between 2011 and 2019 as the public spending squeeze was extended into the following parliament (OBR, 2013: 75). This represented a cut to general government employment which was 'three times as large as those delivered in the early 1990s, and unprecedented in at least the last 50 years' (Cribb et al., 2014: 36).

The Coalition was clear that its objective was to reduce the size of the public sector workforce. On the eve of the 2010 general election, Cameron stated, 'in some parts of the country the state accounts for a bigger share of the economy than it did in the communist countries in the old eastern bloc. This is clearly unsustainable' (BBC News, 2010). The task of implementing mass public sector redundancies and a decade-long period of pay constraint was not presented merely as an unavoidable or regrettable result of deficit reduction. Rather, reducing the size of the public sector workforce was presented as a core element of the Coalition's attempt to 'rebalance' the UK economy towards the private sector (Osborne, 2010). Accordingly, opponents of the policy - in particular the large public sector trade unions - were characterised as pursuing 'sectional' interests at the expense of taxpayers. The Conservatives were clear that any public sector recalcitrance would be dealt with ruthlessly. For example,

Oliver Letwin³¹ outlined the way in which the Coalition would utilise the state in order to weaken public sector employees' bargaining position. Speaking at the consultancy firm KPMG in 2011, he said that it was necessary for 'fear and discipline' to be instilled into public sector employees in order to drive up productivity rates. He added that large scale public sector redundancies would be an 'inevitable and intended consequence' of government policy (Boffey, 2011). Partly as a result of this strategy, by 2014 public sector workers had experienced a real terms pay cut of £2,245 relative to 2010 (TUC, 2014). However, when trade unions formulated a response to this unprecedented decline in real wages, the Chancellor immediately presented them as acting against the 'national interest'. For example, in 2011, in response to mounting threat of public sector strikes, Osborne insisted that the Coalition's public sector reforms were, 'fair to both taxpayers and public servants. I would once again ask the unions why they are damaging our economy at a time like this – and putting jobs at risk' (Osborne, 2011).

The Coalition's public sector retrenchment programme therefore relied upon tackling the 'sectional' demands of state employees. Again, the discursive construction of underlying distributional trends and the cultivation of 'moralised antagonisms' between public and private sector workers lay at the centre of this strategy. Between 2008 and 2010, nominal public sector pay rose by 4.5 per cent whilst nominal private sector pay rose by only 1 per cent (Cribb et al., 2014: 1). This had occurred because 'many public sector workers, including teachers, NHS workers and the police, [were] subject to three-year settlements from 2008 through to 2011. These settlements were made shortly after the 2007 Comprehensive Spending Review, before the recession happened and before it was known that private sector earnings would stop growing' (Cribb et al., 2014: 5). However, since real wages in the private sector declined so rapidly in the immediate post-crisis period, this meant that public sector pay packets were protected in relative terms (Bozio & Disney, 2011: 163).

This (temporary) period of differential pay growth across the public and private sectors was utilised by the Coalition in order to justify a sustained period of public sector pay

retrenchment (Bach & Stroleny, 2013: 348).³³ For example, when the Chancellor announced that public sector pay increases would be limited to 1 per cent over three years in the 2011 Autumn Statement, he drew attention to the fact that, 'public sector pay has risen at twice the rate of private sector pay over the last four years'. He then stated that, 'while I accept that a 1% average rise is tough; it is also fair to those who work to pay the taxes that will fund it' (Osborne, 2011). Furthermore, these cutbacks were not designed as a 'temporary' fix to the UK's fiscal problems. For example, in his 2014 Autumn Statement, Osborne acknowledged that public sector pay freezes had delivered £12 billion of savings over the parliament. However, he went on to note that, "by continuing to restrain public sector pay we expect to deliver commensurate savings in the next Parliament until we have dealt with the deficit" (Osborne, 2014a).

A large number of factors had contributed to real wage decline in the post-crisis period. For example, 77 per cent of net job creation between 2010 and 2013 had been in low pay sectors whilst the jobs recovery had been underpinned by a large increase in generally low-paid self-employment (ONS, 2014b; TUC, 2013b). However, by deploying a 'moralised antagonism' between private and public sector workers, the government took advantage of this situation of low pay growth in order to further retrench the conditions of workers in those sectors which for a short period of time had been insulated from the worst of the economic downturn. In other circumstances, initiating a period of sustained public sector pay retrenchment may have been difficult. Real wage decline across the private sector was again skilfully exploited by the Coalition, allowing it to mobilise support for its programme of public sector retrenchment through the construction of a 'moralised antagonism' between relatively privileged and subordinate social groups.

