

Liberal Democrats in coalition: economic policy

Economic policy under the coalition: overview

Matt Cole



THERE CAN BE little argument about the importance of economic policy in the formation, running and demise of the Conservative–Liberal Democrat coalition government, and therefore of the opportunity – and the threat – it represented to the Liberal Democrats. Making a distinctive contribution in this field was from the outset made more difficult by two circumstances: pre-existing divisions amongst Lib Dems over policy and, more importantly, differences in attitude to the coalition relationship. There were notable Liberal Democrat achievements in this field, but they largely went largely unseen, not always unavoidably.

Three phases characterise the coalition’s economic policy – and it is noteworthy that as attempts to assert Liberalism in the coalition grew bolder with each phase, the prospects for doing so receded.

The argument between so-called ‘economic’ and ‘social’ liberals which developed in the decade

to 2010 is sometimes over-simplified, but there was no doubt that some of those associated with the more free-market ideas of the *Orange Book* (2004) were keen to move away from the more social-democratic / social-liberal approach of the 1990s and early 2000s, such as raising the basic rate of income tax. Following the party’s failure to break through in the 2005 election, economic liberals saw Nick Clegg’s leadership as an opportunity to strike a new profile for the party, favouring policies such as the expansion of academies, cuts in the burden of income tax and selective privatisation of public services.

The circumstances of 2010, however, placed the Liberal Democrats in a traditional centre-party position on the issue of the government deficit. Where Labour hoped to draw on economic growth to restore the public finances, ahead of the election the Conservatives set out plans for immediate significant reductions in public spending. The Liberal Democrats, in contrast, argued

for a delay to allow the economy to recover before addressing the budget deficit. Clegg told broadcasters at the pre-election spring conference in March 2010 that 'it would be an act of economic masochism for us to start, as a country, cutting big time within a few weeks when the economy can't sustain it.'¹

Under the influence of Vince Cable, the 2010 manifesto struck a more pessimistic tone, acknowledging the need for 'cuts which could be realised within the financial year', including the Child Trust Fund and tax credit restrictions, and promising wide consultation through a new all-party Council on Financial Stability to 'agree the time frame and scale of deficit reductions'.² Nevertheless, with the overall aim of eliminating the structural deficit over eight years – closely comparable to Labour's promise to halve it over four – the Institute for Fiscal Studies concluded that the plans of the Liberal Democrats mirrored those of Labour much more closely than the Conservatives'.³

Winning the Chancellors' 2010 TV debate, Vince Cable was described by one media observer as having 'ganged up' with Alistair Darling over the Conservatives' pledge to make £6bn efficiency savings, which he regarded as 'utterly incredible'.⁴ Polls showed public trust in the Lib Dems stronger on the economy than on most other issues;⁵ Vince Cable was the preferred Chancellor of 32 per cent, nine points ahead of second-placed Alistair Darling.⁶ The Liberal Democrats had established for themselves a popular position as moderators of the economic irresponsibility of the other parties – but internal divisions and outside pressures were to make this a fragile asset.

Betting the farm: the coalition agreement

The first and most significant decision of the Liberal Democrat leadership over economic policy came in the negotiations over the coalition agreement. Early on, the party's negotiating team surrendered its opposition to early cuts in public spending, paving the way for George Osborne's emergency austerity budget of June which (together with the spending review in October) started the process of cutting £80bn from public spending.

A number of explanations have been advanced for this dramatic change of approach. The first was the shifting international situation. As Clegg said later: 'I changed my mind earlier. Remember, between March and the general election a financial earthquake happened on our European doorstep. We were all reacting to very, very fast-moving economic events.'⁷ Andrew Stunell and Chris Huhne, two of the negotiators, drew comparisons with the Greek debt crisis; in the week of the election, the EU and IMF had announced a major bailout deal, and stock markets had fallen sharply as investors doubted whether it would

be sufficient.⁸ This change of stance was reinforced by the perceived need for the coalition – an untried form of government in recent British history – to show that it meant business in addressing the public sector deficit.

Others argued, however, that the shift reflected ideological preferences, particularly given the make-up of the negotiating team and Clegg's choice of chief secretary, David Laws, who 'needed little persuading'⁹ to accept the first package of cuts. He was followed by Danny Alexander, for whom Laws left a message saying 'carry on cutting with care'. In this view the coalition was no more than a Trojan horse through which economic liberalism could enter the gates of the party and purge it of state interventionism.

