

The ‘phoney war’ period of the ‘age of austerity’ is over – welcome to a new and nasty normal

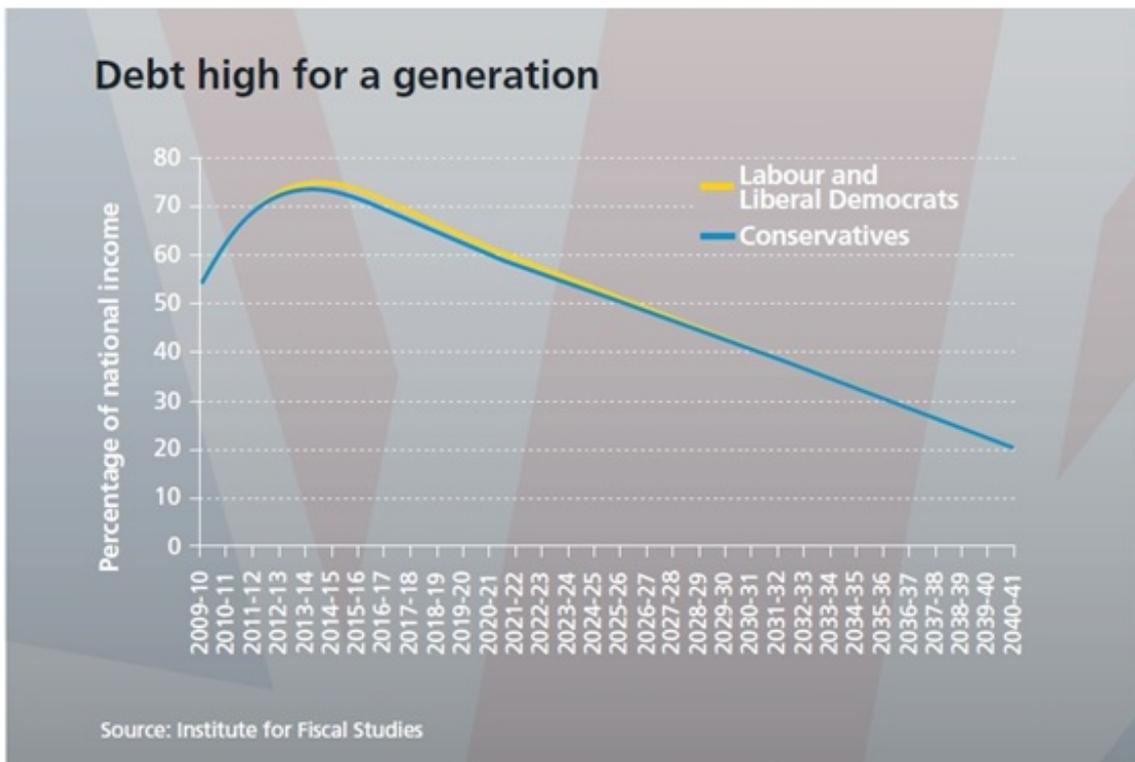
As the Liberal Democrats kick off the party conference season, tax and public spending issues look set to completely dominate politics for the next three years at least. [Tony Travers](#) sees the ‘age of austerity’ moving from its ‘phoney war’ stage into a period of potentially radical change – and new and grim social realities for the UK



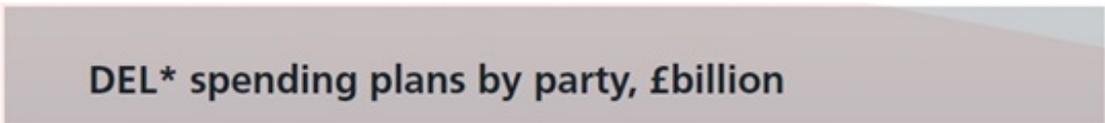
Economics and political science are, by any standards, disciplines with a future. The extraordinary events of the last three years have kept the economy and government constantly in the headlines. Yet because we have all, in our own lives, lived through the financial crisis and ensuing recession for over two years, it is already easy to treat current conditions as the ‘new normal’. In fact, it is almost certain that the events of the period from 2007 to 2010 will change the way that people across Britain think and behave in ways that are exceptionally hard to predict – lacking as we do any recent precedent.

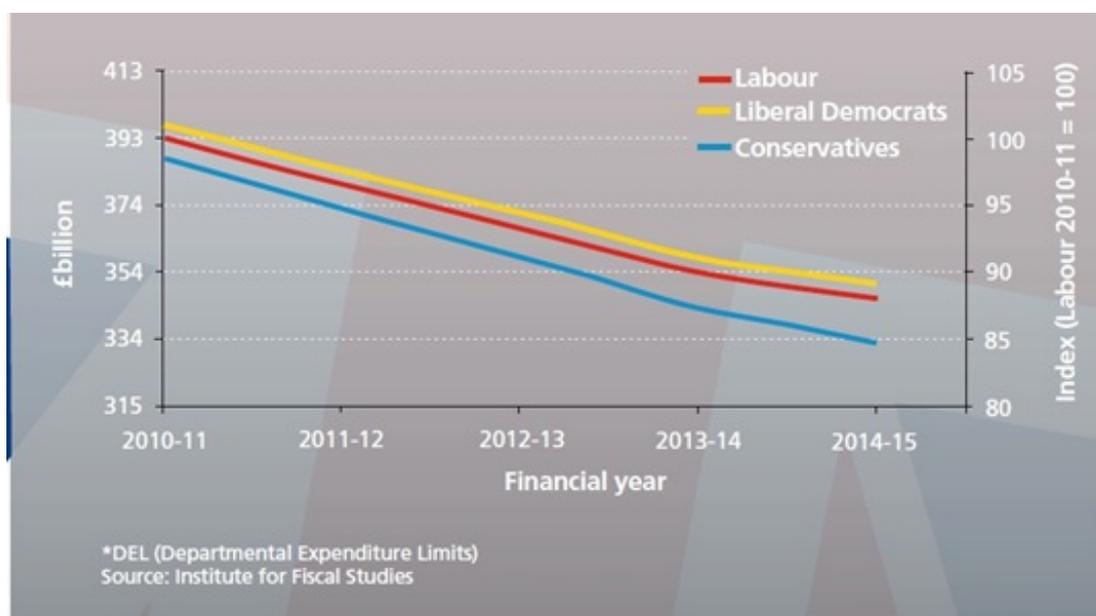
The general election took place against a vaguely articulated understanding of the gravity of the financial/economic situation, but without much consideration of the longer term political consequences of all that has happened. The major political parties found it almost impossible to spell out with any clarity the kind of public spending cuts that now lie ahead. My two charts below show the conflicts between the parties were also about relatively minor features of the large-scale adjustments needed. This underlying reality may drop out of sight as cuts debates become more intense and specific, but it behoves us to remember it, if we can.