After a brief interregnum, pay in the private sector began to grow faster than pay in the public sector from 2010 to 2014 (Cribb et al., 2014; Grimshaw & Rubery, 2015). Projections from the OBR suggested that this dynamic is set to continue into the future (Cribb et al., 2014: 1). These Coalition's interventions into public sector employment relations therefore embodied

more than an attempt to 'balance the books'. They were indicative of a broader strategy to systematically de-privilege public sector employment within the emergent regime of UK capitalism. Again, the conception of a 'two nations' legitimisation strategy is instructive in this regard. As Jessop and his collaborators argued in relation to Thatcherism, 'two nations' strategies, 'aim first, to expand the numbers of those in the privileged nation in areas where its privileges are well entrenched... and second, to widen the scope of their privileges' (Jessop et al., 1988: 179). In other words, although 'two nations' strategies are *limited* in the sense that they direct material concessions towards a 'privileged' section of the social base, they also seek to augment the size of those 'privileged' social groups in order to deliver future political support. The deployment of a 'two nations' legitimisation strategy in support of its public sector retrenchment programme therefore fulfilled both short and long-term political objectives for the senior partners in the Coalition. In the short term, it allowed the government to justify an unprecedented period of public sector wage retrenchment whilst displacing blame for this dynamic through an appeal to 'fairness'. In the longer term, it was hoped, this would create a popular base of support for 'balanced budgets' and public sector residualism in the future - a situation which, naturally, would favour the Conservatives.

Conclusion

This article began from the premise that the advanced capitalist state should be conceived as a site of distributional agency. On the one hand, policymakers are systematically driven to secure the conditions for continued economic growth over time. Accordingly, we can identify distinctive *accumulation strategies* deployed by policymakers which seek to bolster and sustain particular growth models within different national contexts. On the other hand, policymakers are driven to maintain a popular base of support and the *legitimation* of the prevailing social order whilst in office. Policymakers' can attempt to realise this objective through *actively shaping* and *discursively constructing* underlying distributional trends. These interventions in turn give rise to distinctive legitimisation strategies. 'One Nation' strategies seek

to secure an expansive base of popular support through channelling concessions to the social base; 'two nations' strategies, on the other hand, seek to secure popular support by constructing a series of 'moralised antagonisms' between rival social groups. Deploying this conceptual framework, the article has advanced a distinctive interpretation of the political economy of the Coalition government throughout the post-crisis conjuncture. A number of conclusions can accordingly be drawn.

By 2015, the Coalition had effectively re-established the UK's pre-crisis 'finance-led' growth model. However, amidst this continuity there has also been discernible shift within post-crisis UK capitalism. Between 2008 and 2015, rapid and unprecedented real wage stagnation (temporarily) reduced the incomes of wage earners and private sector workers relative to welfare claimants and public sector workers respectively. Whilst real wage decline and falling living standards on this scale might in other circumstances have provoked a legitimisation crisis for the state, the Coalition strategically transformed this deflationary context into a political asset. It discursively constructed the temporary protection of public sector pay packets and (inflation-adjusted) welfare payments as an unjust and unsustainable aberration in a context of real wage decline. On these grounds, the Coalition effectively entrenched a series of 'moralised antagonisms' between wage earners/welfare claimants on the one hand and private/public sector workers on the other. In deploying this 'two nations' legitimisation strategy, the Coalition effectively deflected blame for the palpable failures of its own regressively redistributive economic programme whilst imposing significant losses on broad swathes of the population (Green & Lavery, 2015).

This analysis has important implications for how we might conceptualise post-crisis capitalism in the UK. The UK's pre-crisis 'privatised Keynesian' growth model incubated a series of structural weaknesses – in particular a reliance on private debt expansion to sustain aggregate demand – which left the country peculiarly exposed to the 2008 financial crash (Christensen et al., 2016a). However, this growth model was complemented and stabilised by

large expansions in public expenditure throughout the pre-crisis conjuncture. New Labour's 'One Nation' legitimisation strategy drove-up spending on public services, increased state-led employment and redistributed resources to subordinate social groups through the tax and benefit system. The Coalition's shift to a 'two nations' legitimisation strategy represented a fundamental break with this 'hybrid' regime of development. As such, those flanking mechanisms which had temporarily *stabilised* finance-led growth throughout the pre-crisis conjuncture were fatally undermined under the Coalition. A series of imbalances and weaknesses therefore endure at the heart of UK capitalism. Almost a decade on from the global financial crisis, these weaknesses are likely to continue to generate further instabilities and dysfunctions as the UK enters into the next phase of its post-crisis social and economic development.

