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The failures of neoliberalism in Britain since the 1970s: the limits on 'market forces' in a deindustrialising economy and a 'New Sppeenhamland'

Jim Tomlinson

Neoliberalism has become a widely used term to describe the trajectory of British economic policy since the end of the 1970s.¹ While there is no clear agreement on what exactly this portmanteau concept means, all uses rely on the broad notion of an ideology that believes in expanding the role of markets as allocation devices, and this may involve the use of the state to *create* markets, in areas where they might otherwise be weak or non-existent.² This chapter shows that since the 1970s, key elements of the promises of neoliberalism to strengthen the market have *not* been fulfilled, most obviously in the cases of labour and housing. As Peter Taylor-Gooby has written, one view of the legacy of Thatcherism is that, while 'the ideology grows ever stronger', the policies, by contrast, can be seen to have 'failed'.³ This chapter thus shares the view that, in Jamie Peck's words, neoliberalisation has been 'an open-ended and *contradictory* process of politically assisted market rule'.⁴

In both labour and housing markets, outcomes have been deemed politically unacceptable by all governments, and as a result in the labour market we have seen an explosion of wage subsidies (for example family tax credits) coupled with much greater wage regulation by a National Minimum and then a 'New Living Wage'. In the housing market we have seen a parallel ballooning in spending on housing subsidies, as free-market rents are deemed 'unaffordable' and politically untenable. While the years of austerity since 2010 have seen significant cuts in both wage subsidies and housing benefit, they remain very substantial parts of total

public spending, testimony to their entrenchment in the 'neoliberal era'.⁵ In the same period, reversing previous positioning, direct undermining of the operation of the labour market by legal enforcement of wage minima has become a taken-for-granted feature of the policy agenda of all mainstream political parties.

Why has neoliberalism failed to deliver on its promises in such a striking fashion? The key argument made here is that this failure results from the constraints imposed on policymaking by economic change, most importantly the deindustrialisation of the British economy (see also Jim Phillips in this volume). The underlying point here is that the richest accounts of neoliberalism in Britain have focused insightful attention on the development of neoliberal *ideas*.⁶ But rather less attention has been paid to the *conditions of implementation* for turning these ideas into policy.⁷ This is a common problem in historical accounts of the development of economic policy, and an instructive parallel can be made with discussions of a previous shift in economic doctrine and policy, 'the rise of Keynesianism'.

At the end of the 1960s, triumphalist accounts of this rise traced a straightforward passage from the development of Keynes's doctrine in the 1930s to its perceived successful embodiment in the policies of the fully employed post-war 'consensus'.⁸ In the wake of the crisis of that consensus in the 1970s, economic historians and others challenged that triumphalist narrative, arguing that the success of Keynesianism in post-war Britain required not just a revolution in economic theory, but a whole range of institutional and administrative changes. These included the construction of a highly centralised fiscal system, and the dominance of a Treasury able to deploy the statistics and instruments of national economic management.⁹ But the success of this new policy regime in the 1950s and 1960s also relied more broadly on the buoyancy of the international economic system and the sharp rise in both private and public investment at home.¹⁰

The key message from this 'revisionism' was the need to always ask: under what historical conditions can programmes of economic reform be realised? What is the relationship between ideologies of economic reform and the economies that they seek to act upon?

If we start with these questions and look at neoliberalism, it is clear that, just as the initial success of Keynesianism relied on the economic conditions created by the Second World War, so the initial successes of neoliberalism were reliant as much on the political opportunities provided by the combined inflationary/fiscal/industrial relations crisis of the 1970s as they were on any theoretical innovations. These conditions allowed the Conservatives under Margaret Thatcher to

combine elements of neoliberalism with their declinist analysis to argue for a fundamental shift in economic policy towards ‘rolling back the state’ in terms of public spending, seen as central to extending the role of market forces.¹¹

But ‘rolling back the state’ proved much easier to proclaim as a goal than to deliver. Public spending proved hard to reduce (especially in the 1980s), and when it was cut (as in the 1990s) it quickly led to pressures forcing a sharp reversal of trend in the early 2000s; a similar reversal of many aspects of previous austerity was evident in the run-up to the 2019 general election.¹² Simultaneously, in the late twentieth and early twenty-first centuries, the economy was being transformed by sectoral changes and especially the decline of industrial employment. Thus, the economy proved much less malleable, much less reformable on neoliberal lines, than the triumphalism of the ideologues of the 1980s suggested – or, indeed, than is suggested by the laments of many of neoliberalism’s opponents.

This chapter begins with the growth of wage subsidies from the 1970s, alongside the more recent expansion in housing subsidies, before outlining the move towards the current consensus on the desirability of the state setting legal minima for wages. The next section puts these changes in the context of a deindustrialising labour market and other aspects of Britain’s recent economic development. The final part offers some general conclusions on neoliberalism in Britain.

The growth of wage and housing subsidies

In 1970 the Conservative government proposed to introduce a Family Income Supplement (FIS), which would give a (very small) subsidy to some low-wage families.¹³ This policy initiative was in part a consequence of the ‘re-discovery of poverty’ in the 1960s, a rediscovery that suggested the erosion of the basic Beveridge assumption that poverty was overwhelmingly due to ‘interruption of earnings’ (plus large families). In their landmark study, *The Poor and the Poorest*, Abel-Smith and Townsend showed that in 1960 about 40 per cent of households in poverty (those below 140 per cent of the then National Assistance level) had a working member. Most of these households also had a large number of children (four or more), but FIS was aimed at those who were deemed to be disincentivised from seeking work by the small gap between income in and out of employment.¹⁴

It was in this context that Enoch Powell, a pioneer of British neoliberalism, made a striking parliamentary speech that summarises the

case against FIS, seeing the policy as fundamentally at odds with the commitment to free markets.¹⁵