The third view is that it was a simple case of poor poker play: the Lib Dem negotiating team blinked before the Tories. Faced with market turmoil, the case for a coalition government with a healthy majority in the Commons was strong, but was there any need for the government thus formed to adopt George Osborne's deficit-cutting proposals? Cable reflected afterwards that 'the Chancellor had an ideological belief in a small state, which I didn't share, as well as a ruthless eye for party advantage'.¹⁰ Osborne was, according to Liberal Democrat junior minister Norman Baker, 'much more political' than his party leader: 'everything was a battle to be won, whereas the Prime Minister was more prepared to give and take.'¹¹ Chris Huhne told Clegg that he was 'mad' to accept the Tories' cuts, and Kenneth Clarke said that they towered over Thatcher's.¹²

Labour negotiators were indignant: 'I was astonished,' said Ed Balls: 'It didn't occur to me that they would think they could hold the party together on such a massive breach of the manifesto.'¹³ Even former Liberal Democrat leaders queued up to offer public reservations: Paddy Ashdown accepted that if Osborne's radical cuts failed 'we're all toast'; Menzies Campbell put it more bluntly still, saying 'we've bet the farm on getting the economy right' before adding: 'we might have to leave the farm.'¹⁴

Whether or not the new economic circumstances required this gesture, the political ones did not. The coalition agreement's commitment to early cuts, the Budgets of 2010, 2011 and 2012 and the proposed public sector pension reforms of 2011 discredited the Liberal Democrats' claims to have applied the brakes to the runaway train of Conservative austerity. Philip Cowley argues persuasively that it was not tuition fees that were the cause of the Liberal Democrats' humiliation in 2015: in fact the party had already dropped well below 20 per cent in the polls by the summer recess in 2010, and was down to 14 per cent by October, before the Browne Report had even been published. It was austerity which killed the Lib Dems; and they were to enjoy few of the rewards of this martyrdom in the next four years.

Left: Liberal Democrat cabinet ministers Danny Alexander (Chief Secretary to the Treasury) and Vince Cable (Secretary of State for Business, Innovation and Skills)

The policy record

This article focuses primarily on the coalition's attempts to reduce the public-sector deficit – the government's overriding priority – but Liberal Democrat ministers would point to other achievements during their time in office. Most notable was the steady increase in the income tax threshold, up from £6,475 in 2010–11 to £10,600 in 2015–16. Although the objective of raising the personal allowance had featured in both parties' manifestos, David Cameron had claimed it was unaffordable during the TV debates, and it seems reasonable to recognise it as a Liberal Democrat win in the coalition. The party was, accordingly, deeply frustrated by the Tories' subsequent claiming of it as their own achievement – though perhaps they should have learned from the experience of junior coalition partners in other countries, who have found to their cost that when economic policy goes right (or, at least, is popular), the benefits are felt by the party of the prime minister and finance minister.¹⁵

The Department for Business, Innovation and Skills (BIS) was unique in the coalition in having two Liberal Democrat ministers: a succession of Lib Dems – Ed Davey (2010–12), Norman Lamb (2012), Jo Swinson (2012–15) and Jenny Willott (2013–14, during Swinson's maternity leave) – serving in junior ministerial roles alongside Vince Cable as Secretary of State. Although Cable was himself one of the *Orange Book's* authors, he instituted an interventionist industrial strategy (within the limits of austerity), setting up the Green Investment Bank (after some persuasion by Chris Huhne) and the Business Bank, creating a Regional Growth Fund (replacing the Regional Development Agencies, which were scrapped in 2010) and two million apprenticeships (though the evidence suggests that some were existing employees undergoing on-the-job training 'converted' to apprentices to access government funding), and establishing a series of 'catapult' innovation and technology centres. Theresa May's retitling of BIS, after she became prime minister in 2016, as the Department for Business, Energy and Industrial Strategy is partly a tribute to Cable's efforts.

Liberal Democrat ministers also expanded access to free childcare and established the right to shared parental leave and the right to request flexible working. Cable's (and Clegg's) determination to resist curbs in immigration which might harm the economy helped to mitigate the impact of the Conservative approach, particularly as it affected the movement of skilled workers. In 2014, Cable went so far as to describe his own government's policy as 'basically very stupid', warning that it was meaningless, impossible to enforce and 'ludicrous'.¹⁶ What garnered more coverage in the press for Cable, however, was the privatisation of Royal Mail in 2013. Unpopular with the public and widely regarded

as underpriced when it was sold off, the move dented Cable's popularity – already damaged by the tuition fees episode (discussed in the article on education policy) – within the Liberal Democrats and the wider public.

Cable's dilemma

The so-called 'Omnishambles' Budget of 2012, with its pasty tax, granny tax and cut in the top rate of income tax (which, before the previous year's party conference, Clegg had 'vowed' not to allow, saying that it would be 'utterly incomprehensible'),¹⁷ followed a double-dip recession and marked the start of more open controversy within the Liberal Democrats. As part of this it was rumoured that a break might finally come between Vince Cable and the coalition.

