

# The Coalition Programme: A New Vision for Britain or Politics as Usual?

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THE Coalition came to power at a time at a time of political, economic and ideological uncertainty. It is promoting radical and far-reaching reforms with impressive vigour. The Conservative party had been defeated in the previous three elections and was unable to command a majority in the fourth. Britain was in recession and faced the largest budget deficit since the Second World War. Another of the possible lines of development as a post-industrial nation in a globalised world—the New Labour combination of deregulation, social investment and reliance on high-end services, particularly finance—had failed. Does the Coalition offer a new and distinctive way forward for Britain or are its policies better understood in terms of the short-term manoeuvring of tactical politics? This article describes the main features of the programme, examines different explanations for the reforms and considers how they are likely to develop in an uncertain future.

## The main features of the reforms

The most striking element in the reforms is the cumulative, abrupt and substantial programme of public spending cuts and tax increases from 2010 to 2015. The reforms also include a far-reaching restructuring of state services, involving significant transfers of responsibility from the state to the private sector and to the citizen.

## The cuts

The cuts are very large, precipitate and intended to set the United Kingdom on a different spending trajectory. Britain does not have a high public debt (50–60 per cent of GDP, close to that of Germany and France, rather lower than the United States). The debt is financed by relatively long-term loans and no credit-rating agency has identified it as a problem. The country does have a large public sector deficit, the gap between income and expenditure in the annual budget. This touched 16 per cent briefly in 2010–11, much higher than most European countries and at a level similar to that of the United States. Current deficits in France and Germany, for example, hover just above the 3 per cent limit set by European monetary policy.

Four factors contribute to the unusual size of the public sector deficit: the extra spending on banking bail-outs, quantitative easing and emergency measures (for example, the car scrappage scheme); the decision to finance these measures mainly through short-term borrowing in order not to undermine demand during a recession; the decline in tax receipts in the down-turn, exacerbated by the 2008–09 value added tax (VAT) reduction; and the government's wish not to increase headline taxes in the run-up to an election.

The Labour (and Liberal Democrat) 2010 manifestos proposed reducing the deficit during the lifetime of two parliaments, following the timescale envisaged as appropriate by OECD.<sup>1</sup> The Conservative party planned to eliminate it rapidly,

**Table 1: Composition of the reform programme by 2014–15 (£ billions)**

	March 2010 budget	June 2010 budget	October 2010 spending review
Tax	21.5	29.8	29.8
Spending	50.9	82.8	80.5
Of which			
Investment spending	17.2	19.3	17.0
Current spending	33.7	63.5	63.5
Of which			
Debt interest	7	10	10
Benefits	−0.3	10.7	17.7
Public services	27.0	42.8	35.7
Total cuts	72.4	112.6	110.3
Spending (%)	70	74	73
Tax (%)	30	26	27

Source: R. Crawford, *Where did the Axe Fall?*, London, Institute for Fiscal Studies, 2010 (<http://www.ifs.org.uk/publications/5311>).

by 2014–15. The Coalition programme incorporated the bulk of the tax increases put forward by Labour in its March 2010 budget, but differed in other ways from the separate proposals of the partners. It was set out in two stages: the June Emergency Budget and the October Spending Review, which detailed cuts in spending on public services and benefits. Table 1 sets out the various income and spending plans up to 2014–15.

The proportionate contribution to resolving the deficit from tax rises and spending cuts is broadly similar in all three, in part because the Coalition is more optimistic about economic growth prospects and tax yields than the previous government. The programmes differ in three ways. First, size and speed: Labour's planned cuts totalled £72.4 billion, equivalent to some 13 per cent of public spending. At £112.6 billion, the Coalition's cuts are more than half as large again, with a slight mitigation between June and October. The deficit will be eliminated in five, rather than ten, years. Second, the scale of the cuts in public services: these rise from £27 billion in the previous plan to £35.7 billion by October, or roughly one-fifth of

the £166 billion budgeted for housing and community, environmental protection, law and order, defence, economic affairs and other public services in 2010.<sup>2</sup> Third, the impact on benefits: minimal in Labour plans, but set at £17.7 billion in the October review, almost all of it coming from the £105 billion spent on short-term housing and disability benefits.

