**Where next for the UK welfare state? Austerity, policy responses and public attitudes**

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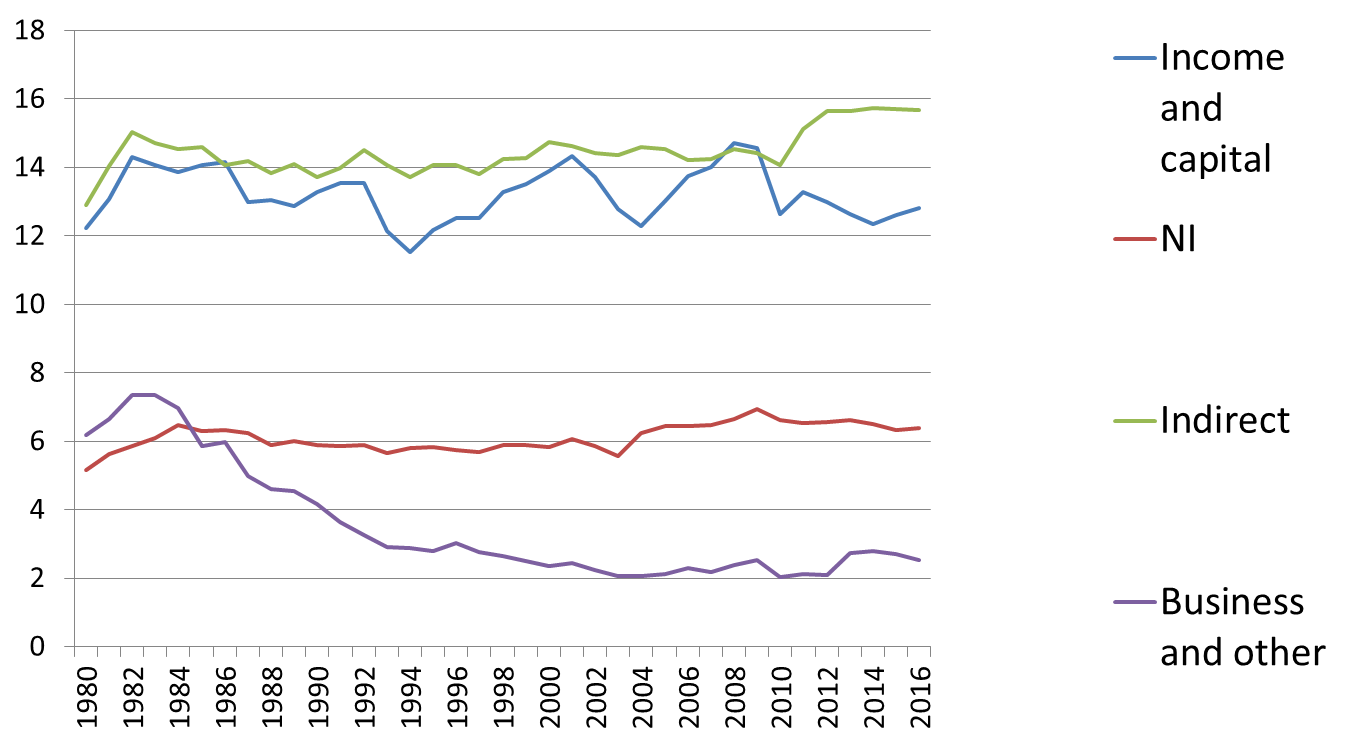
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**Introduction**

The United Kingdom (UK) is distinctive among the larger and more developed European states in two ways: it has a majoritarian first-past-the-post governmental system with a high degree of centralisation of political authority, and a liberal-leaning economy with a large financial sector, substantial income inequality which has risen over the years, and limited labour market regulation. These features create a context in which the response to austerity on both left and right has been heavily influenced by neo-liberal assumptions and by an individualist politics.

London is far and away the largest city in Europe providing one of the three major world financial trading markets and with a powerful and lightly regulated finance sector. The manufacturing sector is a relatively small. Taxes on the corporate sector have declined substantially since the 1980s. Personal income tax and, of growing importance, Value-Added Tax are the main sources of revenue (Figure 1). Indirect taxes almost exactly cancel out the mild equalising effect of direct taxes so that overall the system is proportional (Adam and Browne 2010: 7).

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***Figure 1: Revenue by source in the United Kingdom, 1980-2016 (% GDP)***

*Calculated from IFS (2015)*

Coalition governments are exceptional and the party of government is able to pursue its programme with relatively little constraint. The first-past-the-post voting system encourages bipartisanship, with the centre-right Conservative and centre-left Labour party predominating. However, the proportion of votes taken by Labour and Conservative parties declined from 80 per cent in 1979 to 67 per cent in 2015. The Liberal Democrats (or Lib Dems), founded in 1988 as a merger of the more substantial Liberal Party and the short-lived Social Democratic Party, became the UK’s third largest political party. They gained between 20 and 62 seats out of 650 in the House of Commons between 1992 and 2010 but collapsed in 2015 with only eight seats. Nationalist movements have grown stronger in Scotland and Wales in recent years, and two further movements, the Green Party and the populist right and Eurosceptic and anti-immigration UK Independence Party (UKIP) have emerged. These trends suggest that the UK is moving from bipartisanship towards a multi-party system within the constraints of first-past-the-post voting.

In this context, social spending has been relatively low by European standards and targeted, in keeping with the liberal welfare state regime. The main areas of social provision (health care and all cash benefits and pensions) are directly controlled by central government. Local government is responsible for social care and social housing and much of pre-18 schooling, but within a tight framework of regulation and with little financial autonomy. In recent years, central government has constrained resources in these areas so tightly that local autonomy is very limited.

The aim of this background paper is to assess the evolution of the politics of the British welfare state over time, based on the country’s political characteristics, policy responses advocated by political parties, and public attitudes. It is divided into three sections: the first focuses on the past and offers a review of the economic, social and political context, as well as a brief discussion of pre-crisis policies and issues; the second examines the present and includes an examination of the Great Recession, the policy response to it and the existing politics of welfare state policies in the country; the third considers likely future developments and examines public attitudes towards welfare policy responses. Throughout this paper, we analyse three types of factors influencing the UK welfare state: *external* factors include economic globalisation and more intense competition and the role of the EU and other international bodies; *internal* factors include population ageing, inequality and the relative strength of various interests particularly in the UK context finance capital, employers and labour. Policy is also influenced by *feedback* effects from existing programmes which may reinforce particular tendencies and move the welfare state towards a stable equilibrium or destabilise the existing settlement.