Voices critical of government economic policy – some senior figures – had been heard throughout the coalition calling for fewer cuts and more investment. Some spoke at conference fringe meetings; others worked through party groups such as the Social Liberal Forum.¹⁸ Initially, at least, Cable was not one of these; he stayed publicly loyal to the programme of cuts, even defending it as Keynesian,¹⁹ perhaps because he believed that the 'nuclear' strength of his position made future modification of policy possible. Economic liberals had taken pleasure at the influence the *Orange Book* seemed to be having over the direction of government policy,²⁰ and the chancellor was pleasantly surprised to see his chief secretary bluntly defending ongoing austerity to Jeremy Paxman on *Newsnight* in 2011.²¹

By autumn 2013, however, austerity and electoral punishment for the Liberal Democrats had gone far enough to prompt rumours that Cable – who was reported to have exchanged sharp words with Danny Alexander over the latest round of cuts – would break with cabinet colleagues and oppose a motion put to the party conference at Glasgow by Nick Clegg, presaging his departure from government.²² Cable equivocated, but in the end backed Clegg. He was criticised by *Guardian* journalists Patrick Wintour and Nicholas Watt, who accused him of 'bottling it'. Danny Alexander even told David Laws that 'Vince's position on the economy is becoming a bit of a joke', adding: 'I think Nick should move Vince out of the Business Department and put me in.'²³

A further attempt to challenge Clegg in the spring of 2014 by Cable's associate and critic of coalition economic policy Lord Oakeshott also failed; Cable distanced himself from Oakeshott, who left the party. The last chance for a significant shift in economic policy for the coalition had gone; but in reality even 2013 was too late to stage a U-turn on the economy. It was in the coalition agreement itself that the seeds of the controversy had been sown, and their trees grew harder to uproot as the government aged.

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Following the yellow budget box: 2013 to the election

Perhaps in response to Cable's threatened rebellion, but also given the approach of the 2015 election, it was in the last eighteen months of the coalition that the Liberal Democrat leadership made an attempt to show greater independence. At the 2013 conference Clegg attacked the Tories as the party of 'fire at will' and claimed that Lib Dem ministers had blocked Conservative plans to weaken employment rights. Cable called for a rise in the minimum wage, and Alexander urged private-sector employers to ease pay restraints. In January 2014 Clegg condemned the Conservatives' proposed £12bn cuts for the next parliament, and in March the next year Alexander offered the Commons the Liberal Democrats' 'Alternative Budget' (complete with yellow Budget box), which he said, foreshadowing the election campaign, 'cuts less than the Conservatives and borrows less than Labour'. It was watched by fewer than ten Lib Dem backbenchers, and relentlessly mocked on social media.

Just as Alexander sought belatedly to establish clear yellow water between himself and Osborne, however, the evidence that the medicine was working began to persuade strategic groups of voters that the coalition was on the right path, if not travelling as fast as they might like. By 2015 unemployment was at its lowest since 2008, inflation was almost invisible to the naked eye, and growth was tantalisingly close to a whole percentage point per quarter. The chancellor and his prime minister were trusted by twice as many voters as their Opposition counterparts. To choose this moment to stress equidistance was strategically costly. As Russell and Cutts concluded, 'the increasingly negative tone on the economy sent out a confused picture to the electorate. The party that had supported austerity measures was now distancing itself from the Conservatives and risked losing the full credit for its role just when the coalition's economic policies were bearing fruit.'²⁴

The Conservatives knew this and claimed the credit. The 'long-term economic plan' of which they now claimed sole authorship was to be the core of their election campaign, with economic trust identified by Tory strategist Lynton Crosby as their defining issue. One academic analysis of coalition economic policy gives almost no distinctive role to the Liberal Democrats, observing that 'on the overall scale of "austerity" there appears to have been remarkably little disagreement between the coalition parties.'²⁵ Ironically, although the coalition did succeed in reducing the deficit, it did not achieve the Conservative aim of eliminating it, but reduced it at a speed fairly close to what the Liberal Democrats had promised in their 2010 manifesto. Partly this was due to Liberal Democrat opposition to the more extreme cuts proposed by Osborne, but partly also simply

to the limits of what proved to be politically possible (as Osborne, in government without the Lib Dems, was to discover for himself in 2015–16).

Conclusion

Of course we know that the public also failed to see a Liberal Democrat dimension to government economic policy. The higher income tax threshold, the expansion of apprenticeships, the vigorous pursuit of tax evasion, the distinctive model of Royal Mail privatisation – all went unnoticed, or at any rate were not attributed to Liberal Democrat intervention. 'It is clear' Cable concluded, 'that the Lib Dems singularly failed to communicate and claim ownership of the very real achievements of government.'²⁶

The lessons from the coalition are both better and worse than this observation allows, however. On one hand, the Liberal Democrats made a colossal concession in signing up to instant austerity at the point where they could have established a different dynamic with their partners in government by insisting on delay, or even the impression of delay. This strategic error had costs which became increasingly severe just as it became increasingly difficult to undo the initial error. On the other hand, liberal economic ideas were put into practice, and the British economy was stewarded successfully through a major crisis because of Liberal intervention. The role of the eponymous heroine of *Charlotte's Web* is one which will offer only the bitterest of compensation to party loyalists – but of course is the one of most interest to historians.