I do not think it can be denied that we are taking a decisive new step now by the overt and direct payment – if I may use old-fashioned but significant and appropriate language – of ‘relief in supplementation of wages’. We are reminded that there is ‘no new thing under the sun’. It was on 6th May, 1795, that the Berkshire Magistrates met at the Pelican Inn in Speenhamland . . . It is the principle that it is an act of fateful consequence to pay relief – cash supplementation of income – to persons in full-time employment; that it is something which is bound profoundly to distort the wage system and to frustrate the ambition – which seems to me to be almost indissociable from the idea of a free society – that a man should receive as near as may be the full value of his work in cash.¹⁶

As Peter Sloman points out, such wage subsidies were also criticised from the left, Barbara Castle proclaiming them ‘repugnant in a modern society’.¹⁷ The reasons for this hostility were grounded in the belief that subsidies failed to address the underlying causes of low wages and undermined the idea that collective bargaining could and should be the route to improved pay.

For the proponents of this policy there was a ‘neoliberal’ logic that led to the opposite conclusion to that of Powell. Given the view of the labour market as driven by market incentives, FIS was aimed at increasing the gap between the incomes of the unemployed and the employed, in order to encourage the former to seek work. Thus, the policy was at one with a long tradition of Conservative thinking, which saw unemployment as partly, at least, caused by a lack of incentives to seek work, and resulted, eventually, in the squeeze in the incomes of the unemployed under Conservatives after 1979.¹⁸

FIS was introduced in 1971, and on a very small scale. But in the 1980s, under the provisions of the Supplement and its successor, Family Credit, payments to low-wage households expanded rapidly. By the early 1990s, the scale of spending of this kind was a source of boasting by leading Conservatives: ‘In just the past three years, the Government have tripled spending in cash terms on family credit. Since 1979, spending on benefits for families dependent on low-paid work has increased by 10 times in real terms. Today the average family credit payment is more than £30 a week.’¹⁹

In-work benefits saw spectacular further growth under New Labour.²⁰ This can be seen as the product of a characteristic New Labour

amalgam of pro-market views about incentives with a social democratic desire to reduce poverty. (On tensions in New Labour's social welfare policies, see Bernhard Rieger in this volume). It allowed a substantial expansion of cash transfers targeted on household income, without arousing traditional Labour hostility to means testing.²¹ Under this impetus expenditure per claimant on such benefits increased from approximately £500 in 1970 to £4,300 in 2000.²²

The Conservatives in opposition were highly critical of New Labour's policies on poverty reduction but asserted that 'tax credits are an essential part of a modern welfare policy – it is obviously better to increase someone's income in work than to see them either in poverty or out of work'.²³ The leader of the Opposition spoke in similar terms of the failure of Labour's policies but coupled this with a proclaimed need to 'increase the working Tax Credit that couples receive'.²⁴ There was no hint in these arguments of a Powellite rejection of 'New Speenhamland'.

Total spending on tax credits and their predecessors rose from £1 billion to £30 billion in cash terms over the 30 years from the mid-1980s, an increase of around tenfold in real terms. Absolute spending peaked in 2014/15 and by 2019/20 had fallen to around £25 billion. The fall relative to GDP is greater, down to around 1.3 per cent from the peak of 1.8 per cent in 2011/12.²⁵

After 2010, governmental attempts to reduce wage subsidies battled against trends creating increased eligibility, with wages stagnating or falling, while the costs of childcare rose. Serious cuts were imposed, but spending remained substantial.²⁶

It is not only that these in-work benefits have come to greatly exceed payments made to the unemployed, but that the whole principle of post-war welfare has shifted. As noted above, the classic mid-twentieth-century Beveridge analysis of the sources of poverty suggested the problem fundamentally lay in 'interruption to earnings' (by unemployment, sickness or old age) along with large numbers of children, the latter to be addressed by 'Family Allowances' (later, Child Benefit).²⁷ This analysis always misrepresented the actualities of the labour market, not least in its barely qualified notion of the 'male-breadwinner household', a notion increasingly at odds with growing married women's labour market participation from the 1950s. But its fundamental idea that, normally, paid work would provide a route out of poverty has underpinned most modern liberal understandings of how society works down to the present day. The 'New Speenhamland' provision challenges this idea and in doing so gives a role for the state which is difficult to see as 'neoliberal' in character.

A year before the attack on 'relief in supplementation of wages' quoted above, Powell had similarly attacked housing subsidies as 'Speenhamland in Modern Dress'.²⁸ In this case, of course, he was not attacking a new departure in current policy, because subsidies for housing of some kind had been a feature of Britain since the First World War and the start of local authority provision of housing. This had been accompanied by subsidies to home ownership, ultimately underpinned by the desire, originating in the Conservative response to the emergence of a mass proletarian electorate, to create a 'property-owning democracy'.

In the first post-war decades, subsidies were focused upon public sector housebuilding on the one side, and a variety of tax concessions to house purchasers on the other. This double pressure greatly reduced the role of the private rented sector, which was reduced to a residual role in housing provision. But from the 1970s (beginning at the time of the public expenditure cuts under the Labour government that preceded the International Monetary Fund borrowing of 1976), public sector housebuilding was cut back hard. This trajectory was continued under the Thatcher government, accompanied by some degree of 'balancing' between the public and private sectors by reducing mortgage interest tax relief (MIRA), which was finally abolished in 2002, though other substantial tax advantages for home ownership were retained.²⁹

Famously, the Thatcher government, through a 'Right to Buy' policy imposed on local authorities, sold off large parts of the public housing stock. Governments almost stopped being builders of houses, and the rhetoric of the time was that public money would subsidise families, not bricks and mortar. This led to the consolidation of existing rent subsidies into Housing Benefit in 1983, accompanied by incremental deregulation of rents over the 1980s and 1990s.³⁰ This combination meant a growing expenditure on this benefit as rents increased, in part reflecting rising house prices (on trend: the market was subject to a sharp cycle in the early 1990s). But a limit was put on this growth by the fact that the 'property-owning democracy' was being realised, with owner-occupation growing from 56.4 to its peak at 69.4 per cent of all tenures in the two decades after 1981.³¹

However, the most rapid acceleration of this spending came after the turn of the century.