² The Coalition government consisted of a formal partnership between the Conservative Party and the Liberal Democrats, with the latter as junior partners. The Coalition government endured throughout the 2010 to 2015 parliament.

³ The 'pre-crisis conjuncture' refers to the period between 1992 and 2007 when the UK economy underwent a period of modest but sustained low inflationary growth.

⁵ The post-crisis conjuncture refers to the period between 2008 and 2015. The Coalition government was in power for the majority of this period, from May 2010 – May 2015.

⁷ The phrase 'One Nation' legitimisation strategy derives from Jessop's account of 'One Nation' hegemonic projects (Jessop et al., 1988: 87). It is important to note that the term 'nation' is not used in a literal sense. Within UK political discourse, the phrase 'One Nation' conservatism denotes a paternalist ideology and political economy which ostensibly seeks to ensure that government policy is 'inclusive' of the poor, incorporating UK subjects into a unifying programme often through (limited) redistributive social and economic policies (Gamble, 2014, p. 16). In contrast, 'two nations' projects are "concerned to mobilize the support of *strategically significant sectors* of the population and to pass the costs of the project to other sectors" (Jessop, 1990: 211). The 'One Nation'/'Two Nations' distinction therefore embodies a useful metaphor through which we can distinguish between distinct political projects in different historical periods.

⁸ It is worth noting that median earnings have lagged behind labour productivity increases in the UK since the early 1990s (The Resolution Foundation 2012: 21). Real wage growth has also consistently slowed over recent decades, with average annual increases of 1.2 per cent in the 2000s compared to 2.9 per cent in the 1970s and 1980s (ONS, 2014a, p. 3). Indeed, between 2003 and 2008, earnings growth flat-lined for those in the bottom half of the income distribution, despite economic growth over this period of 11 per cent (Plunkett, 2011, p. 10) This relative stagnation in real wages was a key driver of credit growth

amongst low income households in the pre-crisis conjuncture (Montgomerie & Büdenbender, 2014). However, it is important to emphasise that real wages declined to an unprecedented extent during the period under review, namely between 2008 and 2015. On average, real wages fell by 10 per cent throughout this period, meaning that the UK experienced the largest real terms wage cut of any European economy with the exception of Greece (TUC, 2016). Furthermore, this dynamic is projected to continue into the future, in particular as sterling depreciation erodes consumer spending power in the aftermath of the EU referendum (Carney, 2016, p. 17). The construction and political management of continuing pressures on real wages within the UK therefore represents a crucial area for future research.

⁹ A number of long-standing ‘structural weaknesses’ can be identified within UK capitalism. First, from a *longue durée* perspective, the UK economy has long incubated a large, open and politically powerful financial centre concentrated within the City of London (Anderson, 1964; Overbeek, 1989). The dominance of the City and its intersection with key institutions of the UK state, including the Treasury and the Bank of England, has at key moments undermined the development of the UK’s industrial base (Ingham, 1984). In turn, this has rendered the UK susceptible to large deficits in its tradeable goods sector and to entrenched patterns of uneven spatial development (Coates, 2014; Gardiner et al., 2013). Second, moving to a ‘medium-term’ level of analysis, since the late 1980s the dominance of the UK’s financial sector has increased whilst the UK’s industrial base has declined further still (Coates, 2014). This process has been associated with rising levels of income inequality and an erosion of the ‘wage share’ (Stockhammer, 2016). Both of these distributional dynamics make destabilising bouts of credit expansion likely and undermine effective demand formation. In addition, growth in low productivity service sectors has compounded low levels of output growth across the UK economy and further eroded real wages and domestic demand formation. Together, these structural weaknesses render the UK highly susceptible to anaemic per capita growth, high levels of inequality and recurrent financial crises (Christensen et al., 2016). A programme capable of reversing these long-term structural weaknesses would require a fundamental shift in the growth strategy deployed by UK policymakers, a restructuring of the institutional architecture of the UK state and the mobilisation of social and political forces capable of sustaining a programme of radical economic restructuring and sustained wealth redistribution. For an indicative outline of what one such programme may look like, see: (Hay, 2013c).

