Osbornomics

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One of the Conservatives' key campaign slogans in the run up to the 2010 election has been 'we can't go on like this' – the subtext being that Labour's current approach to economic policy is bankrupt. But how would the Tories differ from Labour, exactly? While governments never end up doing quite what they say beforehand once they get into office, nonetheless there is enough accumulated evidence from George Osborne's four-and-a-half year tenure as Shadow Chancellor to establish a rough outline of what sort of economic policy he will pursue if he makes it into 11 Downing Street this spring.

This article begins by looking at the strands of Conservative thought that feed into 'Osbornomics', and then looks at what that means for four broad areas: macroeconomic policy, the size and role of the public sector, the tax and benefit system and industrial policy (and financial sector regulation in particular). The arguments here are informed by a seminar on this topic which took place in the House of Commons on 1 March 2010, chaired by the Labour MP Jon Cruddas, and featuring Professor Andrew Gamble of the University of Cambridge, journalists Polly Toynbee and Larry Elliott of *The Guardian*, and myself.

Strands of contemporary Conservatism

It is important to realise that the Conservative Party has never been an ideologically monolithic organisation but has always encompassed a variety of strains of political thought including the protectionism of the 1930s, the 'One Nation' Toryism of the post-war consensus, and the neo-liberalism of the 1980s and 1990s. Accordingly, current Conservative ideology encompasses at least five broad traditions of thought.

In no particular order of their significance or appeal to the party leadership, the first of these is a centre-right 'post-Blairite' tradition which sees itself as taking forward the public service reforms which (adherents would argue) Tony Blair tried to implement as Prime Minister, but was unable to fully realise due to interference from Gordon Brown, whom the Tories like to portray as an Old Labour dinosaur wedded to the old-style public sector bureaucracy. (This is by no means an accurate portrayal of the difference between Blair and Brown in my view, but that is not the main issue here).

Second, there is a strain of 'progressive' or 'red' Tories – exemplified in the work of the political philosopher (and director of the think-tank ResPublica) Philip Blond. This tradition is opposed to both overreaching state power and impersonal market forces, and recommends devolution of political and economic power via mutual ownership and the redistribution of wealth.

Third, the 'blue-greens' or 'green Tories': most obviously represented by Richmond Tory PPC and ex-*Ecologist* editor Zac Goldsmith, this group recommends converting the UK to a low-carbon economy and making a much harder push on environmental policy than anything we have seen so far from any of the main parties.

Fourth, the Christian right – as represented by the work of Iain Duncan Smith's Centre for Social Justice, this group promotes policies such as tax breaks for married couples as a solution to 'broken Britain'.

Finally, the 'neo-Thatcherite' strand – familiar from the Tories' 1980s heyday, and committed to small government, lower taxation and deregulation (1).

While David Cameron's precise ideology is difficult to pin down – at various times since 2005 he has made policy statements which encompass all five ideological positions – George Osborne is a more straightforward case; it is safe to say that Osborne adheres firmly to neo-Thatcherism. Thus, while there will be pressure to incorporate a stronger commitment to environmentalism or policies to promote mutual ownership into economic policies under a Conservative government, to the extent that Chancellor Osborne has control of economic policy independently of his Prime Minister (not always the case under previous Conservative Governments (2)), it seems safe to say that the neo-liberal agenda will win most, if not all, of the economic arguments.

The fact that surveys of incoming Tory PPCs reveal that on average, their economic views are rooted in the neo-liberal camp rather than progressive Toryism or environmentalism (3), reinforces the idea that the Conservatives are likely to try to continue the Thatcher revolution – which was only partially rolled back by Labour in any case between 1997 and 2010. This has fundamental implications for the kind of economy Britain is likely to become after a full term of Conservative government. In the rest of this article I explore what this neo-Thatcherite approach is likely to mean in several key policy areas.

Macroeconomic policy

First, consider macroeconomic policy under the Conservatives. Much has been made of the fact that the Tories would cut the UK's structural public spending deficit harder and faster than Labour if elected this year. However, examination of the actual figures on the table reveals that the Conservatives only want to tighten by an extra £15 billion (around 1 per cent of UK Gross Domestic Product) per year (see for example Chote et al, 2010). Not a negligible sum, but hardly a sea-change in the shape of public finances (given that the Institute for Fiscal Studies estimates that the structural deficit in the public finances currently stands at £73 billion).