The subsidising of home ownership had long created a race between house price inflation, driven by strong demand in combination with relatively inelastic supply, and affordability, underpinned by rising real

incomes among large swathes of the population. But after the crash of 2007 the 'race' was increasingly 'won' by continuing house price inflation, making entry into the housing market impossible for many, and the home ownership ratio fell back sharply.

The corollary of this falling back, coupled to the radical reduction in the public housing stock, was that the strain was taken by private sector renting, which underwent a striking expansion. Owner-occupation had peaked at the turn of the century, but the sharp fall came in the wake of the financial crash, with social renting also continuing its long-run decline.³²

Housing benefit spending increased from 0.8 per cent of GDP in 1983–4 to 1.5 per cent in 2013–14, fluctuating with the economic cycle, but on a generally upward trend over time.³³ Absolute levels of spending then peaked in 2015/16 at just under £22 billion. Without a change in policy, they are likely to fluctuate around this level down to 2022 on current policies, staying higher than previously forecast for reasons which make clear why the benefit has proved so hard to cut more seriously: '[T]he share of the population renting had continued to rise faster than forecast . . . employment growth has been much faster than expected but earnings growth had been much weaker . . . rent inflation . . . had been higher than expected.'³⁴

The politics of wage regulation

Significant state intervention in wages began with the Trade Boards introduced by the 1906 Liberal government. The scope of the Boards was significantly extended at the end of the First World War and again after 1945. They were renamed Wages Councils but continued to be sector-specific and focused on a small number of industries where the labour market was deemed 'abnormal' and trade union presence limited. For much of the second half of the twentieth century, opposition to the idea of more ambitious wage regulation by a national statutory minimum wage came from both the Labour and Conservative parties.

On their side, Labour and the trade unions combined a historical scepticism about the desirability of state intervention in the labour market with a belief that wages should be determined by collective bargaining between trade unions and employers.³⁵ There were dissenting voices, and the issue was a perennial one for debate in labour circles, revived in the 1960s partly in response to the rediscovery of poverty.³⁶ But it was not until the 1980s, when an alliance between Rodney Bickerstaffe of the

National Union of Public Employees and the Low Pay Unit was formed, that Labour opposition was defeated, and a straightforward commitment to introduce legislation was included in the 1987 general election manifesto.³⁷

As part of the post-war 'consensus' the Conservatives accepted Wages Councils down to the 1970s. But the radicalisation of Conservative economic thinking under Thatcher led to growing hostility, and the eventual abolition of most Wages Councils in the 1980s, with the Major government finishing the job in 1993. The press release accompanying this final abolition announced: 'Wages Councils were established in the early 1900s when there were no employment rights, no general health and safety legislation and little social security protection. They have no role to play in the 1990s.'³⁸

Thus, despite presiding over a significant expansion of wage subsidies, into the 1990s the Conservatives emphasised a continuing ideological commitment to the idea of the market determination of wages, evident in the early 1990s when they made ferocious attacks on Labour's proposals for a statutory minimum wage. The title of a 1991 Conservative Research Department document summarised their argument: *The Minimum Wage: Labour's axe on jobs*.³⁹ In a House of Commons debate in 1992 the Conservatives amended a critical Opposition motion to deplore 'the commitment of Her Majesty's Opposition to a National Minimum Wage which would destroy jobs, thereby reducing opportunities and living standards for up to two million people'.⁴⁰

Beyond the alleged impact on employment levels, opposition to minimum wages was part of a broader pro-market perspective, clearly articulated by ex-Prime Minister Thatcher:

We have different ways of doing things. We do not have a minimum wage. Because if you do you get all the differentials throughout the place and up go your costs. We say something different. We say if you haven't enough after working on which to keep your family, we add to it from the tax-payer Family Credit so you can keep them in decency and keep them in a way in which you'd expect. That doesn't add to industrial costs.⁴¹

The New Labour government, following the change of heart on this matter in the previous decade, introduced legislation for a National Minimum Wage in 1998. The Conservatives fought bitterly, though unsuccessfully, to prevent this new law coming into force. Again, the

ex-Prime Minister sought to bolster the case, attacking the new government:

It's easy enough to take credit for the low unemployment your Conservative predecessors bequeathed you. But proving your left wing credentials with a National Minimum Wage, with a Working Time Directive, and with compulsory trade union recognition is to take a three-fold swipe at job creation.⁴²

But around the time of this speech the Conservative opposition started to row back on its hostility to the new law. In 2000, the Shadow Chancellor, Michael Portillo, announced that the party was officially ending its opposition to the policy, while saying that the party remained 'concerned at the costs for business'.⁴³ In 2005, the new party leader, David Cameron, proclaimed: 'I think the minimum wage has been a success, yes. It turned out much better than people expected.'⁴⁴ There were still equivocations in Conservative ranks until 2015, when Chancellor Osborne announced a statutory 'New Living Wage', despite the continuing criticism from free-market think tanks.⁴⁵ In the view of writers for such think tanks, the consensus between the parties had opened up the possibility of 'a political bidding war' on the level to be set for the minimum wage.⁴⁶