The June and October cuts are directed much more towards lower income groups. Labour's tax plans, which bear heavily on high income groups, are retained: an increase of higher-rate tax on the 2–3 per cent of taxpayers with incomes over £150,000 to 50 per cent and an increase in National Insurance contributions by 1 per cent. In addition, VAT, a mildly regressive tax, is to rise by 2.5 per cent from 4 January 2011. Further tax increases include a banking levy, a rise in Capital Gains Tax (CGT) and increases in duties on alcohol and fuel.

### *Size and speed*

Figure 1 compares predicted spending trends in the United Kingdom with those in other major economies. The Coalition programme seeks to reduce the deficit to

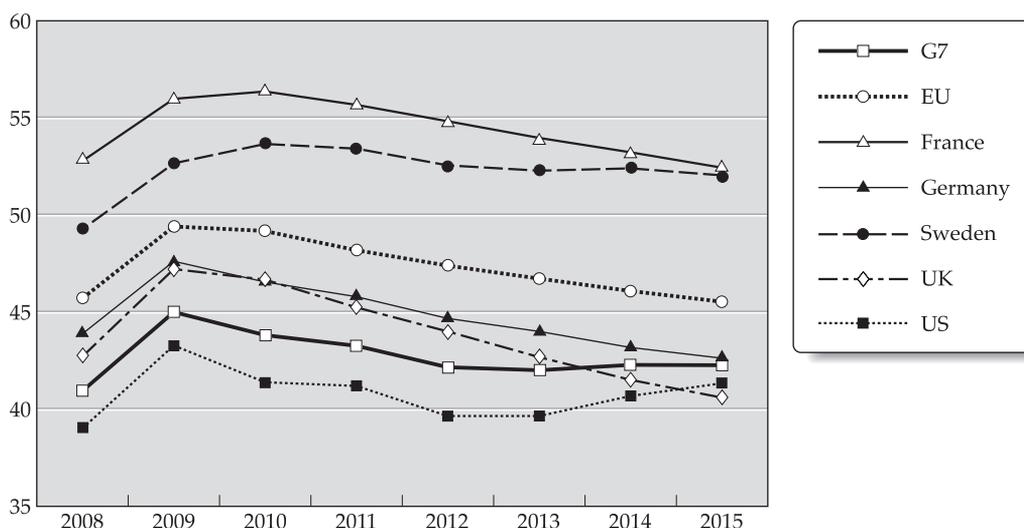


Figure 1: Public spending trends, selected advanced economies, 2008–15 (% GDP: United Kingdom and United States in bold)

Source: International Monetary Fund (IMF), World Economic Outlook Database for October, Washington, DC, IMF, 2010 (<http://www.imf.org/external/pubs/ft/weo/2010/02/weodata/index.aspx>).

a minimal level by 2014–15, perhaps leaving room for tax cuts before an election. One result is an exceptionally rapid cut-back in spending, so that the downward gradient to the United Kingdom line between 2011 and 2015 is steeper than elsewhere. The decision to withdraw spending during a period of recovery is controversial and assumes that the private sector will generate the demand necessary to fuel growth. Most other governments follow the loosely neo-Keynesian assumption that state intervention should be maintained during economic weakness to limit the risk of further down-turn or prolonged stagnation. Only those with little alternative (Ireland, Greece and, more haltingly, Portugal and Spain) cut at the rate of the United Kingdom.

For most countries, policies after the crisis mark a return, broadly speaking, to business as usual. France and Sweden regain their traditional rather higher levels of public spending, Germany is more moderate. On current projections public expenditure in the United Kingdom appears likely to fall below that in

the United States by 2014 or 2015. This is simply unprecedented and, if fully implemented, indicates a radical new departure in British policy directions.

The New Labour project included a commitment to bring provision in the United Kingdom close to levels in the leading European countries, mainly by increasing spending on mass services (the National Health Service and education) and pursuing Tax Credit and other programmes to ensure incomes in work exceeded those available to claimants and did so at a decent level. Other new policies were designed to improve the quality of the workforce (Sure Start, Education Maintenance Allowance (EMA), the expansion of education from pre-school to university). Progress in this direction had been made by the middle of the first decade of the century. The aspiration to achieve levels of public provision comparable to those in leading European Union (EU) countries is now decisively rejected. Some reforms, such as the switch from Retail Price Index (RPI) to Consumer Price Index (CPI) indexation for short-term benefits, the cuts in public

sector pensions and the limits on housing and jobseekers' benefits, will continue to reduce spending below previous trend levels indefinitely. The assumption is that expenditure will continue to move downwards beyond the period covered by current forecasts.