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- 1 BBC News, 13 Mar. 2010.
- 2 *Change that Works for You: the Liberal Democrat Manifesto 2010*, p. 98.
- 3 See C. Emerson, *Filling the Hole: How do the Three Main UK Parties Plan to Repair the Public Finances?* (IFS 2010).
- 4 N. Jones, *Campaign 2010: the Making of the Prime Minister* (Biteback, 2010), p. 307.
- 5 Ipsos-MORI, https://www.ipsos-mori.com/Assets/Docs/Polls/Mar10%20Political%20MonitorTopline_BPOKI.pdf
- 6 Ipsos-MORI, <https://www.ipsos-mori.com/Assets/Docs/Polls/poll-Mar10-topline.pdf>
- 7 *Five Days that Changed Britain* (BBC TV, 2010).
- 8 For Stunell, see *Liberal Democrat Christian Forum Magazine*, Autumn 2010; for Huhn, see *Five Days that Changed Britain*.
- 9 Gerard, J., *The Clegg Coup* (Gibson Square 2011) p.185. Laws himself gives a similar impression in the postscript to *22 Days in May: the Birth of the Lib Dem–Conservative Coalition* which refers to the significance of the Orange

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- Book (Biteback, 2010).
- 10 V. Cable, *After the Storm* (Atlantic, 2016), p. 17.
- 11 N. Baker, *Against the Grain* (Biteback, 2015), p. 262.
- 12 Gerard, op.cit.
- 13 *Five Days that Changed Britain*.
- 14 *Dispatches: A year inside No. 10* (Brook Lapping/Channel Four 2011).
- 15 See Tim Bale, 'The Black Widow Effect: Why Britain's Conservative–Liberal Democrat coalition might have an unhappy ending', *Journal of Liberal History* 76 (Autumn 2012).
- 16 'Vince Cable: immigration targets "unobtainable and largely meaningless"', *The Guardian*, 15 Oct. 2014.
- 17 See *The Guardian* and *The Independent*, 17 Sep. 2011.
- 18 See for example Prateek Buch, 'Plan C – Social Liberal Approaches to a Fair, Sustainable Economy', Social Liberal Forum website, 7 Jun. 2012.
- 19 V. Cable, 'Keynes would be on our side', *New Statesman*, 12 Jan. 2011.
- 20 See D. Laws, 'The Orange Book Eight Years On', *Economic Affairs*, vol. 32(2), pp. 31–35 (OUP, 2012).
- 21 M. D'Ancona, *In it Together: the inside story of the coalition government* (Penguin, 2014), p. 223. Osborne's reported reaction was 'this is important.'
- 22 George Parker and Kiran Stacey, 'Divisions between Nick Clegg and Vince Cable expose Lib Dem fears', *Financial Times*, 16 Sep. 2013.
- 23 D. Laws, *Coalition: The Inside Story of the Conservative–Liberal Democrat Coalition Government* (Biteback, 2016), p. 344. See also Patrick Wintour and Nicholas Watt, 'Lib Dem Conference: Clegg and Cable at Odds over the Economy', *The Guardian*, 15 Sep. 2013.
- 24 D. Cutts, and A. Russell, 'From Coalition to Carastrophé' in A. Geddes and J. Tonge, *Britain Votes 2015* (Hansard Society, 2015) p. 82.
- 25 P. Johnson and D. Chandler, 'The Coalition and the Economy' in A. Seldon and M. Finn, *The Coalition Effect, 2010–2015* (CUP, 2015), p. 160. A similarly anonymous role is attributed to the Liberal Democrats by S. Lee and M. Beech in *The Conservative–Liberal Coalition* (Palgrave, 2015), which refers throughout to 'Coalition economic policy' and emphasises the ideological convergence of the ministers involved.
- 26 V. Cable, *After the Storm: The World Economy and Britain's Economic Future* (Atlantic Books, 2016), p. 13. Cable also blames the Treasury's dominance in policy-making, and its unfamiliarity with coalition, for Lib Dem under-performance.

Commentary: former minister

Vince Cable

IT MAKES ME angry to this day to contrast the formidable legacy of achievement from the Lib Dem BIS team I led in government (Ed Davey, Norman Lamb, Jo Swinson, Jenny Willott, Tessa Munt) with the dismal way in which the party campaigned in the 2015 general election, offering nothing more than a feeble echo of the Conservative message of public debt reduction and Labour guilt.

Our BIS team operated under a set of constraints which were fixed in the early days of coalition. The first was to respect the machinery of government inherited from Gordon Brown. My ambition from the first day in government was to establish the Lib Dems as driving bank reform responding to the financial and ethical disaster of the 2008 crisis. But it was impossible to shift bank supervision from the Treasury. In the event I was able to work with Osborne to push through the reforms separating retail and 'casino' banking through ring-fencing. These reforms were perhaps the most radical in the Western world and bitterly fought by the banks, though the Lib Dems got little credit for them. In BIS we were able to make improvements to business financing through the establishment of the Business Growth Fund for long-term patient capital, the Green Bank for co-financing environmental projects, and then the Business Bank which pioneered peer-to-peer and other innovative lending.