There was a logic at work in Osborne's position, if not an unambiguously neoliberal one, in seeking to reduce public spending on wage subsidies by shifting more of the costs of raising wages on to employers. In his budget speech he announced big cuts to working-age benefits, especially tax credits, noting that the latter had risen from 8 per cent of public spending in 1980 to 13 per cent in 2015. But the ambition was by no means to abolish these credits, rather the aim was to 'return tax credits to 2007/8 levels in real terms' (that is, the level before the financial crash). The announcement of the National Living Wage was coupled to a claim that its impact in raising unemployment (calculated at 60,000 by the Office for Budgetary Responsibility) would be offset by the creation of a million new jobs. Conscious of arguments about the cost to employers, the announcement included promises of continuing cuts in corporation tax for large business, and National Insurance cuts for small firms. The Chancellor also noted the steep rise in Housing Benefit and announced a cut in rents in the *social housing* sector – but there were to be no general rent controls in the private sector to cut claims for that benefit, to match the policy combination of a Living Wage being combined with cuts to tax credits.⁴⁷

The shift just outlined means that in the 'neoliberal era' the leaderships of both main British political parties moved from believing

that wages should be settled as far as possible without legal intervention to a position of strongly supporting a legal minimum wage. For Labour this was an important shift but emerged from a long-running debate; for the Conservatives it involved a striking volte-face.

Deindustrialisation and wage polarisation

The link between deindustrialisation and polarisation in the labour market has been outlined elsewhere.⁴⁸ This draws on well-known evidence from both economists and think tanks about the much greater dispersion of incomes in the service sector compared with industrial employment.⁴⁹

Polarisation suggests, of course, growth at both ends of the wage distribution. Goos and Manning's data shows this very clearly for the years 1979–99, when the two most rapidly growing sectors of employment in Britain were care assistants and attendants (a 419 per cent increase) and software engineers (a 405 per cent increase).⁵⁰ Care assistants also registered the largest absolute increase in numbers at over 400,000. The biggest proportionate falls over the same period were among 'boring and drilling machine setters and setter operators' and coal miners. The wage polarising aspects of such changes are suggested by the fact that care assistants in 1979 typically earned around 25 per cent below the median national wage, and software engineers two-thirds above that median, while the manual occupations which shrank most offered wages closest to (about 20 per cent above) the middle of the distribution.⁵¹

The significance of this polarisation is profound. Of course, it has meant a rapid growth in well-paid and relatively stable employment for the academically qualified, while making it increasingly difficult for those without such qualifications to secure such conditions. For many of the latter, while the rhetoric of 'work is the route out of poverty' is still widely heard, it is plainly no longer true. As a result of the changes in the labour market brought about by deindustrialisation, growing in-work poverty has been a central feature of the post-industrial period. While the period of much larger-scale employment in industry did not guarantee an above-poverty income, most poverty was among non-workers (the sick and disabled, pensioners, single mothers), or those with unusually large families. Recent work suggests that a majority of the poor in the early twenty-first century were members of households with at least one member in work:

[In 2014/15] there are 400,000 fewer pensioners in poverty, despite there being around 1.7 million more people aged 65 or over. There are 2 million more people in working families in poverty, now up to 7.4 million, than a decade earlier. In contrast the number in workless or retired families in poverty fell by half a million. As pensioner poverty is now at low levels, the rate of in-work poverty is the most distinctive characteristic of poverty today.⁵²

In-work benefits are clearly far from rescuing all recipient households from poverty, but they were certainly used effectively to reduce those numbers under New Labour, and they contributed significantly to the overall fall in poverty, especially among families with children, in that period. (Part of the complex legacy of New Labour was a big fall in poverty combined with no reduction in overall income inequality, as very top incomes continued to accelerate away.)⁵³

Thus, deindustrialisation has cut across neoliberal plans for state retreat from intervention in labour and housing markets. The slogan of 'making work pay' has been 'successfully' pursued by worsening the financial position of the unemployed, but the policy of seeking to keep those in employment out of poverty, or at least at lower levels of poverty, has required an expansion of state activity of a striking scale and scope.⁵⁴

Actually existing neoliberalism

There is no one single measure of the implementation of neoliberalism. But it is useful to start with public expenditure as one key area where the impact of the desire to 'roll back the state' can be assessed.

As a context, it is worth noting that at the global level the clear trend has been for public spending to rise over the long run, driven primarily by rises in social welfare spending, with the highest levels both in absolute terms and relative to GDP in the richest countries, but with the same trend evident in most countries as GDP has risen.⁵⁵ Within the Organisation for Economic Co-operation and Development, it is clear that overall public spending has been broadly stable since 1980, but with a larger proportion of that spending going on social welfare as military spending and economic subsidies were squeezed.⁵⁶ Levels of social expenditure among this grouping tended to grow significantly following the financial crash of 2007/8, and then fall back in the following period of austerity, but to levels still above those prevalent before the crash.⁵⁷

What has happened in Britain has broadly mirrored the experience of other rich countries. Total public spending, adjusted for inflation, has risen almost continuously in the years since the mid-1970s, and even in the recent, post-2010, era of cuts the absolute level has barely declined (see table 5.1 and table 5.2). Over the last 40 years total spending (adjusted for inflation) has grown around 250 per cent.

Measured as a share of GDP, public spending has fluctuated with the economic cycle, but with a downward trend from just under 50 per cent

Table 5.1 Key components of public spending as a share of GDP, 1978/9–2017/18

	1978/9	2017/18
Health	4%	7%
Military	4%	1.9%
Social security (pensioners)	5%	6%
Social security (non-pensioners)	3%	4.6%

Source: C. Emmerson, T. Pope and B. Zaranko, *Outlook for 2019 Spending Review*, briefing note 243 (London, IFS, 2019), 5.