Election time predictions of UK debt as a share of national income



Deep cuts projected at election time for ‘unprotected’ services, the so-called ‘departmental expenditure limits’





After the phoney war... a public spending blitzkrieg?

With the summer's phoney war spending review period now over, the next session of Parliament will have to take voters with them somehow in handling a number of nasty realities, including the need to push up taxation and reduce public spending for a period of five or more years. The squeeze on unprotected expenditure looks set to be the most severe since 1945.

Alistair Darling's autumn 2009 commitment to cut the public borrowing figure in half by 2014-15 was, by common consent, going to require reductions in most parts of state spending. Going further and faster, particularly if growth is weak, will mean many services facing 20 to 25 per cent real reductions between now and the start of 2015. The more that some parts of public expenditure are protected, the deeper the cuts elsewhere.

Moreover, it seems increasingly likely that the UK's economic growth may not fully recover to a trend of 2.5 to 3 per cent per annum, as many economists now believe it will not. Cambridge's Bill Martin, for instance, recently warned the Treasury that Britain was '[rebalancing in the dark](#)'. If growth indeed slumps all existing projections for the need to raise taxes and/or cut spending will have to be revised – in the unpopular direction.

Earlier in the year, LSE found itself at the epicentre of a national discussion about whether the government should carry on with existing, relatively high, levels of public spending or, alternatively, start cutting expenditure programmes during 2010. A letter, signed by several leading LSE names, was sent to the *Sunday Times* advocating immediate action to reduce the deficit. Within a week, two letters signed by a group which included another list of top LSE figures, were written to the *Financial Times* urging the continuation of the fiscal stimulus. It is hard to think of an issue in recent times where the School has found itself leading both sides of such an important public debate. [And as recent blogs show](#), the debates still run very deep on the government's new plans.

After the TUC conference it is now unlikely that the necessary reductions in public spending will now be delivered without some industrial strife and, possibly, aggressive challenges to government policy. The economy looks set to be a dominant issue throughout the new Parliament, with significant uncertainty about the path of the UK and global recovery.

The rest of the 2010-11 menu

Also highly troublesome is the issue of how the UK economy is to develop if its former dependence on growth in financial services falters. No one yet knows whether banking and finance can be regulated with just the right level of subtlety to allow it – and therefore the City of London – to flourish in the coming years. Anyway, there are plenty of policy makers who think the country should attempt to make itself less dependent on finance. But no one yet has the answer to the question: if not financial services, then what?

British governments have, over time, become less and less willing to intervene in industrial policy, so it is unlikely the government will attempt to 'pick winners'. Sectors that have shown strong growth in recent years

(apart from finance) include business services, creative and media, private health and, encouragingly, higher education. Business services, including lawyers, consultants and accountancy, could probably grow even if the City were held back. But it is unclear whether additional expansion in other sectors could offset any ongoing constraint on banking and finance.

Other issues that will be important include yet more changes in the delivery of healthcare and education, Britain's role in the world, climate change, the rise of the eastern powers, apparently rigid levels of inequality within the UK, and the longer term role of the State. There will also be extensive constitutional reform debates over the Alternative Vote referendum ([already covered extensively in this blog](#)) and from January the future of the House of Lords.

The societal meaning of the 2010s

So Britain will face changes not only to its economy but also to politics and society at large. The global banking crisis, taken together with the deepest recession since 1945 and the Parliamentary expenses scandal, will together affect the way the British think about many issues. Attitudes to wealth, poverty, taxation, politics and government have all been opened up to discussion and debate.

Think tanks have been chattering away and providing inputs to this uncertain new world. But so far no convincing alternative has been put forward to replace battered market capitalism, despite many lobbyists knowing that the events of 2007-10 created a once in a lifetime opportunity to push for significant changes to many aspects of society, the economy and government.

The 2010s will be as important a decade as the 1960s or the 1980s in shaping new ways of thinking about these themes. For a relatively conservative country with a long evolved democratic system, Britain has proved capable of surprisingly radical change. The late 1960s saw the passage of social legislation that for all time changed the way people think and behave. Mrs Thatcher's 1980s government brought about a similar revolution in attitudes to business and money.

By 2020, it is likely there will have been a similarly dramatic change in societal thinking, though it is not yet at all clear which direction the post-crisis world will move in.

A much earlier version of this article first appeared in [LSE Connect](#).

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