The discussion in this background paper shows how the liberal-leaning welfare state regime, combined with a first-past-the post political system has promoted a neo-liberal response to austerity, and how this has strengthened individualist approaches to politics which weaken fightback. This is reflected in an over-riding commitment to deficit reduction and determination to keep taxation relatively low on the part of both main parties. There is a growing party divide on the issues of the level of state spending, the importance of welfare for working age people, the value of social investment and the desirability of welfare interventions through regulation of rents, prices and working conditions. This suggests that future policy divisions will lie between the continuing contraction of state provision with substantial privatisation and further weakening of the labour-movement on the one hand, and attempts to maintain state welfare, using the more market-friendly strategies of pre-distribution and social investment rather than traditional redistributive intervention on the other. The UK welfare state has moved away from the bipartisan consensus on a basic adequate level of provision which endured up to the later 1970s. Future patterns of provision, whether they move towards a fully liberal market or a regulatory rather than redistributive model will be unlike those in the past.

**The Past: Policies and Issues before the Crisis**

The main long-standing issues forming the background to UK welfare state politics from the 1970s onwards concern the pressures of population ageing, the trend towards inequality and declining social mobility, tax resistance and an underlying market-centeredness. In the context of a liberal welfare state regime, these led to continuing debates about the priority of health, social care and pension provision as against services for working age people; means-testing, privatisation, the balance of taxes on different groups, ethnic minority, gender and workplace rights and family support; and the role of the private sector, value for money in state services and managerial reform. They took place in the context of labour market demands for more immigration and concerns that immigrants were undercutting wages and imposing pressures on housing and schooling (Dustmann and Glitz 2005; Spencer 2011).

The self-consciously right-wing Conservative government elected in 1979 under the leadership of Margaret Thatcher (who remained prime minister until 1990) summed up its approach in the first sentence of its spending plan: “Public expenditure is at the heart of Britain’s present economic difficulties” (PEWP 1979: 1). The Conservatives remained in power until 1997. They pursued a vigorous programme of spending cuts, privatisation and attacks on trade union rights and state regulation. In this period the UK made a decisive shift towards a more liberal approach to welfare, and low-tax market-centred presumptions have framed policy-making since. The shift towards neo-liberalism reinforced individualism and weakened the labour movement, undermining the institutions that promote solidarity.

New Labour, which succeeded the Conservatives and was led by Tony Blair until 2008, initially pursued a ‘Third Way’ programme, cautiously expanding state provision and promoting more equal opportunities through educational investment, expanded means-tested welfare and introduced a minimum wage, supplemented for low-income people by tax credits. It pursued this strategy rather than reinstating trade union rights, imposing higher taxes on the better off, renationalising major industries or expanding universal benefits and services. The Labour government was replaced in 2010 by a right-wing majority coalition (unusual in the UK) led by the Conservatives and including the Lib Dems. In 2015 the Conservatives won the election on an austerity and balanced budget platform and are now implementing a programme of additional privatisations, cuts in public provision and an attack on remaining trade union rights. We go on to consider policies from 1979 to 2010.

The 1979 government instituted a programme of rapid and profound spending cuts. It also pursued privatisation programmes, selling more than two million units of social housing at discounted prices between 1979 and 1995, subsidising places at private schools and private health insurance contributions through tax rebates and expanding the use of private providers within state services. The most ambitious privatisations were the sale of social housing (highly popular) and the encouragement of members of occupational pension schemes to transfer to private market pensions through state subsidies and cut-backs to the competing state second tier pension scheme. The majority of those transferring lost heavily as a result of weak regulation, leading to a discrediting of the private pension industry, lawsuits and compensation (Goode 1993).

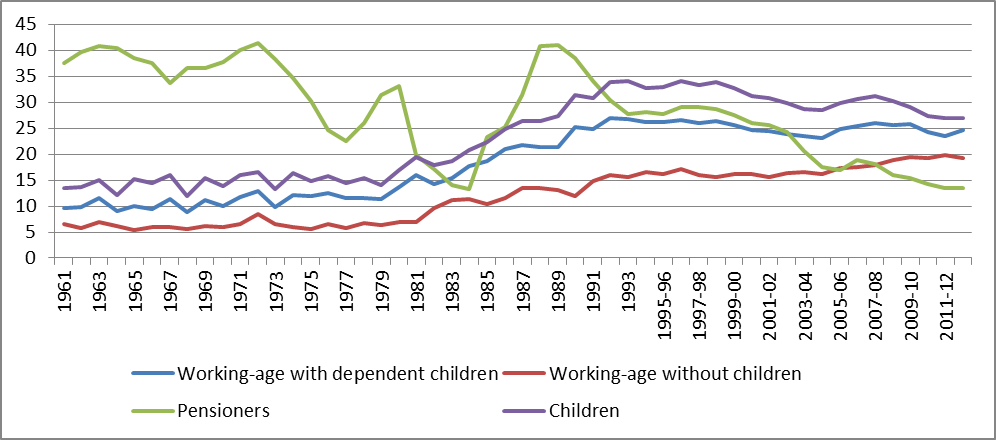
The 1984-5 Miners’ Strike against pit closures and privatisations led to the largest deployment of police since the 1920s, and resulted in a defeat for the miners. The Conservative government passed legislation weakening trade unions and the curtailing the right to strike in 1985. The UK negotiated a rebate on payments to the European Community in 1984. In 1992 it signed the Maastricht Treaty but retained an opt-out from the third stage of the economic and monetary union (full membership of the Eurozone), which has also been rejected by the Labour party. The UK opts out of the Schengen Agreement on cross-border immigration control and policing and the Charter on Fundamental Rights. In addition, the country enjoys a flexible opt-out from policies falling in the scope of the European Union (EU)’s Area of Freedom, Security and Justice.

The 1979-97 Conservative administration slowed the rate of increase in spending rather than achieving the cut-backs it had anticipated. Spending as a percentage of GDP, especially on cash benefits, rose during the economic slowdowns of 1983 and 1993 and later fell back, partly because benefit expenditure rose sharply with unemployment.[[1]](#endnote-1) In addition, during the 1980s and 1990s, the extra demands of an ageing population more than outweighed the impact of cuts in benefits directed at the poor. Figure 2, which presents spending in real terms per head rather than as a percentage of GDP, shows that the brunt of the cuts in this period was borne by other state services outside the area of welfare, particularly local government, policing, transport and capital programmes.