Table 5.2 Public spending in crisis, recovery and austerity, 2007–19

	Total managed expenditure in 2017/18 prices (£ billions)
2006/7	697
2007/8	721
2008/9	766
2009/10	794
2010/11	804
2011/12	793
2012/13	794
2013/14	781
2014/15	789
2015/16	789
2016/17	787
2017/18	795
2018/19 (estimated)	798
2019/20 (estimated)	810

Source: OBR databank: Public sector finances.

in 1975/6 (the post-war peak) to around 40 per cent in 2016/17, though the fall in public investment (not least in housing) means *current* spending has fallen by perhaps 5 per cent of GDP. Post-2010 austerity plans would have taken the figure to around 38 per cent by 2020 (still higher than the levels of the 1980s and 1990s), but that project has now ended. Within these totals, spending on health care and education has risen significantly as a share of GDP. In social security the aim of squeezing the incomes of the unemployed has been carried through, but overall social security spending has risen more than in line with GDP.⁵⁸ Much of this has come from growing expenditure on pensions, but the most striking change, reversed but by no means eliminated after 2010, has, as noted above, been the rise in in-work benefits and Housing Benefit.

Thus, overall in the 'neoliberal era', state spending in absolute terms has risen by a substantial amount, especially on social welfare. That spending has risen partly at the expense of other programmes, especially the military. The 'shrinking of the state' under the austerity policies since 2010 has hit some areas of spending enormously hard. Most striking has been the relentless squeeze on local authority spending, which has clear political advantage for central government in shifting the political focus but has had major regressive effects.⁵⁹ There have also been very big cuts in working-age benefits. But we should not allow these recent changes to obscure the fact that the trend in the 'neoliberal era' has been, by any measure, for spending on welfare to rise; we have moved from what David Edgerton called a 'warfare state' in mid-twentieth-century Britain to one which, at least in quantitative terms, more than ever deserves the term 'welfare state'.⁶⁰

Of course, the numbers are only part of the story. For the ideologues of the Institute of Economic Affairs (IEA) in the late 1950s and 1960s the key aim was an assault on the welfare state, by introducing markets to create 'choice in welfare' by breaking up the National Health Service (NHS) and introducing vouchers for schooling.⁶¹ Neither of these has happened as envisaged, and it is important to register that failure against the original priorities of British neoliberalism. But plainly these services (and many other parts of the public sector) have been much affected by reorganisations which have aimed to mimic private sector patterns of 'purchasers' and 'providers'. It is striking that in many areas the impact of neoliberalism has not been to 'roll back' the state in quantitative terms, but to change how that state works.⁶²

The reorganisation of the state has included widespread contracting out in order to lower wage costs, and this, paradoxically, has increased the numbers of those paid wages which have to be supplemented by in-work

benefits, so that the state budget has ‘taken with one hand and given with the other’. This outsourcing has also meant that the scale of employment reliant directly on the public purse has trended clearly *upwards* over most of the ‘neoliberal era’ despite the cuts in those officially defined as working in the public sector.⁶³

The aim of this chapter has not been to deny that neoliberalism has had profound effects on British policy since the 1970s. Trade unions have been marginalised, and many markets deregulated, including many aspects of the labour market (see Jim Phillips in this volume). This contributed in a major way to the extraordinary rise in income inequality in Britain in the 1980s, a shift which has since been stabilised but not reversed.⁶⁴ The parallel deregulation of finance has not only underpinned a huge growth in personal debt (with both macroeconomic and social implications) but has also created a process of financialisation with a wide range of social and political effects.⁶⁵

But alongside these effects, this chapter has argued that there is a fundamental clash between the marketisation ambitions of neoliberalism and the effects of the shifts in the labour market as a consequence of deindustrialisation. The latter has generated a polarised labour market, with wages at the bottom below those deemed ‘politically acceptable’. From the 1980s onwards, governments spent substantial sums in wage subsidies, and the scale of these became a major problem for the ambition to reduce public spending in the post-crash ‘austerity’ era, given their scale. The tensions over this issue pushed the post-2010 Conservative-led governments into a policy completely at odds with neoliberalism, a statutory national ‘living’ wage.

Thus, in an ostensibly ‘neoliberal’ policy regime we have seen the development of two major interventions in the labour market, entirely absent in the preceding period of allegedly ‘Keynesian/social democratic’ predominance, plus a multiplication of subsidies in the housing market, much of that multiplication reflecting the inability of those in work to afford market-determined rents.

‘Actually existing neoliberalism’ looks very different from the outcomes aimed for by most neoliberal ideologues. Some dimensions of this failure are well known. The failure to cut back the NHS in ways which would have followed the beliefs of early advocates of neoliberalism is clear.⁶⁶ It is not hard to see why this particular failure has occurred. In Britain, neoliberalism may have found its political home in the Conservative Party and achieved considerable purchase as a result. But this linkage has also meant that the influence of this doctrine has been constrained in the policymaking process by Conservative statecraft.⁶⁷

That statecraft includes some quite straightforward political calculation about the attractions of a free-at-the-point-of-use health care system to the great mass of voters, especially as those voters have on average become older, and hence had greater demands for such care. The demographic shift is also, of course, hugely important in explaining how pensions have become such a large and growing part of the social security budget, and why largely publicly funded 'social care' became the fastest-growing employment sector in the final decades of the twentieth century.

