

WHAT DID THE COALITION REALLY DO FOR US?

On taking power in 2010, the UK's coalition government pledged that fairness would lie at the heart of its decision-making. But, reports **John Hills**, its policies hit some more than others.

The Conservative–Liberal Democrat Coalition that took power in May 2010 inherited a particularly tough fiscal climate. As a result of the global financial crisis affecting most major world economies, the UK net public sector debt had reached almost £1 trillion (£956.4 billion) by 2009/10 (62 per cent of GDP), while the current budget deficit stood at £103.9 billion (6.9 per cent of GDP).

The incoming government declared that its most urgent task was to tackle these debts. But strategic choices had to be made: should public spending be maintained in a Keynesian move to support economic growth, or cut, in order to pay down the debt quickly? Who should bear the burden of these efforts? It also insisted that fairness would lie at the heart of its decisions “so that those most in need are most protected”. Beyond deficit reduction, it set a further goal of improving social mobility and creating a society where “everyone, regardless of background, has the chance to rise as high as their talents and ambition allow them”.

The second part of our Cold Climate research programme, published in January, looks at what actually happened in major areas of social policy. It follows on from research published in 2013, and featured in the winter 2013 issue of *LSE Connect*, which reported on the Labour Party's record. So what happened?

A fundamental decision, announced in the Coalition's first “emergency” Budget, was to target deficit reduction through spending cuts (77 per cent) much more than tax increases (23 per cent). The rate of VAT did increase, to 20 per cent, hitting all consumers, but Income Tax personal allowances were made more generous (increasing from £6,475 to more than £10,000), corporation tax was cut and, from 2013/14, people earning over £150,000 saw their higher tax rate cut from 50 to 45 per cent. Alongside this, the Coalition shifted the boundaries of welfare provision, in many cases moving away from “progressive universalism” towards greater targeting. Eligibility was restricted for some benefits and services and extra conditions were

imposed, particularly for out-of-work benefits, along with tougher penalties for not meeting them.

Overall, the Coalition's measures have cut public spending (defined as total managed expenditure) by 2.6 per cent in real terms, from £674 billion in 2009/10 to £656 billion in 2014/15, but the cuts hit some services more than others.

Spending on health grew in real terms by 2.7 per cent between 2009/10 and 2013/14. This is a real increase, although it also represents a lower increase than the increase in need (for example, as measured by the increasing elderly population). Spending on schools also fell by less than one per cent up to 2012/13, and a Pupil Premium was paid to support pupils from low-income families.

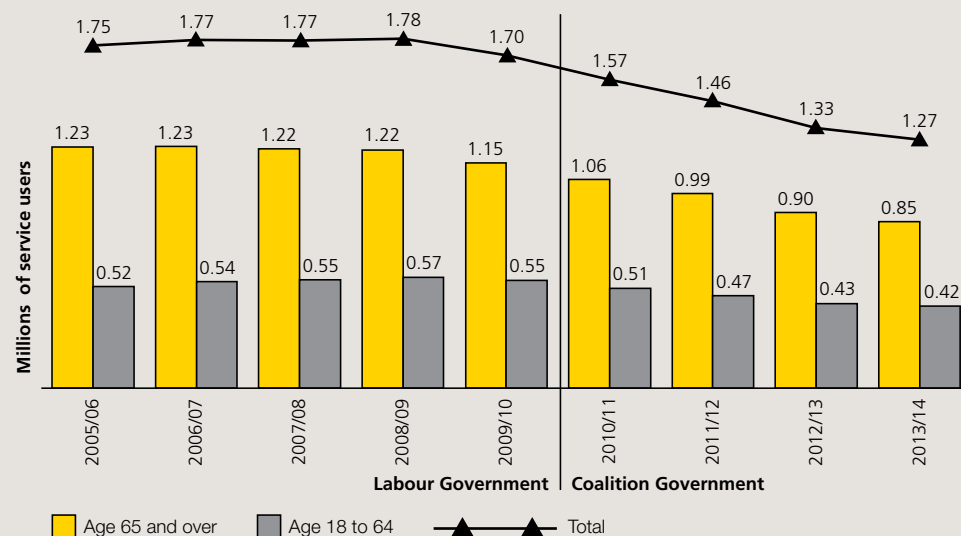
On the other hand there were big losers among “non-protected” services, particularly those provided by local councils. Between 2009/10 and 2014/15, local

government funding from central government in England fell by an estimated 33 per cent. Spending on housing and community amenities, which includes funding to build social housing, fell by 35 per cent between 2009/10 and 2013/14, and all main central government funding streams for neighbourhood renewal were removed.

Some services were particularly seriously hit. In adult social care, budgets for residential homes and other community services were cut by 7 per cent between 2009/10 and 2013/14, while the population aged 65 and over grew by 10 per cent. In fact, there were 25 per cent fewer places provided from 2009/10 to 2013/14 (see *Figure 1*) and intensified focus on supporting mainly, or only, those with the greatest needs.

Particular groups were differently affected by reduced services and benefits. Although the Coalition stressed the importance of the “foundation years” for young children, in fact families with children under five saw

Figure 1



Falling number of people receiving community-based, residential or nursing care services through local authorities, by age group, 2005/06 to 2013/14, England

Source: National Adult Social Care Intelligence Service (NASCIS)



significant cuts to services: real spending per child on early education, childcare and Sure Start services fell by a quarter between 2009/10 and 2012/13. In addition, tax-benefit reforms hit families with children under five harder than any other household type. In contrast, pensioners were protected by an uprating “triple lock”, requiring their pensions to be uprated each year by the highest of either earnings growth, price inflation or 2.5 per cent.