***Figure 2. Social Spending per capita in the United Kingdom, 1979-2013***

*Source: UK Public Spending 2015*

The 1997 Labour government initially committed itself to follow the stringent Conservative spending plans, but later increased spending on health care, education and social benefits during the relatively benign period of growth during the early 2000s. It did not restore trade union rights and continued with the expansion of private sector provision within state services. It undertook substantial managerial reform, building on and expanding the internal market reforms of the previous government across substantial areas of social and much of health care. The most significant developments were: targeted policies designed to improve living standards at the bottom (national minimum wage and tax credits), a New Deal for unemployed people with greater training opportunities but stronger requirements to pursue and take jobs, a new state contributory pension for low to middle earners, policies to improve education opportunities, especially Sure Start day nurseries, and an increase in the national insurance tax in 2002 to finance higher National Health Service (NHS) spending (Hills and Stewart 2005).



***Figure 3: Percentage of people in Low-Income Households in the United Kingdom (below 60% median household income****)*

*JRF (2015)*

The initial impact of the 1979-2000 spending constraint was a rapid increase in poverty. Poverty rates had previously been relatively stable among children and people of working age and in decline among pensioners (Figure 3). Poverty then reached a plateau in the 1990s as the economy improved. The introduction of the national minimum wage and of Tax Credits in 1999 reduced poverty among children and working families to a moderate extent. Increases in the basic state pension plus the introduction of means-tested Pension Credit cut poverty among pensioners faster. Pensioner poverty rates fell below those of working age groups by 2005-6. Poverty then increased during the recession and continued to rise, falling back for children and families with children as incomes fell more rapidly than benefits for these groups after the introduction of austerity measures. However, for those without children, the benefit cuts and falling wages led to an even faster fall in living standards. Poverty is now rising among all working age people and children, but continues to fall for pensioners as a result of continuing real increases in pensions.

Immigration had become an increasingly important political issue during the early 2000s as more EU citizens from Eastern and Central Europe entered the UK, particularly after the ‘big bang’ enlargement of the EU in 2004. These groups were attracted by the buoyant, flexible and relatively unregulated labour market. They joined a flow of immigrants from elsewhere and particularly from the UK’s former colonial nations in the Indian sub-continent, Caribbean and Africa. Unrest and war in Afghanistan, former Yugoslavia and the Middle East also generated flows of migrants.

Immigration is essential to maintain the age-structure of the population and a young and flexible work-force. Currently more than 11 per cent of the UK population are foreign-born, comparable to other major European countries such as France and Germany. Anti-immigration parties gained an increasing but small share of the vote throughout the period, despite the difficulties in gaining MPs in the first-past-the-post system. Their popularity influenced larger parties and promoted welfare chauvinist policies. Non-EU immigrants are now regulated by skill, country of origin and personal relationships to citizens. These restrictions stem from the 1981 Nationality Act and were tightened in the managed migration policy which grew increasingly restrictive from 2006 onwards and the temporary cap in 2010.

John Hills *et al.* (2015a: 11) provide the most authoritative and detailed reviews of Labour’s social policies implemented between 1997 and 2010. They conclude that the government’s policies “have been dominated not by spending on cash benefits but by reinvestment in and ‘modernisation’ of public services: an approach helped by a decade of economic growth. In health, education, the early years and neighbourhood renewal, there were extra staff, more and newer and better equipped buildings, wider access, and new policy programmes and services”. They go on to show that socio-economic gaps in access to services decreased, and evaluation reports tended to show that the outcomes that had been targeted had improved.

To sum up developments in the period up to the Recession, the 1979-97 Conservative government pursued pro-liberal policies designed to shrink the role of the state and expand the private sector and to undermine the institutional bases of solidarity and promote greater individualism. The 1997-2010 Labour government cautiously expanded state activity, but directed resources towards investment rather than traditional left universal programmes. It expanded the role of the market within the state sector through internal market reforms. It did not seek to rebuild trade unions, rather relying on the experience of national services such as the NHS or state education as the protection against individualism. It accepted increasing inequalities provided that the poor were protected through means-tested support and a minimum wage.

**The Present: The impact of the great recession and responses to it**

The world banking crisis in 2007-8 precipitated an economic crisis as bank lending collapsed and a fiscal crisis as state revenues fell and the demands on state budgets rose (Gough 2011: 50). The UK had achieved economic growth of between two and three per cent for most of the post-war period, slightly slower than other major European countries. The economy contracted by about five per cent in 2009, roughly equivalent to the EU average contraction, and the country narrowly avoided a second recession in 2012-13. Subsequently the economy recovered to match its previous growth rate, now rather faster than the Eurozone countries affected by the Greek crisis and the rigid balanced-budget policies of the ECB and Germany. The UK has become a European economic leader and is expected to continue in this position for the next four or five years.

The immediate response to the recession was an automatic increase in spending on unemployment and low pay benefits, and a number of measures to protect business (tax cuts) and jobs (for example, a car scrappage scheme, provision of training opportunities, bonuses for job creation) as well as an increase in personal allowances (Chung and Thewissen 2011). The management of the recession, led by Gordon Brown as Chancellor and then Labour Prime Minister, was initially successful, leading to a swift recovery on the pattern of the mid-1970s recession. Gordon Brown was also influential in leading an international commitment to co-ordinated investment. However the Labour party lost power after an inept election campaign in 2010, to be succeeded by a Conservative-Liberal Democrat Coalition in which the Conservatives, led by David Cameron, were the senior partners. The most important impact of the recession on the UK welfare state was the fact that it served as a justification for profound and far-reaching policy changes which have further entrenched the liberal regime. We will now discuss the changes in detail.

The Coalition government faced a relatively high deficit and continuing pressures from population ageing and from inequality. The government headlined the issue of immigration and stated its commitment to reduce immigration ‘from the hundreds to the tens of thousands’, lending force to welfare chauvinism as a response to the crisis. Despite restrictions on visas and rigid enforcement of regulations, the government had little capacity to restrict immigrants from the EU. The numbers of non-EU immigrants fell from 350 to 290 thousand while the numbers of EU immigrants rose from 175 to 230 thousand between 2010 and 2015, the remainder being made up of British overseas citizens. The outcome was a slight increase in overall immigration during the life of the government (ONS 2015a). The issue of immigration remains high on the political agenda.

