Where next?

Rewriting history and the role of the state

The last decade was shaped by the seismic impact of the financial crash in 2008 and global recession that followed. The next decade will be shaped by the global Covid-19 pandemic, rewriting policy orthodoxies and challenging ideas about the role and size of the state.

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Ten years ago, the economic and political fallout of the financial crisis catalysed demand for more inclusive growth. As economies started to recover, the question increasingly became whether and how markets and governments could ensure as many people as possible were able to contribute to, and benefit from, economic growth. Inclusive growth called for the quality of economic growth, not just its rate, to take centre stage. In the UK the political tide slowly began to turn towards the end of the decade, culminating in a demonstrable commitment (albeit at its earliest stages) by Boris Johnson's government to 'level up' the regions and nations of the United Kingdom.

Greenhouse gas levels also started to fall. Not because of concerted action on the part of environmental campaigners, unassailable scientific evidence or multilateral cooperation on tackling climate change. But because of the unprecedented shutdown of modern life as we know it; cities in lockdown, aviation grounded, heavy industry suspended. The scale of the impact of coronavirus – economic, social, emotional – will be substantial, and will fully reveal itself over the long term. But already democratic governments across the world are rewriting the rule book in their attempt to save lives while protecting the infrastructure of our societies and livelihoods. It could spark the birth of a new paradigm, in which clean, inclusive growth is even more of an imperative.

Orthodoxy overturned

In 2010 a different chapter was being written. The hung parliament of 2010 and formation of the first coalition government since the Second World War was the first of several political knock-on effects of the economic crisis. Brexit would later trace its recent history back to this point, as people and places 'left behind' from headline growth were now at the frontline of the economic downturn. The economy contracted for five successive quarters and would take five years to recover to the size it was before the recession. It was only in February 2020 that wages returned to pre-crisis levels.

However, a deeper effect of the financial crisis was – after a huge initial public bailout of the banks – a shift in policy orthodoxy and challenge to the role and size of the state. In only a few short months the political narrative of the day overturned the New Labour consensus that had led to a significant and sustained increase in government spending and investment in public services during the 2000s.

Increases in government spending under New Labour did not always lead to improvements in social and economic outcomes. Long-standing patterns of inequality persisted; 'education, education, education' and a suite of regional policies failed to address the long-term impact of deindustrialisation and economic decline in many northern and coastal communities.

Nevertheless, the introduction of the National Minimum Wage, Tax Credits and expanded state-funded early years education resulted in better living standards for many. NHS outcomes improved and the number of people living in poverty in the UK fell – especially pensioners and families with children. While real government spending rose, expenditure as a proportion of GDP hovered at about 40%, a level the Institute for Fiscal Studies described as "not particularly high, either by the UK's own historical standards or by international standards."[1] Labour was able to take advantage of a strong economy and sought to redress the effect of the previous Conservative administration's chronic underinvestment in public services.

The political tide would turn again, and quickly. By the time of the 2010 election, even Gordon Brown – who clung on to the last on the merit of public service investment, efficiency and reform – was forced to accept that cuts were necessary to ensure financial sustainability. The bank bailout and fiscal stimulus had bloated the state to 45% of GDP in 2009. A year later, more than half of the British public accepted the narrative that a policy of austerity was vital for staving off economic ruin of the kind we saw in Southern Europe.

In his first Budget statement, George Osborne, then Chancellor, set out the government's fiscal mandate to eliminate the structural deficit and see debt start to fall as a percentage of GDP by the end of the Parliament (2015/16). So keen were departments to fall into line (and avoid explaining any overspend to the Committee of Public Accounts) that Total Managed Expenditure by 2015/16 actually fell further in cash terms than the government's original plans.

Local government bore the brunt of the cuts, and departments that were not protected (all except health and international development) saw expenditure reductions of up to 35%. 11,000 police and probation officers were cut and, as the chart on page 19 shows, spending on community institutions, such as Sure Start centres, youth services and recreation and sport fell by up to 60%. In the face of long-term rising demand for public services, the challenge was how to do more with less.

