

## THERE IS AN ALTERNATIVE ENDING AUSTERITY IN THE UK

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## SUMMARY

### ENDING THE 'CONSOLIDATION STATE'

The global financial crisis of 2007/08 had a significant impact on the UK's public finances. Since 2010/11, successive UK governments have chosen to impose a programme of austerity in an attempt to reduce the budget deficit. This period of austerity is set to be the longest pause in real terms spending growth on record. As a share of GDP, spending has fallen from 47 to 40 per cent – a faster decline than comparable European countries (and from a lower base). This is what the sociologist, Wolfgang Streeck, calls the 'consolidation state'.

There is a growing consensus that austerity has failed:

- **economically** – by taking demand out of the economy, right at the moment when firms and individuals were also tightening their belts as a result of the 2007/08 economic crash, cuts in government spending have stifled economic growth. The New Economics Foundation finds the UK's economy is about £100 billion smaller today than it would have been without the cuts
- **fiscally** – while the government did meet its objective of delivering a surplus on its current spending in 2018, this was two years later than planned (Giles 2018), and it looks likely to miss its objective to deliver an overall budget surplus by the middle of next parliament (Whittaker 2017). Likewise, debt as a percentage of GDP has risen every year since the onset of austerity (ibid)
- **socially** – many types of crimes are increasing (ONS 2018), life expectancy has stopped rising and inequalities in health are growing again (Marmot 2019). Over a million people a year are now using foodbanks (Trussell Trust 2019), rough sleeping has more than doubled (Economist 2018), and poverty has started to rise once again: one in three children and around one in five pensioners have now dropped below the poverty line (DWP 2019).

As a result, there is now a growing consensus that it is time to 'end austerity'. The challenge going forward is defining what this means in practice. Some commentators have argued that it simply means stopping any future cuts (Emmerson et al 2019). Others have gone further in arguing for a reversal of some of the cuts (such as on welfare) (Whittaker 2018). In truth, these are both limited definitions of ending austerity. Instead, as a society, we must use this moment to create a more fundamental shift away from the 'consolidation state' towards an 'investment state'.

### CREATING AN 'INVESTMENT STATE'

The starting point for such a shift must be a clear understanding of what we want the state to achieve. Building on IPPR's Commission on Economic Justice, we argue that we want a society that simultaneously delivers both prosperity and justice for everyone (CEJ 2018). To do this, the state must have a bigger role – and must invest more – in four killer 'social deficits': care, focused on the young and the old; skills, addressing low pay and productivity; health, in particular inequalities and rising mental ill-health; and security, to end poverty, growing levels of debt and economic insecurity.

Closing these 'social deficits' will require significant investment in our social security system and public services. The international evidence supports this argument. When we rank comparable countries – who on average spend £1,600 per head more on health, education and welfare – we find that, in terms of their social outcomes, the UK lags behind on most metrics. Notably, we have lower levels of life satisfaction, poorer health outcomes, higher levels of poverty and inequality, and average educational outcomes. There is also a growing evidence base that suggests higher levels of social investment can act as a catalyst rather than a drag on economic growth.

We therefore call on the UK government to commit to matching European levels of social spending. This could be achieved through incrementally increasing the size of the state by 0.7 percentage points per year – which would see spending rise from around 43 per cent of GDP today (when we factor in private pension spending) to around 48 per cent of GDP by 2030. As a result we would be able to spend an extra £280 per head on education, £450 per head on health and £930 per person on social protection than under the status quo. This demonstrates that delivering higher social spending is not only desirable but also achievable. If other European countries can do it, so can we.

But if we want to move towards an 'investment state' we will have to pay more tax. We estimate that as a society, we need to raise an additional £66 billion per year by the end of this parliament, rising to £119 billion by the point of convergence in 2025 and £124 billion by the end of the next parliament (except in the case of an economic downturn) in order to meet the average level of spending of our European neighbours. This may sound like a lot of money but it is far from impossible. We know this because other countries achieve it: on average, comparable European countries currently pay 41.8 per cent of GDP in taxes compared to 33.3 per cent in the UK in 2018. This assumes that we balance current spending on an ongoing basis and maintain the proportion of investment spending funded through borrowing.

We argue that to achieve this, policy makers will have to make two key shifts in policy.

- **People on middle incomes will have to feel that those on higher incomes are paying their fair share of taxation before they are willing to pay more themselves.** We therefore call for increases in corporation, wealth and income tax on high earners – together raising as much as £57 billion in revenues per year – in the short run. This is crucial because to achieve the scale of revenue increases needed in the long term, the middle classes will ultimately have to pay more tax: an 'investment state' cannot be funded by taxes on the wealthy alone.
- **Everybody – including those on middle and higher incomes – will need to benefit from high quality public services in order to create a coalition in favour of the 'investment state'.** This will require a shift towards more universalist public services and welfare provision. We therefore call for the additional funding raised in the short term to be invested in universal childcare, social care and mental health provision – as well as reversing cuts to universal credit, adult education and public health. These priorities should be funded before more regressive universalist policies such as free tuition fees are considered.

## The progressive policy think tank

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