The Coalition pursued a radical and vigorous programme of structural reform in welfare. The decision to invest in substantial restructuring indicates a determination to achieve a major and permanent shift in UK state welfare, expanding the role of the private and non-state welfare, entrenching payment by results and requiring people to take much greater individual responsibility for outcomes. The objective was a decisive shift towards smaller and more liberal social sector and an embedded individualism in welfare politics (Taylor-Gooby 2013).

The government also announced its intention to eliminate the deficit within five years, and finance the shift to a balanced budget four-fifths from spending cuts and one-fifth from taxation. This was the greatest proportional cut in public spending per capita in the UK since at least 1964 and probably since 1949 (IFS 2015: 152). The programme included real increases in spending on pensions (the largest single programme) and on health care (the next largest). Spending on 4-18 schooling (the third largest programme) and for the relatively minor programme of overseas aid was also to be held constant, so that all spending cuts were focused on other areas.

In practice, pension spending rose, but health care and education spending held steady in cash terms, failing to match the population increase. Welfare benefits were cut sharply despite rising demand (Figure 2). The government also cut taxes on business to the lowest level ever (21 per cent by 2015), increased VAT from 17.5 to 20 per cent and introduced a temporary 50 per cent income tax rate on earners whose income exceeds £150,000 a year, which was then cut to 45 per cent in 2013. It raised tax thresholds, so that middle to lower income people paid less tax, but the tax savings for higher income people were much greater in cash terms. The net effect of tax policies was to shift the burden of paying for deficit reduction more towards lower income groups (Johnson 2015: 5). The formidable constraints on policy meant that the cuts in the unprotected areas were exceptionally severe and that structural reforms were not pursued as vigorously as they might have been.

The cuts fell most severely on local government spending, which fell by about a third in real terms between 2010 and 2015, and non-pension benefits. Local government cuts reduced non-mandatory services enormously and had major impacts even in the mandated areas of social care services and children’s services. The numbers of over 65s receiving local authority social care services fell from 1.22 million in 2008-9 to 1.06 million by 2010-11 and to 0.85 million by 2013-14 (Burkhardt *et al.* 2015). There is considerable concern that the weakness of social care leads to bed-blocking in the NHS as hospitals are unable to discharge frail older people. The numbers on waiting lists for more than 18 weeks rose from about 2.5 to about 3 million between 2010 and 2015 (The Guardian 2015).

The pressures on local government have resulted in major cuts in non-mandated services such as social housing, road-repairs, public transport, libraries and cultural services, the transfer of some provision to voluntary groups, the merger of services between local authority areas and extensive privatisation. While directly employed staff are mostly unionised, privately employed staff are not, so that wage costs fall. In addition, one of the most effective of the Labour reforms, the Sure Start programme of children’s services centred on day nurseries, has been radically curtailed and privatised. This has increased child care costs substantially. The Working Tax Credit childcare component was cut by one eighth, also affecting opportunities for parents of young children to pursue full-time employment. Part-time access to primary schooling for the most deprived 40 per cent of children aged 2 and 3 has been extended, but staffing quality and standards have been relaxed and only 13 per cent of places taken up (Hills 2015a: 38). More importantly, the cost of childcare for under-fives rose by 27 percent during the 2010-2015 parliament, more than three times the rise in incomes, making childcare costs in the UK and OECD the highest in the OECD countries (OECD 2015a).

Benefits were cut-back and short-term benefit increases limited to a maximum of the consumer price index, so that, over time, they lagged behind living standards. Rent benefits were restricted to the bottom third of rents, so that spending was held down despite rising rents, and increasing housing stress particularly for those on low incomes. Benefit totals were also capped at an average wage level, regardless of need or family size or the fact that those in work would have access to additional means-tested support. The biggest savings were on the basic means-tested benefits, Job Seeker’s Allowance for those out of work (0.4 per cent of GDP saving) and Tax Credit for those on low wages (0.3 per cent) Child benefit cuts contributed about 0.1 per cent (Hills 2015b, Table 3).

The structural changes in provision were reinforced by the impact of cuts. It became more difficult for local government to subvert central spending controls as local tax-raising capacity was restricted. Private providers of tax-payer financed services were introduced into the work programme, in NHS services by the requirement to commission from ‘any qualified provider’ with severe pressure to take the lowest bid, and as already mentioned in local government services from refuse collection to child care. The reforms to cash benefits entrenched the division between pensions (uprated by the highest of 2.5 percent, price or earnings indices) and other benefits (to be uprated by the lowest of one per cent or the price index) and ensure that it is cumulative. Future pension costs are to be contained by raising the retirement age (now 65 for men and 63 for women) to 66 by 2020 and 67 by 2028, and by consolidating all pension entitlements into a flat-rate pension by 2016.

The new Universal Credit system brings a number of means-tested non-pension benefits (housing, job-seekers and single parent benefits and tax credit) together into one system. There have been severe delays due to the problems of operating an integrated means-test in real time without overpaying or failing to respond to changes in circumstances for a large number of people with fewer staff. The new approach promises greater simplicity and transparency. However it is unclear whether it will succeed in overcoming the implementation problems.

The benefit changes are being introduced in the context of a threefold increase between 2009 and 2014 in the use of sanctions, denying claimers benefits for (in most cases) one to six months for failure to undertake job interviews, applications, contact benefit authorities or undertake training programmes (Oakley 2014). One quarter of those sanctioned cease to pursue claims but only one quarter of this group in fact move into employment (HP WPC 2015). No real evidence exists on the experiences of those right at the bottom, although it is known that applications to food banks, about half of them among sanctioned claimers, have doubled (Tressel and Hills 2015: 39) and that homelessness is increasing in a context of rising housing stress (Hills 2015b: 53).