While the Conservatives' intention to start trying to cut the deficit in 2010 would almost certainly be economically damaging in the context of a weak and uncertain economic recovery from the worst recession in seventy years (and the economists who wrote two separate letters to the *Financial Times* in February 2010 criticising the Tory plans, in response to a *Sunday Times* letter endorsing the Conservative position, were in the right on this issue), the speed of closing the deficit is *not* the main dividing line between the Conservatives and Labour.

Nor is the Tories' planned Office of Budget Responsibility, which would provide independent oversight of fiscal rules and spending targets. While there is some substance in George Osborne's allegation that Gordon Brown repeatedly 'moved the goalposts' of fiscal rectitude while he was in 11 Downing Street, redefining the cycle to allow spending to rise, it is unlikely that a future Labour government will have the same latitude, with the passing of the new Fiscal Responsibility Act, and the markets watching the evolution of government debt and deficit plans more closely than was the case before the credit crisis. On monetary policy, the Tories plan to stick very much with the MPC model as established by Labour.

The public sector

So rather than drastic changes to macroeconomic policy, the first major difference between Osbornomics and Labour is the former's ambition to cut the size of the state itself. While Labour plans substantial cuts in real terms public spending over the next five years, these are seen as very much an emergency measure – after which spending growth can resume, once debt levels are brought down – rather than something to be embraced in the long run. For the neo-Thatcherite Tories it is a different matter. They attribute Britain's current economic difficulties to a bloated state (there is in fact no overall relationship between public spending as a share of GDP and economic performance among the leading industrial economies – see for example Dolphin, 2009 – but we are discussing ideology rather than evidence here).

The neo-Thatcherite model for economic success involves emulating the low-tax, low-spending Anglo-Saxon neo-liberal economies: for example the US (where tax was around 28 per cent of GDP in 2007) and Australia (where it was 30 per cent), compared with 36 per cent for the UK in the same year (4). We can therefore expect a concerted attempt to shrink the public sector under a Tory government. It will be a somewhat oddly-shaped assault because one of the biggest public sector employers – the NHS – will be ring-fenced from cuts, according to Conservative draft manifesto pledges. But in other areas – including school-level education, which the Tories (unlike Labour) have not pledged to exempt from cuts – we can expect total spending cuts of up to 20 per cent from current levels in real terms. The axe is likely to fall particularly heavily on local government, with local authorities like Essex and Barnet pioneering an 'EasyCouncil' model of services where a bare minimum service is provided at low cost – and with limited resources – and householders who can afford to pay more, may do, but those on low incomes suffer service cuts. We can also expect a concerted attempt to reduce the generosity of public sector pensions, and weaken terms and conditions.

Public sector job cuts would have the advantage (from the Conservatives' point of view) of weakening the trade union movement, which is much stronger in the public sector than the private sector for the most part. To this end, we can expect additional measures on contracting out of service delivery to the private sector, and (in a concession to progressive Toryism) the promotion of mutual and co-operative models of public service delivery (see Blond, 2009). Of course, whatever the delivery mechanisms, it is most unlikely that reductions of this magnitude can be delivered without harming service quality and/or the universality of provision – which is where the 'EasyCouncil' model comes into its own.

It is also important not to characterise Osbornomics too simplistically as 'Tory cuts versus Labour investment'. On current plans, Labour would also have to make spending cuts in many departments of over 15 per cent if it is returned to power. However, the difference is that Labour would see these cuts as a painful necessity whereas George Osborne would see them as a positive opportunity to assert his agenda. In this sense, the fallout from the economic crisis has played into right-wing Tory hands, as there has been almost universal acceptance of the premise that the UK is living beyond its means and that retrenchment of the public sector is inevitable (5). This kind of ideological environment presents fertile ground for the proponents of large-scale spending cuts.

Redistribution

The second area where we can expect a big difference between Conservative and Labour economic policies has to do with the progressiveness of the tax, benefit and tax credit system.