A second constraint was that the machinery of government placed universities within BIS and they accounted for over half of its spending. On my first day in the office I was told of the impending Browne Review of tuition fees (set up on a bipartisan basis by Peter Mandelson and David Willetts), a train heading down the track at alarming speed. A collision became inevitable once it was determined that the policy of 'protected departments', which I strongly opposed in opposition and in government, would lead to large cuts in university funding. Much of the first few months in government was spent trying to devise ways of cushioning the inevitable breach of the disastrous pledge on fees by making the repayment arrangements as progressive as possible.

I never disputed the need to address the major structural, current, deficit in the budget, initially the worst of any major economy, and had annoyed my parliamentary colleagues before the 2010 election by anticipating cuts. Together with Osborne, I promoted the model of fiscal tightening offset by loose monetary policy – though I sought to persuade him that more radical policy, including 'helicopter money' would counter the slowdown in 2011.

Early on, however, a major fault line appeared which caused serious disagreements with the Treasury and within the Lib Dems as the article above chronicles. The Treasury proposed severe curbs on capital spending as part of the

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2010 Spending Review linked to a 'supplementary debt target'. Osborne was obsessed by an article, subsequently discredited, by Reinhart and Rogoff about the dangers of breaching a debt threshold (based on a 90 per cent figure).¹ The curbs undoubtedly hindered recovery, since capital projects have rich multiplier effects, as the IMF pointed out. They also became increasingly absurd as the cost of borrowing fell to close to zero in real terms making productive investment an obvious step for a prudent government – permitting, for example, council borrowing for house building. The Treasury's implacable hostility to borrowing for investment was long-standing and I discuss its roots in a recent LSE paper.² Over the coalition, the Conservatives gradually shifted the objective of fiscal policy from the coalition agreement towards a definition of the deficit that included all borrowing for capital and current purposes (which is how the Conservative government now treats it.).

Most of what we achieved in government was against a background of cuts and trying to do more with less or through tough prioritisation. The apprenticeship programme was a big success which resulted from the decision to channel more resources to vocational education rather than university students. There were not merely bigger numbers but improved quality and in the 2015 Green Paper I set out a vision for FE which built on the rapid growth in higher-level apprenticeships. But the Tories spotted that apprenticeships were popular and sought to colonise a Lib Dem achievement.

We also prioritised the Post Office network. Lib Dem campaigning for years had featured orange placards outside threatened post offices. In office, after hiving off the publicly owned Post Office Network from the Royal Mail we stopped two decades of decline, increased the number of outlets and created a new role in financial services replacing retreating bank branches (but learnt that there was little political credit in stopping contraction).

The Royal Mail privatisation initially received bad publicity over pricing but when the speculative froth settled the Myners Report vindicated the process and for the first time in decades the Royal Mail was able to borrow for investment, liberated from the dead hand of the Treasury.

Our approach to ownership was pragmatic in contrast to the Tories' dogmatism. We created two nationalised banks (the Green Bank and the Business Bank) stopped privatisation where it had no strong rationale (Channel 4; Land Registry) and gave incentives and encouragement to mutual, social enterprise and worker ownership.

We similarly stopped the Tories imposing an ideological approach to industrial relations. The Tories had a list of around twenty measures to curb organised labour and we conceded only one, the most innocuous. They also wanted to bring in 'hire and fire' legislation following a report by the

Tory donor Beecroft and we blocked it. We also legislated to strengthen enforcement of the minimum wage and to outlaw abuses of zero hours' contracts. In the tribalism of British politics we got little credit for these moves but they cemented our commitment to social justice.

In the absence of much money to spend, I decided to focus on long-term reforms designed to improve the culture of British business in the direction of long-termism and social responsibility. Following the Kay Report, institutional investors now have a fiduciary duty to act for the long term. Reforms to the Takeover Panel made it easier to stop the Pfizer move against Astra-Zeneca and throw sand in the wheels of hostile takeovers. We strengthened disciplines over top pay with binding shareholder votes on pay policy. And the leadership we gave to getting women on boards helped to achieve the 25 per cent target established by the Davies review and is now much missed as diversity has slipped down the Tories' agenda. We brought in regulators to protect suppliers from dominant purchasers: supermarkets and pubcos. And my overheard views on Mr Rupert Murdoch happened after, rather than before, I had made the reference of the BskyB takeover to the competition authorities, effectively blocking it.

The cornerstone of the commitment to long-term investment and productivity improvement was the industrial strategy. There were concrete achievements; the commitment to the car industry helped me to persuade General Motors to stay at Luton and Ellesmere Port. The government/business aerospace research project stopped the Airbus supply chain leaking to France. Business bought into the Green agenda through the wind supply chain investments in Hull, the renewable Catapult and the low-carbon car engine development. After a year's drift, Theresa May has recognised that our legacy must be continued.