This chapter has sought to add to our understanding of the constraints on neoliberal policymaking by emphasising the role of an economic change that neoliberals did not foresee: deindustrialisation.⁶⁸ This change, evident across the whole industrial world, was the consequence of technological changes, changes in consumption patterns and, to a lesser extent, globalisation.⁶⁹ It began in the 1950s and has been at work in Britain right through the 'neoliberal era'. It is doubtful that within broad parameters the pace or scale of the change has been or could be much affected by policy measures.⁷⁰ In response to the change, what has emerged since the 1980s is a political consensus on dealing with its consequences for incomes through increased public spending and wage regulation.⁷¹

Notes

- 1 Thus, Stedman-Jones seeks to explain 'how the neoliberal faith in markets came to dominate politics in Britain and the US in the last quarter of the twentieth century up to the financial crisis of 2008': Daniel Stedman-Jones, *Masters of the Universe: Hayek, Friedman and the birth of neoliberal politics* (Princeton, NJ, Princeton University Press, 2012), 1.
- 2 Ben Jackson, 'At the origins of neo-liberalism: The free economy and the strong state, 1930–1947', *Historical Journal*, 53 (2010), 129–51.
- 3 Peter Taylor-Gooby, 'Commentary', in Stephen Farrall and Colin Hay (eds), *The Legacy of Thatcherism: Assessing and exploring Thatcherite social and economic policies* (Oxford, Oxford University Press, 2014), 100–7, at 104.
- 4 Jamie Peck, *Constructions of Neoliberal Reason* (Oxford, Oxford University Press, 2010), xii (emphasis added).
- 5 There have been claims that post-2010 welfare reforms heralded the demise of tax credits, but these changes do not mark the end of in-work benefits. Rather, 'Universal Credit . . . pursues some broadly similar aims to tax credits but with a rather different emphasis': Daniel Clegg, 'The demise of tax credits', *Political Quarterly*, 86 (2015), at 497.
- 6 Pioneered by Richard Cockett, *Thinking the Unthinkable: Think tanks and the economic counter-revolution, 1931–1983* (London, HarperCollins, 1995); and Keith Tribe, 'Liberalism and neoliberalism in Britain, 1830–1980', in Philip Mirowski and Dieter Plehwe (eds), *The Road from Mont Pèlerin: The making of the neoliberal thought collective* (Cambridge, MA, Harvard University Press, 2009), 68–97.
- 7 An important exception is Damien Cahill, *The End of Laissez-Faire? On the durability of embedded neoliberalism* (Cheltenham, Edward Elgar, 2016). The very terminology of 'neoliberalism' predisposes the debate towards emphasising the *doctrinal* aspects of policy determinants. The term 'market fundamentalism' is in many ways more helpful, as it emphasises the visceral, ideological anti-statism which animated much of this shift, rather than the 'rational' and doctrinal underpinnings.

- 8 Robert Lekachman, *The Age of Keynes: A biographical study* (New York, Random House, 1966); and Michael Stewart, *Keynes and After* (Harmondsworth, Penguin, 1972).
- 9 Roger Middleton, *Towards the Managed Economy* (London, Methuen, 1985); Jim Tomlinson, *Problems of British Economic Policy* (London, Methuen, 1981); and Neil Rollings, 'The "Keynesian revolution" and economic policy-making: A comment', *Economic History Review*, 38 (1985), 95–100.
- 10 R. C. O. Matthews, 'Why has Britain had full employment since the war?', *Economic Journal*, 78 (1968), 555–69. In a different register were discussions about 'Fordism', linking production systems to employment: Karel Williams, Colin Haslam and John Williams, 'Ford versus "Fordism": The beginning of mass production?' *Work, Employment & Society*, 6 (1992), 517–55.
- 11 Jim Tomlinson, *Managing the Economy, Managing the People: Narratives of economic life in Britain from Beveridge to Brexit* (Oxford, Oxford University Press, 2017), chapter 3.
- 12 Rowena Crawford, Paul Johnson and Ben Zaranko, *The Planning and Control of UK Public Expenditure, 1993–2015* (London, Institute for Fiscal Studies, 2018); and Jim Tomlinson, 'Britain since the 1970s: A transition to neo-liberalism?', in Julian Hoppitt, Adrian Leonard and Duncan Needham (eds), *Money and Markets: Essays in honour of Martin Daunton* (Woodbridge, Boydell and Brewer, 2019).
- 13 For the context, see Peter Sloman, "'The pragmatist's solution to poverty": The Heath government's tax credit scheme and the politics of social policy in the 1970s', *Twentieth Century British History*, 27 (2016), 220–41.
- 14 Brian Abel-Smith and Peter Townsend, *The Poor and the Poorest: A new analysis of the Ministry of Labour's Family Expenditure surveys of 1953–54 and 1960* (London, Bell, 1965), 49; and Ian Gazeley, Andrew Newell, Kevin Reynolds and Rebecca Searle, 'The poor and the poorest, 50 years on: Evidence from British Household Expenditure surveys of the 1950s and 1960s', *Journal of the Royal Statistical Society, Series A*, 180 (2016), 455–74.
- 15 On Powell's neoliberalism, see Paul Corthorn, *Enoch Powell: Politics and ideas in modern Britain* (Oxford, Oxford University Press, 2018). Reviewing this book, one of Thatcher's closest advisers stressed that '[i]n the 1960s, he (Powell) became the darling of the neoliberals. Ralph Harris and Arthur Seldon, the genial masterminds of the Institute of Economic Affairs, regarded him as their most potent advocate.' Ferdinand Mount, 'Enoch Powell: Politics and Ideas in Modern Britain by Paul Corthorn', *London Review of Books* (September 2019), 7.
- 16 J. Enoch Powell, *Hansard* (10 November 1970), vol. 806, cols 262, 264–5.
- 17 Sloman, "'Pragmatist's solution'", 234. In the debate in which Powell made the above statement, the Labour Opposition (represented by Shirley Williams) responded to the introduction of FIS, saying 'this House, while welcoming measures to help families in poverty, believes the Government's Family Income Supplements Scheme will assist only a tiny minority, further extend the complex system of a means-tested society which is an essential element in the policy of Her Majesty's Government, and will do nothing to encourage employers to improve very low wages in certain occupations'. *Hansard*, vol. 806, col. 230.
- 18 Anthony B. Atkinson and John Micklewright. 'Turning the screw: Benefits for the unemployed, 1979–1988', in Anthony B. Atkinson (ed.), *Poverty and Social Security* (Brighton, Harvester Wheatsheaf, 1989), 125–57.
- 19 *Hansard* (9 July 1991), vol. 194, col. 794. Note that in this debate Labour speakers voiced scepticism about tax credits as opposed to a national minimum wage as a way of raising work incomes.
- 20 Richard Blundell and Hilary Hoynes, 'Has "in-work" benefit reform helped the labour market?', in David Card, Richard Blundell and Richard Freeman (eds), *Seeking a Premier Economy: The economic effects of British reforms 1980–2000* (Chicago, University of Chicago Press, 2004), 411–45.
- 21 Clegg, 'Demise', 495.
- 22 Blundell and Hoynes 'Has "in-work" benefit reform helped the labour market?', 426; and Matthew Whittaker, *The Shape of Things to Come: Charting the changing size and shape of the UK state* (London, Resolution Foundation, November 2019).
- 23 Conservative Party, *Making British Poverty History* (London, Conservative Party, 2008), 7.
- 24 David Cameron, 'Making British poverty history' (16 October 2007), <https://conservative-speeches.sayit.mysociety.org/speech/599767> (accessed 13 March 2019).
- 25 Office for Budget Responsibility, 'Tax by tax, spend by spend: Welfare spending: tax credits' (15 May 2018), <https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/welfare-spending-tax-credits/> (accessed 8 March 2019).