The recession also weakened the bargaining position of employees. Unemployment rose from about five to seven per cent by 2014 and then started to fall. The increase was lower than in previous recessions and lower than was widely expected. However, unemployment among younger workers under the age of 24 rose much more rapidly, from 10 per cent in 2006 to 20 per cent by 2013, and then fell back to 15 per cent in 2014 (Hills 2015a; ONS 2015). Work became more insecure for many people, and zero-hour contracts,[[2]](#endnote-2) involuntary part-time working and low-income self-employment expanded. By 2014, the number of self-employed people (4.6 million) and their contribution to total employment (15 per cent) were at their highest for 40 years or more. Young people were most severely affected, leading to concerns that the damage inflicted by unemployment and sub-employment at this stage will permanently ‘scar’ their careers (Knabe and Ratzel 2011). The government introduced high fees for employment tribunals, effectively denying industrial justice to low-income people. It also doubled the period in a job required before employment protection rights were gained to two years. The effect of this change was to reduce employment protection in the UK, already among the worst regimes in the EU, below the level attained by the reforms introduced by the Labour government. Hills *et al.* (2015) point out:

By 2014, average wages were lower in real terms than they had been before the economic crisis. Between 2009 and 2013 cuts in real hourly wages were felt across the age distribution, but particularly among younger workers age 25 to 35. The fall in real wages has had negative impacts on household incomes and tax revenues, affecting household living standards, consumption and the government’s deficit reduction programme. The UK continued to have one of the highest incidences of low pay among the OECD member nations. The Coalition parties endorsed the National Minimum Wage, but its value declined. By October 2014 – despite a small increase to £6.50 per hour for adults – it was worth no more in real terms than in 2005.

A major labour market problem is the failure to achieve any real increase in productivity. The UK achieved relatively good levels of productivity (understood as output per hour worked) in the 1990s and early 2000s, exceeding Eurozone performance and matching G7 between 1990 and 2007. However, it has failed to recover after the crisis with a two per cent gain between 2007 and 2014, against four per cent in the Eurozone and slightly more in G7 (OECD 2015b). Hours worked by each worker have always been high compared to Western and Northern Europe but lower than in Mediterranean countries. The change seems to be at the level of the individual worker. One aspect of this is the reduction of incentives for employers to invest as people become more willing to accept lower wages and as the taxes on business are reduced. All things being equal this results in lower spending on training and on capital goods. Other factors, mainly exogenous and importantly the fall in global energy prices, and the continued weakness of European competitors also play a part. These changes further weaken the labour movement and promote individualism against solidarity.

The Coalition failed to eliminate the budget deficit, although it cut it substantially from £151 billion in 2010 to a predicted £89 billion in 2015 (IMF 2015). Deficit reduction remains at the forefront of UK policy debate. It is an indication of how far the neo-liberal response to austerity shapes politics in the country across the board that deficit reduction was at the centre of the manifestoes of all major parties. The Coalition has achieved a substantial shift in policy and in the way policy is discussed towards a smaller state sector, reliance on private providers, a division between adequate provision for the elderly and meagre provision for the poor of working age, the abandonment of progressive tax. These policies will be hard for any future government to reverse.

The Coalition has addressed some of the more obvious problems in relation to population ageing (improving pensions while containing future costs and maintaining health care for older people) but weakened social care. It has not addressed the deeper problems of an ageing society (the need to improve the quality of an ageing labour force through greater educational opportunity; the need to attract immigrants to balance the workforce; the need to address the productivity issue). The gap between better and worse off has grown wider. The seeds of further increases in inequality in a low-wage economy and privileged treatment of the better off, have been sown. These issues will help shape the future development of the UK welfare state.

The most far-reaching effect of the recession has been to provide a justification for policies to pursue deep cuts in spending, and to weaken the solidarity and bargaining position of labour. Electoral politics has directed the cuts towards working age people and away from older people, whose pensions and health care are protected although social care is cut The outcome has been to accelerate changes that have been part of the Conservative programme since 1979. The party has made more progress in five years in coalition and in the period since 2015 than it had in its previous 18 years in government from 1979 to 1997.

The 2015 General Election campaign was characterized by a high level of media coverage for seven political parties, replacing the traditional focus on the Conservatives, Labour and the Lib Dems. The populist right UK Independence Party, which became the largest British party represented in the European Parliament and won two by-elections in 2014, became much more visible on the national scene. Despite the negative outcome of the Scottish independence referendum in October 2014, the Scottish National Party became a major player in British politics, with polls suggesting they would become the third largest party represented in the House of Commons. Two other minor parties, the Green Party of England and Wales and the Welsh nationalist party Plaid Cymru, also gained more visibility through their participation in the televised leaders’ debate, with a TV audience of 7.4 million. All parties formulated diverging policy responses to austerity, as highlighted in Table 1.

**Table 1. Party responses to austerity in the context of the 2015 General election**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **Conservative** | **Labour** | **Lib Dems** | **SNP** | **Plaid Cymru** | **UKIP** | **Green Party** |
| **Neo-liberalism** | Balance the budget;  £12 billion welfare cuts;  Cut household benefit caps;  Increase tax credit;  Prioritise benefits for the elderly | Balance the budget;  Cap structural welfare spending;  Prioritise benefits for the elderly;  Increase tax credit | Balance the budget;  Prioritise benefits for the elderly;  Increase tax credit | Prioritise benefits for the elderly | Cut business rates for small and medium sized businesses | Balance the budget;  Restrict child benefit to two children;  Cut benefit caps;  Increase tax credit;  Cut business rates for small businesses | N/A |
| **Individualism** | Privatisation in various sectors | N/A | Encourage further private sector investment in various sectors | N/A | N/A | Encourage the use of private health services;  Stimulate private energy investment | N/A |
| **Neo-Keynesianism** | N/A | Scrap the bedroom tax; | Increase benefit cap for two years;  Reform the bedroom tax | Scrap the bedroom tax;  Back increase of at least the cost of living in benefits | Scrap the bedroom tax | Reform the bedroom tax | Introduce a maximum 35-hour working week |
| **Social Investment** | Create 3 million apprenticeships | Increase access to childcare;  Apprenticeship for every school leaver who gets the grades | Expand apprenticeships;  Develop national colleges for vocational skills | Continue free university education in Scotland | N/A | N/A | Scrap university tuition fees |
| **Predistribution** | Increase minimum wage | Increase minimum wage;  Retain the triple lock on pensions;  Control on rent and utility prices | Retain the triple lock on pensions | Increase minimum wage;  Retain the triple lock on pensions and protect the winter fuel allowance | Living wage for all employees by 2020 | No tax on minimum wage | Create jobs that pay at least a living wage;  Provide 500,000 social homes for rent by 2020 and control rent levels |
| **Fightback** | N/A | Tax on bankers’ bonuses;  Mansion tax | Extra corporation tax on banking sector | Oppose austerity and increase spending;  Tax on bankers' bonuses;  Mansion tax and crackdown on tax avoidance | Oppose austerity and spend on infrastructure;  Oppose a ‘welfare cap’;  Oppose NHS privatisation | End austerity by leaving the European Union | End austerity and restore the public sector |
| **Welfare chauvinism** | Four-year wait before EU migrants can claim benefits;  Lower immigration;  EU referendum | Two-year wait before EU migrants can claim unemployment benefits | Phase out child benefit for children living outside the UK;  Language tests for benefit claimants | N/A | N/A | Five-year wait before  migrants can claim benefits  Point-based system capped at 50,000 skilled migrants/year;  EU referendum;  Prioritise social housing for people with local connections | N/A |
| ***Percentage of popular vote (whole country)*** | *36.8%* | *30.5%* | *7.9%* | *4.7%* | *0.6%* | *12.7%* | *3.8%* |
| ***Percentage of seats*** | *50.8%* | *35.7%* | *1.2%* | *8.6%* | *0.5%* | *0.2%* | *0.2%* |