1 Keynes, S. and Tetlow, G. (2014). *Survey of public spending in the UK*. Institute for Fiscal Studies. Available at: https://www.ifs.org.uk/uploads/publications/bns/BN43%20Public%20Spending%202014.pdf

Orthodoxy overturned again

Reducing the budget deficit was a policy legitimised by the need to restore financial sustainability. It was also a conscious downsizing of the state. Several commentators, as well as the 2020 Commission, warned against indiscriminate 'salami slicing' of programme funding. If cuts were necessary, we asked, how might they be achieved to inspire new, better and cost-effective ways of delivering public services? How might savings be found that protected people and places, not just certain departmental lines?

A decade later even Conservative party ministers acknowledged that many public services cuts had been too deep, especially in local government and social care.

At the time, George Osborne talked of investing in productive capital investment to bolster the foundations of the economy. But his definition of capital was too narrow; he underestimated the positive, supply-side impact of social as well as physical infrastructure investment.

Recently the Centre for Progressive Policy reviewed the returns to capital investment and preventive-oriented spend in public services.[2] We identified these were at least on a par with investment in transport. The current government was also receptive to the idea, with the new Chancellor, Rishi Sunak, having recognised in his first Budget speech that investment in what it calls the 'people's priority – public services' can be a driver of productivity, growth and a 'levelling up' of opportunity and outcomes across the regions and nations of the UK.

> The government's levelling up agenda is on hold until it has shored up places, firms and families at risk from what could be the deepest recession in 300 years

But Rishi Sunak's bold first fiscal event was to be the fastest forgotten Budget in living memory. Less than a week later the Chancellor was forced to commit another £350bn – unprecedented in peacetime – to support households and businesses under government-imposed lockdown. The government's levelling up agenda is on hold until it has shored up places, firms and families at risk from what could be the deepest recession in 300 years.[3]

Uncharted territory

Policy makers across the world are grappling with how to respond both to a global pandemic and to an unprecedented economic crisis. In the UK the government has become the 'payor of last resort'. In doing so it has been forced to fill in the holes many have long acknowledged in our social security net, notably extending welfare entitlements to the self-employed. While this enhanced role of the state will be temporary, entitlements once awarded will be difficult to retract.

At a local level, analysis by CPP finds that places most likely to be hit hardest in the long-term economically are precisely those which Boris Johnson's levelling-up agenda targeted. Only four of 90 Towns Fund local authorities were categorised as resilient to the long-term impact of the economic crisis, and zero from Red Wall areas. Nearly 50% of Red Wall local authorities and nearly 40% of Towns Fund local authorities were classified as vulnerable to permanent 'scaring' effects.[4]

The current crisis makes the case for levelling up through inclusive, place-based economic growth all the greater. As risk averse political leaders and officials start to search for the green shoots of recovery, they must not rely upon 'growth – any growth' until the economy is out the other side of the downturn. Instead we need to ensure that the principles this government seemed willing to embrace in its first few days in office – investing in human capital and in social infrastructure; institutionally prioritising economic returns outside London and the South East, and expanding the role of place in national and local policy making – enable a new model for our political economy.

We start the new decade with an unprecedented peacetime level of state intervention. It will need to retreat as the economy and society finds its feet again, standing on ground shored up by economic measures to support workers, households and businesses, bolstered by a desire within communities to support each other and the services they value most. There is little political appetite to reinstate austerity, so the rule book – notably regarding acceptable levels of public borrowing – will need to be rewritten. Orthodoxies are being challenged and will need to be overturned once again to deliver sustainable, broad-based prosperity for all. ●

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2 Stock Jones, R. (2020) *Productivity knocks: Levelling up with social infrastructure investment*. Report for CPP. Available at: https://www.progressive-policy.net/publications/productivity-knocks-levelling-up-with-social-infrastructure-investment
3 Office for Budget Responsibility (2020). *Coronavirus Reference Scenario*. Available at: https://cdn.obr.uk/Coronavirus_reference_scenario_commentary.pdf
4 Alldritt et al. (2020) *Back from the brink: Avoiding a lost generation*. Report for CPP. Available at: https://www.progressive-policy.net/publications/back-from-the-brink