Overall, I doubt that an alternative, distinctive, economic policy building on our real achievements would have altered the outcome of the 2015 election. But it demonstrates what can be achieved even in very adverse circumstances and that should give hope in the current depressed environment for centre and centre left politics in the UK.

Sir Vince Cable was Liberal Democrat MP for Twickenham 1997–2015 and Secretary of State for Business, Innovation and Skills 2010–15. He is visiting professor at LSE, Nottingham and St Mary's Universities; author of The Storm and After the Storm (Atlantic Press); and chair of HCT, the UK's largest social enterprise.

- 1 Carmen M. Reinhart and Kenneth S. Rogoff, 'Growth in a Time of Debt', American Economic Review: Papers & Proceedings 100 (May 2010), pp. 573–578.
- 2 Sir Vince Cable, *Why Governments Won't Invest* (LSE Centre for Economic Performance Special Paper 33, March 2016)

Commentary: former minister

Jo Swinson

THE TIME THAT has passed since the general election gives us some clear blue water to assess the impact of the Lib Dems in the coalition government. On the economy, we can now see that it was the Liberal Democrats who acted as the guarantors of economic confidence and stability. In the last year or so under majority Conservative rule, we have endured a hugely destabilising referendum, almost a complete change of government and the economic outlook is now plagued with the massive uncertainties surrounding Brexit, which will take years, not months, to resolve.

The Tories' post-election rush to cut capital gains tax for high earners, while turning the screws on the working poor with cuts to tax credits, demonstrated how the Lib Dems ensured the coalition government navigated the choppy waters of recession and beyond with a much greater emphasis on fairness than the true-blue alternative.

The Department for Business, Innovation & Skills was the only department to have two Lib Dem ministers, and we used that strength wisely to chart a new course as we rebuilt our economy. Instead of returning to business as usual, Vince Cable developed an industrial strategy to plan ahead and invest in the research and skills we will need in the future. While his successor Sajid Javid turned his back on that approach, it is telling that the new prime minister has explicitly included the words in the brief for the new Department for Business, Energy and Industrial Strategy.

Through changes to corporate reporting we drove transparency up the business agenda: on company ownership, the gender pay gap, greenhouse gas emissions, business' impact on human

rights and through the Extractives Industries Transparency Initiative (EITI). For the first time ever we introduced binding votes for shareholders on executive pay, we started a debate with investors and directors about promoting long-term decision-making, we boosted support for employee ownership, and we made significant progress on improving corporate governance including by increasing diversity in the boardroom.

Employment law was always a major coalition tug-of-war. I remember as Vince's aide being shown the report by Tory donor Adrian Beecroft which proposed 'fire at will' and reductions in maternity rights. As I read, my annotations grew angrier: 'Where is the EVIDENCE???' Seeing off that nonsense was not straightforward, and later when this was my own ministerial brief I had to spend valuable time neutering the Chancellor's bonkers 'shares for rights' policy, making sure no one could be forced into taking it up.

Yet we achieved major changes to the workplace for the better, by extending the right to request flexible working, making the business case for promoting workplace wellbeing, commissioning a landmark research report into pregnancy discrimination, massively increasing the enforcement and penalties for breaking minimum wage laws, and introducing shared parental leave.

We tamed the power of supermarkets to bully suppliers by creating the Groceries Code Adjudicator, and we took on unfairness in the pub industry with legislation for a new Pubs Code and Adjudicator. We invested in the Post Office to undertake an ambitious modernisation programme to ensure its sustainable future. We implemented the biggest shake up of consumer

Jo Swinson visiting the Social Incubator East programme, Cambridge, while a BIS minister



rights for a generation and led a crackdown on unscrupulous payday lenders.

Of course Liberal Democrats in the coalition government did not win every battle – we should remember it was not a Liberal Democrat government – but our successes on creating fairer workplaces, more competitive markets and better transparency around corporate behaviour will endure.

Reducing the debate on the coalition's economic legacy solely to who said what and when on austerity misses the point. In fact, there was broad consensus across the parties that restoring confidence in the economy at a time of national financial crisis required spending restraint. The 2010 election spats over the £6 billion figure masked the truth that no party dared to set out full details of the pain ahead. The £6 billion was dwarfed by the scale of what all parties recommended be delivered over the parliament – and the coalition government actually ended up delivering austerity on a scale pretty much in line with Labour and Lib Dem plans. We did learn and change course during the parliament to increase capital investment, though as Nick Clegg has publicly admitted, the ability to make more progress

on social housing investment was stymied by the Conservatives.