### Public service cutbacks

The biggest savings will come from tightening of departmental spending limits. These affect some departments more than others, most sharply Community and Local Government (DCLG), Business (BIS) and Department for Environment, Food and Rural Affairs (DEFRA). They also impose real constraints as a result of rising demand in areas where cash limits are maintained—most notably for health services and schooling. The largest savings in benefits come from changes to housing benefits, the child benefit uprating freeze and removal of child benefit from higher-rate taxpayers, greater stringency in disability benefits tests (intended to halve the number of recipients) and Tax Credit cuts. Involving fewer resources in total, but bearing on those on the lowest incomes are cuts in council tax benefit, disabled living allowance, abolition of EMA, a cap on benefits according to family size, a 10 per cent cut in benefits for the unemployed after one year, a shift to uprating of all benefits

except pensions from RPI to CPI (which tends to rise at a lower rate) and other cuts.

### Impact

One issue which has provoked controversy is the question of whether the cuts are regressive, bearing most heavily on the poor, or not. Since many of the cuts will not be made until 2013 or later, and since the changes, particularly the use of a lower uprating index and the caps on housing benefits are cumulative, the full impact does not appear for some time.

All analysts agree that the tax increases of the previous government are clearly progressive, with income tax changes bearing exclusively on the top 2 or 3 per cent, lower-paid employees being protected from National Insurance increases and the duty increases being slightly progressive over most income groups. CGT changes are also mildly progressive. However, cuts in benefits and public services make a much greater contribution to reducing the deficit and these bear most on the poor. Figure 2 shows the most detailed analysis currently available from the Institute for Fiscal Studies (IFS), building on Treasury analyses.

Benefit changes are clearly regressive, particularly because the largest spending benefit which goes to the widest range of population groups (the basic pension) has

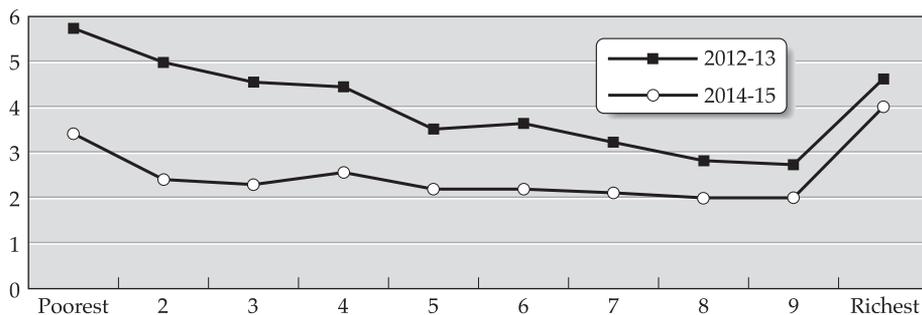


Figure 2: Tax and benefit changes as percentage of income (decile groups)

Source: Calculated from J. Browne, *Distributional Analysis of Tax and Benefit Changes*, London, Institute for Fiscal Studies, 2010 (<http://www.ifs.org.uk/publications/5313>).

been protected from cuts. For the immediate future, up to 2012–13, the changes, when combined with tax increases, are roughly flat for the middle 80 per cent of the population, but hit the poorest 10 per cent and also, particularly, the richest 10 per cent, and in that group the top 2 or 3 per cent. As the changes cumulate, the impact on lower income groups is more pronounced. By 2014–15, the changes are clearly regressive across nine-tenths of the population, although tax increases still affect the very rich.

IFS also analyses the impact on different population groups. Because many of the changes affect benefits that go mainly to low income families (child benefit, child tax credit, housing benefit), the impact on families and on children is particularly harsh. The benefit and tax changes add up to a 7 per cent cut for the poorest tenth of families with children by 2014–15.<sup>3</sup> For pensioners, by contrast, the effect across income groups is roughly flat.