While post-tax inequalities have continued to rise under Labour because of increases in the dispersion of pre-tax incomes, taxes and transfer payments have become more redistributive since 1997 – particularly towards low-income families with children, and the poorest pensioners. Meanwhile, the introduction of the 50 per cent top income tax band (and withdrawal of personal allowances above £100,000) and increases in national insurance contributions above what had previously been the upper earnings limit have made the tax system more progressive at the top end too.

Despite Osborne's flirtation with the 'flat tax' agenda when he first became Shadow Chancellor in 2005, the Conservatives are unlikely to reverse the income tax changes straight away – partly because they worry about the unpopularity of a tax break for the richest. However, reductions in income tax certainly remain a long-term objective – perhaps for the start of a second Conservative term, in much the same way that Nigel Lawson cut the top rate from 60 per cent to 40 per cent just after the landslide Tory win of 1987. Likewise, on tax credits the Conservatives have only said so far that they will abolish tax credits to families earning over £50,000 per year, as well as 'simplifying' the system in ways which have yet to be spelled out. It is likely that reductions in the generosity of the benefit and tax credit systems will be carried out by stealth rather than by frontal assault, with cuts justified on the grounds of preserving the affordability of the system, rather than a deliberate decision to make Britain more unequal.

While Labour has been somewhat equivocal on the issue of tax avoidance – pursuing a raft of anti-avoidance measures on the one hand while encouraging 'non-domiciles' to locate in the UK on the other – it is likely that the Conservatives will be much less keen on pursuing the anti-avoidance agenda than Labour, as the tax avoidance industry (the promotion of tax havens for example) is a key component in undermining revenue from personal and corporate taxation (Palan et al, 2009), which makes it easier to promote reductions in public spending in the long run (an agenda which US neo-liberals have called 'starving the beast').

Industrial policy

Third, and finally in this article, I consider the future of industrial policy in the UK. The New Labour era from 1997 to 2008 was characterised by the championing of Britain's financial services sector as an apparently successful, profitable and ever-growing industry (topped off by Gordon Brown's claim in his 2007 Mansion House speech that we were witnessing 'the beginning of a new golden age for the City of London' (Brown, 2007)). The implosion of this sector in the autumn of 2008 created a crisis for the prevailing view that industrial policy should be largely *laissez-faire* (for more details see Reed, forthcoming). In particular, it required one of the biggest industrial interventions in UK history in the shape of the bailout of Lloyds Group and the Royal Bank of Scotland. This has generated a lot of debate about what the future of British industry is going to look like, and what the government can do to promote alternatives to the financial sector – for example policies to promote the growth of the low-carbon economy and 'green jobs' (see for example Bird and Lawton, 2009; Green New Deal Group, 2008).

In the end, it is the sheer scale of the intervention in the UK financial system in 2008 that holds most difficulty for George Osborne and his fellow neo-Thatcherites, because the implosion of the financial system was a crisis which the free-market right said couldn't, and wouldn't, happen. The whole ideological framework of neo-Thatcherism is founded on the idea that deregulated market economies are the most efficient form of economic model. But how can an economic model be efficient if, left to its own devices, it would have collapsed, taking down the entire economic system with it? It is no exaggeration to say that the events of autumn 2008 represent a crisis for neo-liberalism as profound as that which the 'stagflation' of the 1970s represented for post-war Keynesian social democracy. The irony is that a Conservative government in 2010 would find itself with a Chancellor deeply hostile to increased intervention in the economy just at the point at which the need for economic interventionism had been all-too-compellingly demonstrated.

The Conservatives' policies for industry and the financial sector at the moment are something of a mish-mash of neo-liberalism, opportunism and pragmatism. Their neo-liberal colours are reflected in the proposal to cut the headline rate of corporation tax, paid for by reducing tax allowances for investment and the R&D tax credit scheme. They are also likely to abolish the whole tier of regional industrial development policy in the form of the Regional Development Agencies, although some of their functions (such as public-private venture capital funds) are likely to be taken over by the Department for Business, Innovation and Skills, or at local authority level.

Opportunism is most obviously manifested in their plans to sell off the part-nationalised RBS and Lloyds Group through a public share offer of the type that was used to privatise state-owned utilities in the 1980s. This echo of Thatcherism seems to have been endorsed over the more 'progressive Tory' option of mutualising the banks by giving equal holdings of shares to every UK household, a more equitable but less free-market alternative.