Saying 'it was austerity which killed the Lib Dems' ignores the fact that most Lib Dem seats were not lost because of austerity. The majority of the forty-nine seats lost went to the austerity-championing Tories, with former Lib Dem voters often choosing blue in fear of the Miliband–SNP combination. In the circumstances, the ten seats that went to the SNP were unlikely to have been saved – after all, being anti-austerity didn't stop the Scottish Labour wipe-out.

Finally, let's not write any obituaries. The Liberal Democrats are far from dead: one look at our history shows it will take much more than a grim election result to drive liberalism from British politics. Given our significant achievements in government, and the pressing need for liberal values to meet the challenges of a post-Brexit world, that's just as well.

Jo Swinson was a Liberal Democrat Business Minister from 2012 to 2015. She is now director of Equal Power Consulting, chair of the CIPD Policy Forum and is writing a book on how we can all tackle inequality of power between men and women in society.

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Commentary: critic

David Howarth

MATT COLE'S THESIS is that the Liberal Democrats made two strategic errors in economic policy: aligning themselves with the Conservatives' austerity programme, resulting in a dramatic loss of electoral support; and distancing themselves from that same austerity programme, so failing to gain any credit from the economic recovery. The first claim makes sense, although one might quibble about details. Austerity was certainly important in the party's electoral collapse but one should not dismiss tuition fees: the party's poll ratings continued to fall from October 2010, when the Browne report came out, to January 2011.¹ The second, however, is more doubtful.

Cole also offers a generous assessment of the Liberal Democrats' (albeit unnoticed) contribution to coalition economic policy. The question is whether he is over-generous, not least because these contributions are not all obviously 'liberal'. More importantly, he glosses over the main cause of the party's failure in economic policy, that it had said nothing distinctive for fifteen years. Both Vince Cable's belief in an active state and David Laws' belief in a minimal state were pale reflections of the positions taken by the two larger parties and offered nothing the public could latch onto as inescapably Liberal Democrat.

The first strategic error: austerity

The party leadership's reversal of manifesto policy on the deficit in the immediate aftermath of the election was indeed a surprise and immensely damaging. Cole raises the question of why it happened – was it panic over the Greek crisis, the ideological predilections of Clegg, Laws and Alexander, or incompetent negotiating? It could, of course, have been all three, but another possibility is that it reflects the relative unimportance of macroeconomic policy in Liberal Democrat politics. The motion proposed to the special party conference in Birmingham approving the coalition agreement made no mention of deficit reduction,² and the only concerns raised about economic policy were about distributional matters, resulting in an amendment being passed that called for 'the net income and wealth inequality gap [to be] reduced significantly over the course of this parliament'.³ In the parallel negotiation with Labour, the pace of deficit reduction also arose, but even in the account of David Laws, whose principal function was to negotiate on economic policy, it came in only fourth in his list of important policy differences with Labour, after more specific distributional issues such as raising the income tax allowance and the pupil premium.⁴ The £6 billion in-year cuts might have become a 'totem' for the other parties and the

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media,⁵ but for many Liberal Democrats it was not what politics was about.

In fact, both coalition agreement and programme for government were unspecific about the rate of deficit reduction. The 'fiscal mandate' – that the budget should achieve 'cyclically adjusted current balance by the end of the rolling, five-year forecast period' [i.e. by the end of 2015–16] and that '[b]y 2014–15, 80 per cent of the additional consolidation measures ... will be delivered through spending reductions' – came only with the budget of 22 June 2010.⁶ What happened to these two targets lies at the heart of the story of the coalition's economic policy and of the Liberal Democrats' part in it. The accelerated schedule for consolidation was essentially abandoned in 2012. After disappointing GDP growth results, policy returned to a timeline similar to that proposed by the previous government. Oddly, however, the Liberal Democrats, instead of claiming the change of direction as a win for the party's manifesto policy, joined with the Conservatives to obscure it. In the simplistic jargon of the time, the whole government claimed still to be implementing 'Plan A' and that it had not moved to any 'Plan B' as demanded by Labour. Indeed, Labour joined the deception. It suited Labour to continue to complain about austerity rather than to admit that the government had adopted its own timetable. This was an important lost opportunity for the Liberal Democrats. Labour's political strategy was to pile the blame for austerity onto the Liberal Democrats in the hope (catastrophically wrong, as it turned out in 2015) that Liberal Democrat collapse would automatically benefit Labour. The Liberal Democrats needed to puncture that narrative. Instead, Nick Clegg insisted on repeating the Conservative message that the government was cleaning up a mess left by Labour, a message incompatible with pointing out that fiscal policy had returned to Labour's trajectory.