The Conservative party’s coalition partners, the Liberal Democrats, lost 86 per cent of their seats in the 2015 election and the Conservatives won outright after a campaign fought on an austerity politics, benefits for the elderly and welfare chauvinist platform. They were helped by a massive defection of Labour voters in Scotland to the Scottish National Party. Welfare cuts totalling £12 billion (just over ten per cent of budget for working age welfare) were introduced. The maximum amount any household could claim was reduced from £26,000 to £20,000. A Citizens’ Advice Impact Assessment of the draft legislation confirms a leaked Department for Work and Pensions memo showing that this measure will penalise about 400,000 children and 150,000 adults (Citizens’ Advice 2015). Other measures include limiting child tax credit to two children, a four year benefits freeze, a commitment to train a further three million apprentices and the abolition of Employment and Support Allowance Work-Related Activity Component. The party also sought to gain welfare chauvinist support through plans to limit the welfare available to non-EU immigrants and to negotiate with Brussels on restricting EU immigration.

To sum up, the period from the Great Recession to the present has been one of an initial response of cautious counter-cyclical investment and spending containment, overshadowed from 2010 by an over-riding concern to balance the budget through a harsh austerity programme and to undermine working class solidarity. This has resulted in profound cuts in services for the most vulnerable and has been accompanied by privatisation. The programme has had some success in moving towards its objective of deficit reduction, but has weakened the institutional bases of solidarity further, and promoted individualism, neo-liberalism and welfare chauvinism.

**The Future: The UK Welfare State at Crossroads?**

The UK is heavily engaged in external trade, distinctively in the field of financial services, and is a member of the EU but not of the Eurozone. The imperative to remain internationally competitive has reinforced the tendencies towards a more liberal regime than those of other European countries. Politics is becoming more fragmented with a decline in class voting and the emergence of new parties. We have traced out the neo-liberal response to the crisis under Coalition and Conservative governments from 2010 above and discussed the way in which policies to erode trade union power, make strikes and recourse to industrial tribunals more difficult, impose the heaviest cuts on provision for low-income people of working age and extend the role of private rather than publicly provided service in people’s lives reinforced the shift toward individualism. Current policies provide feedback which strengthens the growth of neo liberalism and individualism.

It is significant that policies (and the policy proposals of the main opposition party, Labour) tend to favour older people, protecting the living standards of pensioners, although setting in train a programme of future increases in pension ages that will help to contain the cost of population ageing. At the same time expansion of pre-schooling and maintenance of paid parental leave entitlements some resources to younger groups. The divisions in policy between older and younger and working and non-working groups in policy reflect trends in attitudes revealed by the main surveys.

The British Social Attitudes survey (the most authoritative annual survey) shows that the largest number of people endorse retirement pensions (67 per cent) followed by benefits for disabled people (60 per cent) as their top priority for extra spending (Britsocat 2015). Child benefits come next at 40 per cent, while benefits for single parents receive only 17 per cent support and for unemployed people 12 per cent. Support for the first two groups has remained roughly constant since the survey series began in 1983. Child benefit has risen over time, initially receiving 20 per cent support, while the priority of unemployed people has declined rapidly from over 30 per cent in 1993.

The survey also shows how attitudes have hardened against unemployed people. Although the proportion of workless households in poverty has changed little since the later 1990s at about 70 per cent (ONS 2015b) the proportion believing that ‘benefits are too high and discourage work’ has risen from less than 30 to over 50 per cent during the same period. The trajectory of responses to this question almost exactly mirrors that of responses to the view that they are ‘too low and cause hardship’, halved from 56 to 28 per cent.

Labour voters are more sympathetic to unemployed people than Conservatives but the differences are not marked: 16 per cent of the former put unemployed benefits as top or next priority as against eight per cent of the latter, indicating an overall decline in solidarity. Sixty-nine per cent of Labour voters and 85 per cent of Conservatives support the high profile benefit cap that limits total household entitlement regardless of need.

Party differences are more striking on broader issues. As of 2014, Labour identifiers[[3]](#endnote-3) are more concerned about inequality: 71 per cent against 39 per cent of Conservative identifiers think ‘there is one law for the rich and one for the poor’ and 72 against 41 believe that ‘ordinary people do not get their fair share of the nation’s wealth’. The parties split 44 against 17 per cent on whether the government should spend more on benefits for the poor, and 38 against 71 per cent on whether unemployment benefits are too high. Both Labour and Conservative identifiers are keener on a universal NHS (73 and 71 per cent). However voters of all parties support restricting benefits for immigrants. There is persistent strong anti-immigration sentiment on the right and among some working class former left voters, especially in deindustrialised areas. Thirty-eight per cent of those who put themselves on the political left and 80 per cent of those on the right answered ‘yes’ to an opinion poll question about whether immigration should be reduced in 2014 (Britsocat 2015; see also Appendix). For example, 60 per cent of British Social Attitudes 2014 respondents believe EU immigrants should have benefit entitlement limited to six months maximum and 67 per cent believe that the same cap should apply to non-EU immigrants (ibid.). Labour and Conservative supporters differ by no more than ten per cent on these issues.