Pragmatism is represented by plans for a Green Investment Bank to prioritise investments in low-carbon industrial technologies (although, like the current government's financial support for low carbon industries, this would not operate on anything like the scale to achieve the kind of transformation of the economy that advocates of policies such as the 'Green New Deal' are recommending).

Financial regulation

It seems most appropriate to end by zeroing in on financial regulation, where the Conservatives do have some well-formed proposals.

They would scrap the Financial Services Authority (FSA) and incorporate financial regulation into the Bank of England, which would mean that 'macro-regulation' (oversight for the viability of the entire financial system) and 'micro-regulation' (oversight of individual banks) rested with the same organisation. As George Osborne pointed out in his recent Mais Lecture at London's Cass Business School (Osborne, 2010), the sheer size of Britain's leading banks means that the 'micro/macro' distinction is rather artificial nowadays, and combining all aspects of financial regulation into one body does have a lot to recommend it. Osborne proposes a series of new regulatory measures on banks' capital adequacy ratios which would go well beyond the existing 'Basel II' regulatory framework. He is also sympathetic to the idea of an international financial sector levy which could create a fund to bankroll future bailout operations.

This all looks quite sensible, as far as it goes – which is not as far as many commentators and analysts have been arguing for, to be sure. For example, there is no evidence that the Conservatives – or indeed Labour – are prepared to countenance a UK equivalent of the US's Glass-Steagall Act of 1933, which separated commercial and investment banking.

Yet, my fundamental concern is to do with Osborne's ideological instincts rather than any particular measure on the table (or not). We know that at some point in the future the big UK banks will return to profitability – and if this occurs under a Conservative government they will be sold back into the private sector as unreconstructed profit-maximising Public Limited Companies. At that point, RBS, Lloyds Group and others will be lobbying strongly for reduced regulation in order to enable them to make higher short-run profits, exactly as happened in the previous boom. Is it really credible that an instinctive de-regulator like Osborne will have the backbone to face down this pressure from banking sector lobbyists?

Make no mistake, this is an issue for any future Labour government as well. But given the ideological instincts of Osborne and much of the rest of the Conservative Party, it strains credibility to believe that they could really be taken seriously as the guardians of the long-term health of the financial sector, rather than turning out to be the people who tried to put Humpty Dumpty back together again. Of course this might change in the future; the Conservatives are nothing if not adaptable to prevailing trends. But whether this adaptability extends to a wholesale re-ordering of George Osborne's basic political beliefs, I somewhat doubt.

Conclusion

In conclusion, I have argued here that after a full term of Conservative government in 2014 or 2015, Britain would have a smaller state, be more unequal, and with a less regulated business sector than if Labour remains in power. Despite the welter of political strands flowing into Tory policy, I think the neo-liberal one will dominate – partly because of George Osborne's instincts (which David Cameron probably shares at least to some extent), and partly because the fiscal crisis has made slashing the state look attractive.

The consequences of going down this road, however, would be poorer quality public services, more inequality, and more economic instability. In this sense, Osborne looks set to repeat the mistakes of Tory Chancellors of the 1979-97 period.

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Notes

1. There are important aspects of Conservative opinion on single issues in addition to these five viewpoints (e.g. euroscepticism), but they tend to overlap with the five ideological categories here rather than competing with them, so I have not included them in the list.
2. For example, Nigel Lawson’s resignation as Chancellor of the Exchequer in October 1989 was famously precipitated by policy disagreements between Lawson and Margaret Thatcher’s economic adviser, Alan Walters.
3. See for example, Hundal 2010: ‘the poll of 101 Tory hopefuls shows that nine out of ten want to tackle the budget deficit with cuts in public spending rather than increases in taxation’.
4. Source: OECD Statistical Database.
5. Although it is important to point out that this premise is *not* universally accepted. See, for example, Irvin et al, 2009, which argues that a mix of carefully targeted spending cuts on unnecessary programmes, progressive tax increases, and anti-avoidance tax measures can raise enough money to plug the structural hole in the public finances.