An analysis of tax and benefit changes after the June budget, covering some £8 billion which can be assigned by gender, showed that women bear 72 per cent of the cut-backs.<sup>4</sup> Cuts to child benefit, lone parents' benefits, Sure Start maternity benefit, Tax Credit, housing benefits and pension credit are borne disproportionately by women. Women form the majority of those affected by the cuts to public service pensions. Tax changes are broadly neutral or bear more on men. The Women's Budget Group points out that almost all child benefit and 53 per cent of housing benefit claimers are women.<sup>5</sup>

Cuts in public services make a greater contribution to deficit reduction than either tax or benefit changes. It is difficult to estimate the impact of these cuts on particular groups, in part because the value of health care, child care or social work help to a poor family may not be equivalent to the amount of money the state spends on the service, and partly because there is no agreed way of allocat-

ing benefits from the services to different population groups. The Treasury offers a tentative analysis of the distributional impact of service cuts for about half departmental spending, mainly NHS (of which they are able to allocate half) and education (27 per cent), with smaller proportions of local government (10 per cent), high education (5 per cent) and other services (8 per cent).<sup>6</sup> This analysis shows the cuts are regressive, equivalent to a loss of roughly 2 per cent of income for the poorest three-fifths of the population, 1.5 per cent for the next fifth and 1 per cent for the top fifth. Further analysis by IFS includes the services not covered in the Treasury modelling. This shows that the unmodelled cuts in cash terms take just over twice the proportion of income from the poorest fifth of the population as from the richest fifth.<sup>7</sup>

The process of implementing cuts is likely to exacerbate the problem. Local government is expected to reduce spending by 27 per cent between 2010–11 and 2014–15.<sup>8</sup> Councils in unitary urban areas spend roughly 40 per cent of their budgets on the most vulnerable groups through adult social care and children services. In county areas the proportion rises to 60 per cent. This is not a sector where efficiency savings are easy to generate. Many services are provided by those at or near the minimum wage. Assessment procedures could be trimmed to allow more spending on services, but it is impossible to deliver cuts at the level envisaged without serious reductions in services for the poorest. However the spending programme is analysed, the cuts in services for poorer groups substantially outweigh the impact of tax increases on higher-rate taxpayers.

The Women's Budget Group takes the argument further. They show that the changes affect women and children disproportionately. By 2014–15, the service cuts are estimated to be equivalent to an 18.5 per cent cut in the income of lone parents (90 per cent women) and a 12 per

cent cut for the poorest group of pensioners who are single women.<sup>9</sup> Overall, single women lose services worth 60 per cent more than those lost by single men. They also point out that cutting public services will increase unemployment for women who form the majority of public service employees.

## Restructuring public services

In addition to spending cuts, the Coalition's reform programme includes a major restructuring of public services. Most of the changes are currently proposals or general policy directions, and how they will be implemented is unclear. The detail of legislation and of the management of change will have a strong effect on the impact on gainers and losers and on the role played by public services in national life. The reforms as currently presented extend beyond a piecemeal response to the imperative of deficit reduction to form a coherent programme. The key features are three: an emphasis on local decision making and budgeting, a shift in responsibility for outcomes from state to citizens, and the consistent promotion of the expansion of private and, in some areas, third sector provision.

The NHS White Paper proposes to transfer the greater part of budgetary responsibility to consortia of general practitioners (GPs) who will commission health services for their patients from a range of competing providers.<sup>10</sup> It also plans to encourage for-profit and not-for-profit private agencies to play a much larger role as providers in the internal market. The profession is uncertain about commissioning and against the extension of the market: '[T]he BMA [British Medical Association] remains opposed to the promotion of a market approach to NHS care.'<sup>11</sup> Some GPs may welcome the new responsibilities, some may form non-profit cooperatives, but the likelihood is that many will turn to

for-profit agencies such as Kaiser health care to take on the task for them.

Experience indicates that private players find it difficult to compete successfully on either price or quality with the health service. The previous government offered a premium of 11 per cent above payments to NHS providers when it sought to encourage the participation of private providers in Independent Treatment and Diagnosis Centres. Response was so weak outside a small number of areas involving low investment and a high degree of certainty about outcomes that the scheme was wound up.<sup>12</sup> The proposals, together with the limitations in National Institute for Clinical Excellence (NICE) assessments of the cost-effectiveness of therapies, are likely to lead to much greater local variation in NHS treatment and to greater privatisation of management in at least some areas of provision.

