

No going back? Can the austerity politics of the Coalition be reversed?

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Introduction

The social policies of the 2010-2015 Coalition government can be looked at in two ways. From one perspective the over-riding objective was that stated in the 2010 Emergency Budget: to eliminate the deficit by cutting public spending commitments. The government has not succeeded in this. The second perspective sees the policies as having two further implicit goals:

- To embed a major restructuring of state welfare so that an incoming government finds it hard to reverse the changes; and
- To undermine solidaristic support for the welfare state so that a new government cannot gain sufficient support for the task of re-establishing the previous settlement.

This paper considers how for these goals have been achieved and examines future prospects for change.

The main changes in social policy since 2010 are detailed in other essays in this book. Apart from the cut-backs in all areas of spending except health care, schools and overseas aid (and bearing most heavily on local government and on short-term benefits) the main changes in welfare policies achieved by the government have been four:

- A much greater role for market systems and for the private sector in service provision across the board, from higher education to local government, from the NHS to the Work Programme.
- The restructuring of cash benefits, including cuts to short-term and family benefits, constraints on uprating and the introduction of a harsher sanctions regime for JSA and ESA

claimers; reforms to benefits for disabled people involving a sharp reduction in numbers entitled; and real increases in retirement pensions coupled with an acceleration of the raising of pension age.

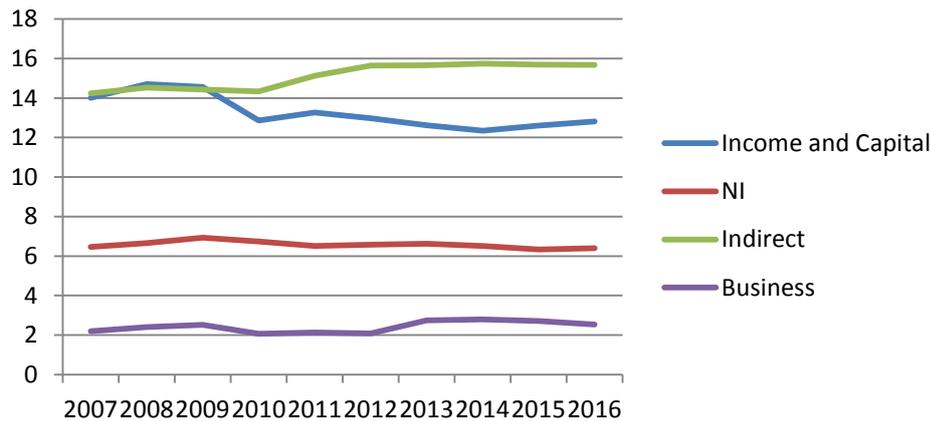
- A shift from direct to indirect tax (see Figure 1), mainly as a result of the increase in VAT to 20%, the abolition of the 50% additional tax rate in 2014, successive uprating of the income tax threshold, the impact of declining earnings on national insurance revenues, the reduction of Corporation Tax from 27 to 20% and the introduction of the Controlled Foreign Company rules which sharply reduce UK tax liabilities for many multi-nationals. These changes constrain potential tax revenues and generally shift tax burdens downwards.
- Policies that reinforce market effects in holding down pay. These include the introduction of fees of up to £1,200 for industrial tribunal cases, the reforms to benefits noted above and the weak recovery of wages. The new fees regime appears to have produced a 79% fall in the number of cases in the first year (TUC, 2014). IFS estimates indicate that the average fall in gross earnings in excess of 8% between 2008 and 2013 is unlikely to be made up before the end of the next parliament, with a more severe impact and slower recovery at the bottom (Belfield et al., 2014, Table 2.3).

How do these developments relate to the objectives of embedding change and restructuring solidarity?

Embedding change

It is in principle possible to reverse many of the benefit cuts and the policies (such as the below-inflation limit on annual uprating) that imply future cut-backs. The same applies to

Figure 1: Taxation Revenues 2007-16 as % GDP



Source: ONS, 2014

changes in tax rates, and policies such as the industrial tribunal fees. Such a programme would require substantial extra tax revenue or higher borrowing, which would be unpopular.

The expansion of the private sector in areas such as NHS and local government service delivery and the Work Programme introduces further difficulties, due to the long time periods required to bring some contracts to an end.

The problem of low pay could be mitigated, provided government wished to do so, by strengthening work place rights. The raising of the minimum wage to living wage levels (roughly a 20% increase) might save government money as spending on wage top-ups fell. It would only be possible to make this transition without causing considerable disruption to the labour market by pursuing a sectoral approach and adjusting wage rates in areas with concentrations of low-paid staff, such as hospitality, catering, retail and tourism in a phased programme over time.