Figures for poverty rates and inequality are only available up to 2012/13, before many of the largest cuts in working age social security took effect, but modelling suggests that poverty and inequality will have risen since then. This reflects the generally regressive effects of the combined effects of benefit changes and tax reductions as illustrated in *Figure 2*. Those with incomes in the bottom half generally lost more from benefit cuts than they gained from the increased tax-free allowance. For people in the top half, the reverse was generally the case. Despite the aim that the better-off should contribute a greater share of income to addressing the fiscal crisis than the poor, the reverse has generally been the case.

While the government more widely took steps to stimulate home ownership through Help to Buy, housing policies made little impact on the supply of new homes overall. Between 2010 and 2013 an average of 139,000 new homes per year were completed, compared with 190,000 under Labour. There were 17 per cent fewer adult learners as course funding was curtailed and loans introduced. Centrally funded neighbourhood renewal activity was drastically reduced, while economic regeneration programmes performed well below expectations in terms of business and job creation. Despite government endorsements for voluntary activity and a “Big Society”, Third Sector budgets also fell, with cuts estimated between 50 and 100 per cent in some deprived neighbourhoods.

Progress was made in some areas, with employment showing considerable resilience, despite a reduction in the size of public sector employment from 19.4 per cent in 2010 to 17.2 per cent in 2014. On the other hand, falling real earnings affected living standards, consumption and tax revenues. The recovery in the labour market was partly driven by self-employment –

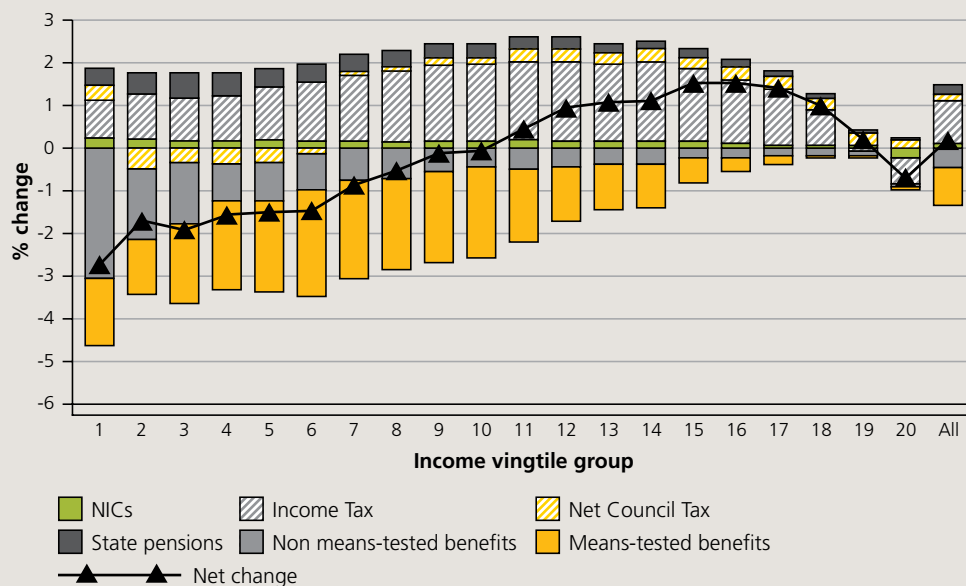
much of it marginal – which expanded to 15 per cent of the workforce, its highest level for 40 years. The proportion of unemployed people moving into self-employment grew from 8 per cent before the recession to 11 per cent, although their real average earnings sank (down 22 per cent).

Fears that the abolition of the Education Maintenance Allowance and the rise in university tuition fees would widen socio-economic gaps in further and higher education participation have not been borne out to date. In fact, the proportion of young people not in education, employment and training fell for the first time in a decade in 2013, and increasing numbers of disadvantaged young people applied to university.

In some policy areas the Coalition’s reforms went deeper into the content and design of services, living up to its promise of sweeping changes. Major reforms were introduced in the NHS for example, emphasising competition, decentralisation and a range of provider types (public, private and third sector). In education, the school curriculum and examination systems in England were overhauled, justified on the grounds of making them more rigorous, and a new system of teacher training was introduced. In adult skills training, the Coalition instituted changes to the length and quality of apprenticeships, designed to bring England closer to European systems. One of the most ambitious reforms was beginning a complete overhaul of working-age benefits and tax credits, bringing most of them into a single system, Universal Credit (UC), designed to incentivise work and get rid of complicated overlaps in means tests and taxation.

So what should we conclude overall? Although current public attention rests on “the cuts”, and it is too soon to establish their effects on social and economic outcomes, the Coalition’s large-scale reforms designed to reduce the size of the state, stimulate private and voluntary provision and increase personal responsibility may ultimately prove its biggest legacy. ■

Figure 2



Combined impact of tax and benefit changes May 2010 to 2014/15. Figures show percentage change in household disposable income by income group due to policy changes, compared with May 2010 system uprated by CPI

Source: De Agostini, et al (2014)/EUROMOD



John Hills is Professor of Social Policy and Director of the Centre for Analysis of Social Exclusion at LSE. For further information, detailed papers are available at: sticerd.lse.ac.uk/case