In education, the move to expand the number of self-managed academies—ultimately to include almost all state schools—will erode the role of local education authorities. Private providers will again be encouraged to enter the market, managing individual schools or groups of schools. The programme of parent or locally run 'free schools' has attracted much attention, but relatively few concrete proposals. Most of these are to be run by private for-profit companies.

Local government reforms also emphasise local responsibility, the abolition of targets and reduction of planning powers.<sup>13</sup> They cut budgets substantially and encourage private providers to contract for the whole range of local services. The housing reforms reduce spending on social housing by half. Rents will rise from the current 20–40 per cent of market levels to 80 per cent in order to attract private providers. Other state services such as the employment service and welfare to work programme are to deliver most of their provision through private companies and social enterprises.

The benefit reforms also stress individual responsibility—in this case to take any available job. The ambitious Universal Credit reforms will eventually bring all short-term benefits together in a simpler work incentive-focused system. More immediately, other changes sharpen the already strict sanctions for those who do not participate in work placements or take jobs on the terms offered, with the possibility of denial of benefits for up to three years.

These reforms will lead to a fragmentation of services, with provision from a wide variety of providers and a prominent role for the private sector. They are likely to generate variations in scope, range and standards in provision in different areas. There are large opportunities for the private sector, but it is unclear how this will develop.

A further aspect of restructuring is contained in the 'Big Society' programme.<sup>14</sup> This seeks to promote community engagement and neighbourliness in order to meet needs on a local basis through volunteering. Many commentators point out that the voluntary sector and especially the large provider agencies within the sector are heavily dependent on grants from local government and other state sources, currently subject to cuts.<sup>15</sup> Also much voluntary and third sector provision is directed towards specific groups so that barriers of exclusion and inclusion may become more serious. This reinforces the pattern of variations in the quality and scope of provision likely to result from the changes discussed above.

The Coalition's programme of cuts in benefits and services is abrupt and likely to bear most heavily on those on low incomes and on women and children. The income and capital gains tax increases hit the top 2 per cent sharply. Restructuring plans are less clearly developed but equally far-reaching, and are likely to lead to more diverse public provision. Past experience indicates that

cuts are very difficult to achieve, that government policies are often blown off course and that the political repercussions of implementation may modify the initial plans. These factors are all likely to influence an administration which must look to coalition support. In any case, the government will be judged in large part on its success in promoting economic recovery in a globalised world where developments elsewhere may trump local plans.

One way of assessing the likely trajectory of the reforms is to explore how different understandings of the logic that underlies the cuts agenda lead to different judgements on how the government will respond to the problems it may encounter.

## Explaining the cuts

The programme of public service restructuring and cuts directed mainly at lower-income groups can be understood in two ways: as an ideologically driven project committed to realising a new vision of how Britain can secure an identity and achieve confident economic growth in a globalised and intensely competitive world, or as a tactical political programme designed to achieve victory in future elections.

### *Ideology and political economy*

The starting point for the first explanation is the failure of Britain to develop a successful economic and social model for a post-industrial, globalised world. Britain's relative economic decline is a common theme in academic economic history (the debate is summarised by Childs).<sup>16</sup> The claim is that the British economy flourished in the first great globalisation as a leading imperial, industrial and military nation. Its relative position declined during the struggles between the imperial powers of the first quarter and then between the industrial

powers during the second quarter of the twentieth century. The period of American hegemony after the Second World War enabled stable growth, although the relative economic position of the country continued to fall back compared to leading capitalist powers such as Germany, Japan and the United States. The ending of the Cold War and rise of the new industrial leaders in Asia and South America in an intensely competitive world brings home the problem. Government faces the problem of finding a way forward for Britain plc.