This brief review suggests that the great majority of the Coalition's reforms can only be seen as embedding change if they have also created a situation in which a new government is unable to raise the revenue to reverse them. This directs attention to the question of whether current policies have damaged solidarity in such a way that the case for higher taxes to finance higher welfare state spending can no longer be made.

Undermining Support for State Welfare

Much of the debate is about spending on cash benefits. Reforms since 2010 have widened the gap between benefit claimers who are pensioners and those of working age through, on the one hand, the 'triple lock', which has had the effect of raising state pensions faster than inflation, and, on the other, the cuts in short-term benefits mentioned earlier. This is reflected in the fact that the combined effect of all tax and benefit changes for pensioner households in the bottom third of the income distribution has been to increase incomes by about half of one per cent, while for working age households the impact has been a fall in real income of between 4% and 6% (Phillips, 2014).

A sustained campaign of seeking (counter-factually) to present the majority of claimers of working age as out of work households (in contrast to 'hard-working families') and to stigmatise benefits for them as 'welfare' rather than entitlement or social security, reinforced by the expansion of means-testing for this group, seeks to drive a wedge between them and other users of welfare state services.

If these changes have the effect of reducing the willingness of the mass of the population to finance provision for the poor, they may create a situation in which it is difficult for a new

government to gain sufficient support for the tax and spending measures necessary to restore provision for this group. If the welfare state is understood to provide predominantly for the poor rather than for the mass of the population, solidaristic support for the whole welfare system is undermined.

Evidence on changing patterns of solidarity

There is no evidence of a decline in support for the welfare state, or for benefits for the poor since the crisis. On the basis of the most authoritative survey series, British Social Attitudes (Baumberg, 2014, Taylor-Gooby, 2015) four points may be made:

- First, while there has been a long-term tendency to view the poor, especially those of working-age, with greater suspicion, this trend seems to have come to an abrupt halt since the recession. The proportion believing that 'the unemployed could find a job if they really wanted to' rose from 27% in 1993 to 70% in 2005, but then fell back to 54% by 2010 and now stands at 59%.
- Secondly, there is established evidence of a division in public support between those welfare state services that have been relatively protected, and which meet the life-cycle-needs of most people (notably the NHS and education), and provision for specific poor minorities. However, there is no indication that this gap has grown wider since 2010. The percentage agreeing that 'cutting welfare benefits would damage too many people's 'lives' fell sharply from 59% in 2000 to 42% in 2010, but had recovered somewhat to 46% by 2014. Support for extra spending for the traditionally popular group of pensioners reached 80% in 2005 but has actually fallen since then to 67%. This may reflect the fact that benefits for this group are relatively well protected. Support for extra spending on the unemployed fell during the period of relative prosperity, between 1992 and the 2007 Great Recession from 32% to 7%, but has grown since then to 11%.
- Thirdly, people seem to be increasing aware of the existence of poverty and pessimistic about future trends. The proportion answering 'increasing' to a question about the perceived trend in poverty in Britain during the past decade, fell slightly from 36% to 32% between 2000 and 2006, but has subsequently risen to 64%.
- Fourth, while perceptions of one's own level of living bear on attitudes to the poor, there is no indication of a widening gap in perceptions between those who see themselves as better off and those who believe they are not, but rather the reverse. In 2010 some 14% of the sample described themselves as 'struggling' on their present income, while 50% said they were 'living comfortably'. By 2013 the statistics were 18% and 44%. The gap had fallen from 36% to 26%.

Both 'struggling' and 'comfortable' respondents were more likely to agree that the government 'should spend more on welfare benefits for the poor' in 2013 compared with 2010. The increase was from 42% to 51% among the first group and from 25% to 30% among the second. Similarly the proportion believing benefits for the unemployed are too low and cause hardship, which fell from 55% in 1993 to 19% by 2011, is now trending upwards and reached 27% in 2014.

The most striking findings are in relation to party support. Which Labour voters are rather less unsympathetic to spending on benefits for the poor of working age, this does not translate into a major political cleavage. The 2014 survey shows majorities of Conservative and Labour supporters endorsing the benefits cap (85% and 69%) and very substantial minorities believing that immigrants from outside the EU should never be able to claim UK benefits (48 against 33%).

Taken together these findings suggest that there is no evidence of a decline in solidarity or in support for welfare for the poor since 2010, and that more people across the income distribution recognise the existence of poverty and want government to spend money on unemployed people and on those in poverty. However there is also

good evidence of a long-term established trend to greater social division in support for welfare and to willingness to accept the stereotype of the working age poor as primarily responsible for their own poverty.

Conclusion

Coalition policies have been highly divisive, but have failed to undermine solidarity in public support for the welfare state. The real question is whether an incoming government is willing to raise the taxes necessary to reverse the cuts.

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