- 26 Office for Budget Responsibility, *Welfare Trends Report* (2014), 12, 42, 51.
- 27 Anthony Cutler, Karel Williams and John Williams, *Keynes, Beveridge and Beyond* (London, Routledge and Kegan Paul, 1986).
- 28 J. Enoch Powell, 'A housing policy for Great Britain: Speech to Federation of Registered House-Builders conference' (28 November 1968), <http://enochpowell.info/wp-content/uploads/Speeches/Oct-Dec%201968.pdf> (accessed 8 March 2019).
- 29 MIRA cost the Exchequer £7.7 billion in 1990, more than was spent on gross social housing investment (i.e. ignoring receipts from council house sales): David Mullins and Alan Murie, *Housing Policy in the UK* (Basingstoke, Palgrave Macmillan, 2006), 51.
- 30 Mullins and Murie, *Housing Policy in the UK*, 39, 115–16.
- 31 Mullins and Murie, *Housing Policy in the UK*, 49. On the politics of house ownership, see Matthew Francis, "A crusade to enfranchise the many". Thatcherism and the "property-owning democracy", *Twentieth Century British History*, 23 (2012), 275–97.
- 32 Kate Barker, *Housing: Where's the plan?* (London, London Publishing Partnership, 2014), 3. The growth of private renting was also encouraged by post-crash low interest rates which left many small (and some not so small) savers and pensioners desperate to find assets with reasonable yields, leading to the 'buy to rent' phenomenon.
- 33 Office for Budget Responsibility, 'Tax by tax, spend by spend'.
- 34 Office for Budget Responsibility, 'Tax by tax, spend by spend', 5.
- 35 Roger Bowlby, 'Union policy towards minimum wage legislation in post-war Britain', *Industrial and Labour Relations Review*, 11 (1957), 72–84.
- 36 Discussion in government circles was restarted before Labour came to power in 1964, in the context of debates about alternative ways to reduce family poverty: 'Inter-departmental committee on National Minimum Wage', established May 1964, TNA: PRO T227/2092; for a flavour of the political debate within Labour, see 'National Minimum Wage', *Hansard* (5 June 1967), vol. 747, cols 613–15.
- 37 Jerold Waltman, *Minimum Wage Policy in Great Britain and the USA* (New York, Algora, 2008), 75–83.
- 38 Waltman, *Minimum Wage Policy*, 74.
- 39 Note that this stance was not limited to the Conservative Party; the IFS was also opposed on the grounds that few poor families would get a significant income increase from higher wages: Paul Johnson and Graham Stark, 'The effects of a minimum wage on family incomes', *Fiscal Studies*, 12 (1991), 88–93; however, by 1996 opinion was starting to shift: Amanda Gosling, 'The effects of a minimum wage on family incomes', *Fiscal Studies*, 12 (1991), 88–93.
- 40 *Hansard* (Commons) (9 July 1992), vol. 194, col. 791. This view was strongly supported by the Institute of Economic Affairs: David Forrest and Stanley Dennison, *Low Pay or No Pay?* (London, IEA, 1984).
- 41 Speech in Chelmsford, 22 March 1992, MTFW: Thatcher papers.
- 42 Speech at the International Free Enterprise meeting, 20 April 1999, MTFW: Thatcher papers.
- 43 Michael White, 'Portillo adjusts to political reality', *The Guardian* (4 February 2000).
- 44 Waltman, *Minimum Wage Policy*, 207.
- 45 Ryan Bourne and Len Shackleton, *And How Much Do You Earn? Public pressure for government regulation of pay* (London, IEA, 2016).
- 46 Len Shackleton, *Restructuring Minimum Wages: Complexity, compliance and a case for reform* (London, IEA, 2018), 5.
- 47 George Osborne, Summer Budget Speech (2015), <https://www.gov.uk/government/speeches/chancellor-george-osbornes-summer-budget-2015-speech> (accessed 13 March 2015).
- 48 Jim Tomlinson, 'De-industrialization not decline: A new meta-narrative for post-war British history', *Twentieth Century British History*, 27 (2016), 76–99.
- 49 Maarten Goos and Alan Manning, 'Lousy and lovely jobs: The rising polarization of work in Britain', *Review of Economics and Statistics*, 89 (2007), 118–33; Craig Holmes and Ken Mayhew, *The Changing Shape of the UK Job Market and its Implications for the Bottom Half of Earners* (London, Resolution Foundation, 2012); and Patrick Emmenegger, *The Age of Dualization* (Oxford, Oxford University Press, 2012).
- 50 Goos and Manning, 'Lousy and lovely jobs'.
- 51 Goos and Manning, 'Lousy and lovely jobs', 124–5.
- 52 Joseph Rowntree Foundation, *Monitoring Poverty and Social Exclusion* (London, Joseph Rowntree Foundation, 2016), 1–2.