Various approaches have been tried during the past half-century. None have managed to combine secure economic success and sustained electoral support. They include Harold Wilson's attempt to develop a new planned high-tech industrialism imitating French and German achievements, the deregulated de-industrialised market model of Margaret Thatcher and the social investment 'third way' economy with a leading financial sector of Tony Blair. From this perspective, the Coalition's approach is a decisive shift in economic direction, away from the previous vision of a market system for which government provided human capital and social infrastructure investment, so that it could provide resources for good public services, and towards a vigorous, flexible and inegalitarian liberalism. The United Kingdom abandons Europe and joins Team America—a process dramatised in the gradient of public spending in Figure 1. The welfare state reforms are centred on promoting work incentives and extending private market provision. The communitarian aspect reflects in tune with the American dream of an independent, self-confident and neighbourly citizenry.

Some commentators find it difficult to understand how the Liberal Democrat party, traditionally linking market economics with commitment to a generous social programme, supports a coalition that puts a lasting reduction in the size

of the state at the centre of its programme. The conviction that Britain needs to move towards the market, individualism and private enterprise has dominated policy ideas in the Conservative party since the premiership of Mrs Thatcher. It is shared by the current leadership of the Liberal Democrats. John Gray points to the essays by Huhne, Cable and Clegg in the Orange Book (edited by David Laws<sup>17</sup>) which 'reaffirm a version of liberalism . . . in which support for small government and the free market goes with a strong commitment to civil liberties and freedom of lifestyle'.<sup>18</sup> In this sense, Liberal Democrats can join with Conservative marketers to roll back the state and free the individual in the private market.

The 1979–97 Conservative government eliminated some of the obstacles to thorough-going reform—most importantly trade union power—and weakened others—most notably local government. The 1997–2010 government expanded provision, but managed government services through a mixture of targets and internal market competition. The opportunity to take things further is now open.

Coalition policies include strong themes of decentralisation and localism. Local government and to some extent health services, schooling and such provision as welfare to work programmes are to be provided by a web of semi-independent providers—mainly private companies, but also social entrepreneurs, user groups, volunteers and nongovernmental organisations (NGOs). This approach endorses the high Tory romanticism of a more organic social order in which individuals contribute to a common good through their own direct efforts, as Willetts puts it: '[A] trust in the community with its appeals to deference, to convention and to authority'.<sup>19</sup> Equally, it reflects the strong Liberal Democrat traditions of localism and community politics.

Ideological commitment offers one way of understanding the direction of coalition policies. An alternative sees the motivation for reform as the normal politics of tactical manoeuvring.

### *Politics as normal*

The opposition parties failed to make headway in any of the past three elections. The strengths of New Labour lay in a narrative that combined social justice, achieved through investment in high quality public services at a level approaching that of leading EU countries, with economic competence, reinforced by the fortunate circumstance of sustained international growth and by Brown's high profile at world economic meetings. The severity of the 2007–08 recession provided the Conservative party with a golden opportunity to demonstrate that Labour was unable to deliver prosperity and to promote an alternative economic vision that linked immediate austerity with future growth.

The slogan 'never waste a good crisis' sums up this approach. It underlies the repeated emphasis in coalition statements on the economic catastrophe left behind by the previous government. The argument that there is simply no alternative to cuts appears to be accepted by a substantial majority of the electorate: in September 2010 polling, 58 per cent were in favour of cuts to restore economic growth, 27 per cent against and the remainder undecided.<sup>20</sup> However, a majority (69 against 25 per cent) also believe that it is better to reduce the deficit more slowly if immediate reductions mean job losses. Some 56 against 27 per cent believe that the deficit can be contained simply by cutting waste and administration costs. It is unclear how the public will respond if the private sector is unable to take up labour market slack rapidly and if the cuts bite home on valued services.

The case for the Coalition's programme as an astute political ploy, exploiting the weakness of the government at a time of economic crisis and grasping the opportunity to advance a radical alternative approach, is strengthened by two other considerations. First, the benefit and service cuts bear most heavily on the poor and on a small wealthy minority and demand less from those in the middle, who may accept austerity if they believe that it will lead to future advantages, perhaps financed mainly by the sacrifices of others. Labour's March 2010 programme preserved cash benefits, imposed tax rises mainly at the top end and spread public service cuts over a longer time frame. The middle mass are the main battleground for United Kingdom elections. The pattern of cuts and tax rises indicates that coalition tactics may be successful in building electoral support.