On all these issues Liberal Democrats identifiers are located between the two main parties. Greens are to the left of Labour and ‘Ukippers’ to the right of the Conservatives, although Lib Dems, Greens and UKIP have few members of the 2015 Parliament. SNP to the left of Labour on welfare, leapt to prominence in 2015, taking 56 seats out of 650. Other surveys confirm these patterns (see IPSOS-Mori 2015). Baumberg *et al*. (2012) shows how entrenched suspicion of unemployed people is and how media reporting reinforces existing attitudes.

The patterns of public opinion indicates real party differences on the role of government but a considerable consensus on the priority of older people and on curtailing for working age welfare. In this context it is hardly surprising that austerity and deficit reduction remain central objectives for both major parties. Both proposed at the 2015 Election to load most of future cuts onto working age welfare and continue spending on older people. Attitudes and party politics suggest that age-division and working-non-working divisions will form the parameters of social policy, together with commitment to spending restraint.

One way forward is the current neo-liberal individualist pattern. In this context any pro-welfare party faces difficult problems. It must present a programme that addresses the deficit to be seen as competent, it must respond to key themes in public opinion to be electable and it must develop policies that promote greater equality and help those at the bottom to be progressive. These requirements can be formulated as a trilemma: the formidable obstacles to any increase in taxation make generous benefits impossible while public opinion stigmatises working age claimants and gives low priority to benefits for this the largest group in poverty. Any extra spending must go to health care and pensions (Taylor-Gooby 2012).

The resolution of the problem requires policies that neither cost money nor involve direct transfers to poor groups of working age. This suggests that programmes addressing the traditional left concerns of poverty and inequality must rest on regulation rather than spending, or on spending presented as investment. The most prominent proposals are ‘predistribution’: price regulation for utilities and a limited form of rent control in major cities (Hacker 2011), and ‘social investment’ to improve the productivity and availability of labour through education, training, child care and parental policies and activation (Morel *et al.* 2011). Other possibilities are a higher minimum wage, more and higher quality apprenticeships and a jobs programme for young people on benefits, and reforms of trade union law and of labour regulation to improve the bargaining power of labour. The 2015 Conservative budget increased the minimum wage (renamed a ‘living wage’) to exceed the highest level of the early 2000s and at the same time raised tax thresholds, further increasing the income-gap between those in and those out of work. Whether this will realign electoral politics so that the Conservatives are seen as the party of low-income workers (as opposed to welfare claimers) remains to be seen.

This brief analysis suggests that UK welfare state policy will, in the short term, continue to display the clear division between benefits and services for the older population and for working age people of recent years (with the exception of cost of childcare). It is unlikely that there will be a substantial increase in state spending whoever forms the government, and or of any move closer to the European average. This implies that the trajectory of the recent past towards a neo-liberal austerity politics supported by a more forceful individualism will continue. Elements of welfare chauvinism also emerge in the stance of the major parties on immigration.

Two issues are of most importance: whether there will be a left attempt to expand the regulatory role of government to enhance the position of the less well-off and to extend workers’ rights, or whether regulation will focus on limiting the spending autonomy of local government and encouraging the private provision of state funded services as it has under the Coalition; and how far policy feedback reinforces a particular trend in policy.

Two feedback loops appear possible. The first assumes increasing inequality, poor provision and poor rights for workers at the bottom with limited wage supplementation and strong compulsion on unemployed people to work. This will reinforce poor productivity and reduce incentives for employers to invest in capital goods or increase wages so that the UK continues on the path of recent years. The second possibility is that measures to strengthen rights, increase skill levels and promote state-led investment will reinforce higher productivity across the economy and help lower paid people to move toward higher wages. This approach might shift the pattern of UK inequality, productivity and welfare provision back towards the Western European average, leading ultimately to a larger and a less divided welfare state.

Looking beyond current political directions, other factors come into play in the longer term. From an external perspective, developments in global competition are likely to reinforce the tendency to develop a two-speed economy in which the gap in rewards between highly and less highly skilled grows, and in which the capacity of workers’ groups to resist this is weakened. It is also unclear how the UK’s relationship with and developments within the EU will affect the country. A strong element in public opinion and on the right of the Conservative party supports the UK leaving the EU.

The 2015 Conservative government will hold a referendum on Britain’s relationship with the European Union by the end of 2017 at the latest. Demands include denying benefits to EU immigrants for a period of five years, safeguarding the interests and independence of the City of London outside the Eurozone, and allowing national parliaments to block European legislation. One possibility is a UK exit, which isolate the UK from the rest of Europe and, most commentators believe, severely damage growth. An associate membership, based on the model established by the European Economic Area in the early 1990s, would bar the UK from participation in decision-making, of relevance to a country with a distinctive financial sector and labour market policies potentially vulnerable to EU regulation. However, continued membership of the EU would limit the extent to which the UK could maintain labour market policies substantially different from those elsewhere, especially with regards to EU immigration.

A further external factor (responding also to internal developments) is immigration, conditioned by international factors and particularly by disorder and war elsewhere, to which the UK has contributed. Britain, with its imperial heritage, has maintained a relatively high level of immigration especially from the Indian sub-continent and the Caribbean Immigration is seen by most policy-makers as a necessary response to population ageing, but depends on the attractiveness of the UK as a labour market. This may diminish if other EU countries resume traditional growth-rates. As previously mentioned, there is a strong anti-immigration sentiment on the right and among some groups of working class former left voters, especially in deindustrialised areas, leading to restrictions on entry and on benefit rights. These restrictions were strengthened under the 2010 Coalition, but had little impact. Further restrictions might damage the UK’s capacity to attract an adequate workforce, but would increase the incentives for employers to invest in higher-value added employment.

Internal developments include population ageing and the retrenchment of state welfare within the short-term scenarios sketched out above. The pressures on the UK from population ageing are lower than in most other European countries, due to a combination of lower spending commitments, rather higher birth-rates and rapid increases in the pension age. Since 2007, the public sector in the UK has achieved productivity increases which paralleled those elsewhere in the private sector and in less labour intensive industries, thus muting the ‘relative price effect’ described by Baumol in pushing up the costs in areas such as health and social care and education (Gill and Kliesmentyte 2015: 1-2). However population shifts will impose real pressures on public spending, which may be addressed by tax increases, service dilution or shifting responsibilities from state to citizen. Developments in all three areas are likely, with the right favouring more private provision and individual responsibility and the left a greater role for regulation and cautious tax increases. In practice the extent to which policy follows one or other of the short-term scenarios set out above and the extent to which feedback effects promote a shift towards a smaller or more substantial welfare state in the longer term are likely to play an important role.