- 53 John Hills, Tom Sefton and Kitty Stewart (eds), *Towards a More Equal Society: Poverty, inequality and policy since 1997* (Bristol, Policy Press, 2009), 21–45.
- 54 As with other policy areas, neoliberal attitudes towards poverty have been diverse and subject to change, both in how far it is perceived as a major problem, and how whatever support for the poor is deemed appropriate should be organised. But none of its ideologues envisaged minimum wages and wage and housing subsidies as the way forward: Jackson, 'At the origins'; and Ben Jackson, 'Currents of neo-liberalism: British political ideologies and the New Right, c.1955–1979', *English Historical Review*, 131 (2016), 823–50. More broadly on neoliberal economics and the welfare state, see Roger Backhouse, Bradley Bateman, Tamotsu Nishizawa and Dieter Plehwe (eds), *Liberalism and the Welfare State: Economists and arguments for the welfare state* (Oxford, Oxford University Press, 2017).
- 55 Steven Pinker, *Enlightenment Now: The case for reason, science, humanism and progress* (London, Penguin, 2019), 107–10.
- 56 Joseph Cohen and Miguel Centeno, 'Neoliberalism and patterns of economic performance, 1980–2000', *Annals of the American Academy of Political and Social Science*, 606 (2006), 37–41.
- 57 OECD, Social Expenditure 2017, <http://www.oecd.org/social/expenditure.htm> (accessed 13 March 2019).
- 58 Andrew Jowett and Michael Hardie, 'Longer term trends: Public sector finance' (London, Office for National Statistics, November 2014); and Office for Budget Responsibility, *Welfare Trends*, 5.
- 59 Anette Hastings, Nick Bailey, Glen Bramley and Maria Gannon, 'Austerity urbanism in England: The "regressive redistribution" of local government services and the impact on the poor and marginalised', *Environment and Planning*, 49 (2017), 2007–24.
- 60 David Edgerton, *Warfare State: Britain, 1920–1970* (Cambridge, Cambridge University Press, 2006).
- 61 Ralph Harris and Arthur Seldon, *Choice in Welfare* (London, IEA, 1963); and Ralph Harris and Arthur Seldon, *Welfare without the State: A quarter-century of suppressed public choice* (London, IEA, 1987). See also Nicholas Bosanquet, *After the New Right* (London, Heinemann, 1983), 75–83.
- 62 This is a parallel argument to that which emphasises how far the privatisation of industry has been accompanied by a massive extension of regulatory activity: Cahill, *End of Laissez-Faire?*, 14–30.
- 63 John Buchanan, Julie Froud, Sukhdev Johal, Adam Leaver and Karel Williams, 'Undisclosed and unsustainable: Problems of the UK National Business Model' (Manchester, Centre for Research in Economic and Social Change, 2009).
- 64 Chris Belfield, Jonathan Cribb, Andrew Hood and Robert Joyce, *Living Standards, Poverty and Inequality in the UK: 2016* (London, Institute for Fiscal Studies, 2016), 23–5.
- 65 Julie Froud, Sukhdev Johal, Johanna Montgomerie and Karel Williams, 'Escaping the tyranny of earned income? The failure of finance as social innovation', *New Political Economy*, 15 (2010), 147–64.
- 66 Stedman-Jones, *Masters of the Universe*, xi. How central such a cutback was to pioneer British neoliberals is emphasised in D. Collard, *The New Right: A critique* (London, Fabian Society, 1968).
- 67 Jim Bulpitt, 'The discipline of the new democracy: Mrs Thatcher's domestic statecraft', *Political Studies*, 34 (1989), 19–39.
- 68 There was a tendency for some neoliberals to welcome the onset of deindustrialisation when it became widely recognised in the 1980s, seeing it as part of a market-driven adjustment to Britain's comparative advantage in services: Samuel Brittan, 'Deindustrialization is good for the UK', *Financial Times* (3 July 1980); and Samuel Brittan, 'How British is the British sickness?', *Journal of Law and Economics*, 21 (1978), 249–50.
- 69 Jim Tomlinson, 'De-industrialization: Strengths and weaknesses as a key concept for understanding post-war British history', *Urban History*, 47 (2020), 199–219.
- 70 The policies of the Thatcher period undoubtedly seriously exacerbated industrial contraction, but they did not originate it. Jim Tomlinson, 'Deindustrialisation and "Thatcherism": Moral economy and unintended consequences', *Contemporary British History*, published online 30 August 2021, <https://doi.org/10.1080/13619462.2021.1972416>.
- 71 Criticism of the 'New Speenhamland' has been limited and seems to have come mainly from the left, for example: David Byrne, 'The "Speenhamland" poor laws were not about supporting the unemployed', *The Guardian* (20 June 2011).