Second, the programme may be seen in terms of the capacity of the senior partner to outmanoeuvre its colleagues. Support for the Coalition creates real tensions among Liberal Democrats. The party can hardly surrender their only opportunity to participate in government since the Second World War (apart from the LibLab pact of 1977–78). More socially minded traditionalists may reject precipitate cuts which damage the living standards of the poor, and defect to Labour. Others will move closer to the Conservative party. Evidence for this view is the way senior Liberal Democrats have been drawn into the restructuring process, playing a leading role in the implementation of the cuts (Danny Alexander) and vigorously endorsing them within their own Department (Vince Cable).

The two explanations of the programme in terms of political economy and political tactics may in practice be combined, but there are real differences in emphasis. How to choose between them? One approach is to consider implications for future policy development,

especially for how government will respond to difficulties in implementing the programme.

## Risks and responses

The main risks faced by the current strategy are two: economic failure and programme failure. The various lines of explanation suggest different responses to these challenges.

### *Economic failure*

The most frequent criticism of the current programme is that the strategy of rapid cuts in state spending pays too much attention to the public sector deficit and too little to the collapse of demand that was the immediate cause of recession. The Coalition claims that cuts were necessary to reinforce the confidence of foreign investors in the solvency of the United Kingdom government. Failure to maintain the borrowing necessary to finance government activity would lead to state default, currency devaluation and a rapid fall in living standards. It is difficult to find evidence of any threat to the United Kingdom's credit rating. The national debt is of a similar size to that of other developed countries and financed by relatively long term borrowing.

The plans assume that the private sector will be able to substitute promptly and adequately for the fall in demand resulting from higher unemployment, lower benefits and fewer state contracts. It also assumes that the private resurgence will generate sufficient employment to contain upward pressures on benefits. The Office for Budgetary Responsibility predicts that the cuts programme will cost 500,000 public sector jobs, but that unemployment overall will fall from 2.6 million (8.1 per cent) in mid-2011, to 1.9 million (5.8 per cent) by 2016.<sup>21</sup>

The experience of previous milder cuts programmes—for example, in the early

1980s—is that it takes a considerable period (in that case, beyond the life of one parliament) for employment to recover. No other major economy is risking as rapid and thorough-going a programme of cuts and fiscal tightening as the United Kingdom, as Figure 1 shows.

### *Programme failure*

The experience of previous attempts to cut state spending is of a failure to implement a structured and efficient programme. Previous attacks on waste have had limited impact. The 2007 Comprehensive Spending Review required public bodies to make relatively modest savings of 3 per cent over three years. A recent review showed that only 31 per cent of the target had been achieved by the halfway point.<sup>22</sup> Significantly, only 38 per cent of the savings represented better value for money. Most resulted from real cuts in service or were not verifiable. In general, agencies respond to demands for savings by first cutting infrastructure and second by short-term employment and then wage cuts. These developments hardly ever lead to innovations and higher productivity.<sup>23</sup> It is worth noting that productivity in health care and education has not improved during the past three decades, despite the array of measures directed at this end.<sup>24</sup> The reforms are unlikely to realise the expected savings. This will put the onus on benefit cuts and possibly on further tax increases, damaging public acceptance of the programme even among the middle income groups who are less directly affected by it.

If the reforms are driven primarily by tactical political concerns, the likelihood is that the government will adjust its policies to meet indications of dissent, possibly restoring some of the highest profile cuts for electorally significant groups and stretching out the timescale for deficit reduction. If the intention is to realise a new political economic vision,

then reform is likely to be more resilient. From this perspective, the shift to a market-centred, flexible and dynamic economy that will guarantee future prosperity is an acceptable trade-off against political difficulties during the transition.

## Conclusion

The coalition programme is more than an immediate response to a large current account deficit. It involves a restructuring of welfare benefits and public services that takes the country in a new direction, rolling back the state to a level of intervention below that in the United States—something which is unprecedented. Britain will abandon the goal of attaining a European level of public provision. The policies include substantial privatisation and a shift of responsibility from state to individual.

The programme can be understood as a coherent strategy intended to set the country on a new growth path or as the outcome of tactical political manoeuvring at a time when the party of government was wrong-footed by events, and when the new policies might seize the imagination of the electorate. One way of investigating the balance between ideology and pragmatism is to examine responses to difficulties. Whatever the outcome, the process is certain to generate winners and losers. Both rewards and penalties are potentially greater than under any previous programme in this country.

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