¹³ Since the focus is here on policymakers at the ‘peak’ of the state apparatus, the phrase will be used interchangeably with the term ‘state managers’ as defined by Fred Block (Block, 1981)

¹⁴ The phrase ‘state managers’ refers to “those at the peak of the executive and legislative branches of the state apparatus” (Block, 1981, p. 48). In the UK case, this refers to powerful agents within the ‘core executive’ who enjoy the formal capacity to advance legislation and to execute government policy, including the Prime Minister, the Cabinet and Cabinet Office, central government departments and the senior civil service. This focus on the ‘centre’ of the UK political system is a methodological choice which provides one lens through which to conceptualise political strategy within advanced capitalist societies. The strategic orientation of other state agencies and civil society groupings is of course a further crucial area through which state strategy is mediated, organised and implemented. An analysis of these institutional complexes is, however, beyond the scope of the present study.

¹⁵ For instance, in the aftermath of the 2008 crash, policymakers regularly equated the government balance sheet with that of a household budget, building support for austerity programmes which in fact imposed palpable costs on broad swathes of the population (Stanley, 2016).

¹⁷ For example, the Thatcher government heavily subsidised the purchase of the council housing stock whilst the Coalition government reduced the cost of accessing mortgage credit for prospective homeowners through its ‘Help to Buy’ policy.

¹⁹ To take one example, an increase in the Bank of England’s base rate will tend to favour savers but increase the cost of credit for borrowers.

²⁰ This argument is substantiated below.

²¹ In the first two years of its first parliamentary term, New Labour pursued a tight fiscal policy, such that public spending fell from 41% of GDP in 1997 to 37.7% in 2000 over this period (Driver & Martell 2006: 75). However, having avoided a run on Sterling upon assuming office, New Labour then transitioned towards an expansionary public spending programme from its second term onwards. It is from this point onwards that New Labour’s ‘One Nation’ legitimisation strategy is at its most evident. It could be objected that this transition was stumbled upon ‘accidentally’. It is beyond the scope of this study to conclusively answer this question. Nonetheless, there is clear evidence from New Labour strategy and policy documents that public expenditure expansion was a key element in the political strategy of the New Labour leadership. For example, Labour placed ‘investment’ in public services as opposed to ‘Tory cuts’ at the heart of its 2001 election campaign (Geddes & Tonge, 2002, p. 7). Similarly, Cabinet minister Liam

Byrne wrote in the aftermath of the 2005 election that, “our support was based on the bedrock achievements of combining sustained economic stability with the *highest-ever levels of investment in public services*. Labour has been re-elected with a strong cross-class appeal across all of the regions. The challenge now is to maintain and strengthen this coalition in office” (Byrne, 2005: 3).

²² This represented a far steeper decline in real wages than was the case with the recessions of the early 1980s and 1990s, when three years after each recession wages had increased by 5 and 10 per cent respectively (IFS, 2013: 5).

²³ For example, while total government expenditure amounted to £695 billion in 2011-12, £242 billion of this went on ‘social protection’, a spending category which includes working age benefits and old age pensions (Burton, 2013: 2).

²⁴ In the June 2010 Budget, for example, one third of the savings proposed by the Coalition were to be achieved through cuts to spending on welfare (HM Treasury, 2010b: 16). The October 2010 Spending Review set-out further welfare cuts of £7 billion per year over the course of the parliament (Ferry & Eckersley, 2012: 19).

²⁵ In light of electoral considerations, the government chose to protect the value of old age pensions over the parliament, creating a ‘triple lock’ which would ensure that state pension payments would increase year-on-year by whichever had the highest value out of earnings or inflation (Gamble, 2014: 12). Since pensions account for approximately half of the total welfare bill, this meant that large welfare savings had to be found elsewhere (IFS, 2014c).

²⁷ Over this period, the gini co-efficient fell from 0.36 to 0.34

²⁸ For example, in his 2014 Budget Speech, Osborne pointed-out that, ‘under this government income inequality is at its lowest level for 28 years’, whilst during Prime Minister’s Questions in November 2013 Cameron argued that the fall in income inequality demonstrated that the Conservatives were committed to building a ‘fairer country’ (Cameron, 2013; Osborne, 2014b).

²⁹ Some key benefits which were ‘capped’ included housing benefit, tax credits and pension credit.

³⁰ In 2014 the IFS noted that, ‘on-going cuts to benefits and tax credits [will] reduce incomes towards the bottom... income inequality may well return to its pre-crisis level within the next few years’ (IFS, 2014b: 56).

³¹ A key member of the Cabinet who was at the centre of the government’s public sector reform programme.