This brief discussion of possible welfare state futures in the UK draws attention to the increasing differences between the various positions, the current weakness of those who seek to defend the welfare state against austerity and the importance of policies which shift voters’ ideas and interests in particular directions and encourage and promote those directions cumulatively.

**Conclusion**

In this background analysis, we have reviewed recent, current and possible future developments in the UK welfare state. Our analysis shows that population ageing, growing inequality and more intense global competition have all tended to promote deeper divisions in policy objectives and outcomes, to sharpen the choice between contraction and continuity in the state sector and to raise the question of how far redistribution and welfare ends can be pursued by regulation rather than direct provision. Future developments are uncertain due to the interplay of external and internal factors and the possibility of feedback effects that may set the politics of social policy in a particular direction.

From a political perspective, party positions on the welfare state seem more polarised than ever. The bipartisan consensus on welfare that prevailed until the late 1970s is finally at an end. All main parties accept the central tenet of neo-liberal austerity politics, the over-riding importance of reducing the deficit. All prioritize benefits and services for older people, who constitute an important electoral force. Chauvinist responses, mostly aiming to reduce migrants’ access to welfare provisions and to introduce more stringent border control, are also widely accepted, but to varying degrees. The Conservative Party advocates tougher policies. However, there is now an entrenched division between right and left on the size of the state, the role of the private sector, the extent to which government should seek to ensure that the living standards of families on benefits fall below those of the lowest paid worker and the extent of inequality. In addition, democracy in the UK seems to be developing towards a multi-party system, in which the groups defending the welfare state are becoming increasingly fragmented. Opinion surveys reinforce the evidence of voting behaviour that there is a decisive swing towards individualism and that solidaristic ideas have been substantially weakened.

We suggest that UK welfare futures will be located somewhere between two scenarios: a contracting welfare state equilibrium, in which the political capacity to resist pressures towards greater inequality and declining provision for the working age population is weakened by the politics of inequality and by the fact that low productivity reinforces a low return to much of the working class; and a more broadly-based equilibrium, in which price, rent, wage and labour market regulation sustain living standards at the bottom and in which human, social and physical capital investment reinforce higher skill and a more equal spread of productivity. This would strengthen the interests supporting working age welfare state and contain but not reverse pressures towards greater individualism and towards inequality. The risk for the first model is that welfare provision is caught in a downward spiral that eventually destroys solidarity and weakens even the capacity to provide for older groups. The risk for the second is that higher labour costs undermine competitiveness making the system unsustainable.

The first approach presents the UK as the New York of Europe without the productivity; the Hong Kong without the social housing and educational opportunities; the Shanghai without a dominant state sector; the Tokyo without the middle class. In the second it becomes a nation in which progress some way towards the currently dominant regional model of conservative or Nordic corporatism is self-reinforcing.

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**Appendix – public attitudes**

***Priorities for Extra Spending on Social Benefits, 1983-2014   
(Source: BSA 1983-2014)***

***Perception of level of benefits for unemployed people and workless poverty, 1983–2014 (Source: BSA 1983-2014)***

Note: ‘Workless households in poverty’ are households with one or more unemployed members under 60 whose income falls below the 60 per cent of median income poverty line, from DWP 2014.

***Evolution of welfare chauvinism in the United Kingdom: Immigrants take jobs away from people who were born in Britain***

***Source: BSA 1995-2013***

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **For fair society, differences in standard of living should be small (% disagree)** | **Large differences in income acceptable to reward talents and efforts (% agree)** | **Government should reduce differences in income levels (% disagree)** | **Social benefits/services place too great strain on the economy (% agree)** | **Social benefits/services cost businesses too much in taxes/charges (% agree)** | **Globalisation is an opportunity for economic growth (% agree)** | **A more important role for the EU in regulating financial services would be effective to tackle the current financial and economic crisis (% agree)** |
|  | 27.2% | 63.9% | 20.9% | 51.8% | 51.3% | 59% | 48% |
|  | *Source: European Values Survey 2008* | *Source: European Values Survey 2008* | *Source: European Values Survey 2008* | *Source: European Values Survey 2008* | *Source: European Values Survey 2008* | *Source: Eurobarometer 2014* | *Source: Eurobarometer 2014* |
|  |  |  |  |  |  |  |  |

***Attitudes towards neo-liberalism in the United Kingdom***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Immigrants are a strain on our welfare system (% agree)** | **Immigrants receive more than they contribute (% agree)** | **Immigrants should only obtain the same rights to social benefits and services as citizens already living here after working and paying taxes for at least a year, or once they have become a citizen (% agree)** | **Immigrants contribute less in taxes than they benefit from health and welfare services (% agree)** | **Social benefits/services encourage people other countries to come live here (% agree)** | **Immigrants take jobs away from people who were born in Britain (% agree)** |
| 51.8% | 56.7% | 79.9% | 51.0% | 76.0% | 50.6% |
| *Source: European Quality of Life Survey 2011* | *Source: European Social Survey 2008* | *Source: European Social Survey 2008* | *Source: Eurobarometer 71, 2009* | *Source: European Social Survey 2008* | *Source: British Social Attitudes 2013* |

***Welfare chauvinism in the United Kingdom***

1. The experience of UK governments throughout the 20th century has been that it is difficult to embed cuts in the UK. The post-First World War government instituted the most severe programme of cuts in the period, seeking an eight per cent reduction in state spending within four years, provoking a naval mutiny and setting the scene for the first Labour government in 1924 and the general strike in 1926. However, spending on local services and benefits by local government rose in the late 1920s to subvert the effect of central cuts (Taylor-Gooby 2012) . [↑](#endnote-ref-1)
2. Zero-hours contracts are highly flexible: they do not commit to the employer to providing a specified number of hours of work each week. [↑](#endnote-ref-2)
3. ‘Party identification’ encompasses a broad spectrum of support, from active supporters to those who simply say they would probably vote for a particular party. [↑](#endnote-ref-3)