The 80:20 figure was fashionable in academic economic circles around 2010, but, crucially, it fell out of fashion soon afterwards, being dropped from the advice of bodies such as the IMF. The government nevertheless continued to insist on 80:20, referring to it again, for example, in the Red Book of 2013.⁷ In the event, the balance was even more lopsided than 80:20. According to IFS figures, in 2014–15 it was 83:17 and trending towards 90:10 in 2020. All the tax increases came early in the parliament, but the spending cuts carried on throughout.⁸

Why was it so difficult to change the ratio? The inertia of government is one possible explanation – although the coalition agreement itself was no bar. Another is the ideological preferences of Clegg and Alexander, who made no secret of their attachment to tax cutting. A third explanation, complementary to the others, is that rebalancing tax and spending would reopen controversial decisions already taken, especially on tuition fees and benefits. For example, the overall effect

of the government's successive reductions in corporation tax was that, on the Treasury's own estimates, by 2014–15 the government was giving away £4.2 billion a year to companies. In contrast, the annual saving from the tuition fees increase was only £1.6 billion.

The second strategic error: distancing

Cole's second strategic error is in a sense the opposite of the first. The accusation is that the party by trying desperately to differentiate itself from the Conservatives in the last eighteen months of the parliament missed out on being able to claim credit for the government's economic success (or at least its perceived economic success: many economists believe that austerity retarded UK GDP growth and employment⁹). The problem is that attempting to 'own' austerity would have made no difference. The party had disappeared from public view, becoming a mere appendage to the Conservatives. If one examines the data collected by the British Election Study in its early waves in 2014 it becomes apparent just how far that process had gone.¹⁰ It was not just that economic optimists among the electorate overwhelmingly gave credit to the Conservatives rather than to the Liberal Democrats, but also that economic pessimists overwhelmingly blamed the Conservatives and not the Liberal Democrats. The party's problem was not so much that the electorate was angry with it but rather that it may as well have not existed. By repeating 'me too' when the Conservatives chanted their 'long-term economic plan' mantra the Liberal Democrats would merely have reinforced their irrelevance.

One can, however, make Cole's point differently. There was one strategic error: to put differentiation and coalition unity in the wrong order. The actual order, unity and then differentiation, helped only the Conservatives. From the Liberal Democrat perspective, differentiation should have come first, establishing that although the two parties were in coalition they had different approaches and that government policy was always an explicit compromise. As the public became accustomed to that, and especially after the shift in 2012 towards the Liberal Democrats' timetable for deficit reduction, the party could more credibly have claimed credit for any recovery. It would also have undermined Labour's attacks.

Lack of an identifiable economic core

Cole mentions a number of policy achievements the party could claim credit for. But many of these, while worthy and sensible, were in no obvious way distinctively liberal or Liberal Democrat. The fact that the Conservatives so easily stole the credit for raising the income tax threshold itself indicates how little the electorate associated the policy with the Liberal Democrats. Others, such

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as apprenticeships and enhanced parental leave, are at best vaguely social democratic or Blairite. Only encouraging employee share-ownership could claim to be distinctively Liberal, having been party policy for over eighty years,¹¹ but one wonders how many voters in 2010–15 would recognise the handiwork of Keynes, Lloyd George and Walter Layton.¹²

The fundamental problem was that the Liberal Democrats' last truly distinctive economic policy proposal was Bank of England independence, and even that was successfully stolen by Gordon Brown in 1997. From the mid-nineties onward, when Paddy Ashdown embarked on his rapprochement with Tony Blair, all elements of the distinctive British Liberal approach to economic policy – Keynesian in macroeconomic policy but pro-market in microeconomic policy – were sacrificed to a succession of conventional wisdoms, ultimately emerging in the form of Clegg and Alexander's enthusiastic acceptance of the very Treasury orthodoxy Keynes had dismissed in 1928 as 'the slogans of depression and decay – the timidities and obstructions and stupidities of a sinking administrative vitality'.¹³ The Liberal Democrats' political failure in economic policy was ultimately an intellectual failure, to hold onto the role it had grabbed in the nineteenth century and had held onto thanks to Keynes even at its lowest points in the twentieth, as the party of new economic thinking.

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- 1 See YouGov's daily voting intention tracker poll at <https://yougov.co.uk/publicopinion/archive/9483/>
- 2 Liberal Democrat Special Conference 16 May 2010, Motion S2
- 3 http://www.libdems.org.uk/special_conference_passes_building_a_fairer_britain_in_government
- 4 David Laws, *22 Days in May* (Biteback, 2010) at Kindle edition loc. 2692.
- 5 Laws, *22 Days*, at Kindle edition loc. 1852.
- 6 HM Treasury, *Budget 2010* (London, TSO, 2010) HC 611–2
- 7 HM Treasury, *Budget 2013* (London, TSO, 2013) HC 1033, 20
- 8 Incidentally, the profiling of the consolidation lies behind what was happening in the economic debate at the 2013 Liberal Democrat conference. Because of the early loading of tax increases, the ratio in 2011–12 was 65:35 but by concentrating thereafter on spending cuts it was due to reach 80:20 in 2013–14 and to overshoot it thereafter. So when Nick Clegg said that he was totally opposed further consolidation purely by spending cuts, (<https://www.youtube.com/watch?v=UeqMR.lN7ekI>) he was denying precisely what he had just agreed in in the 2013 budget.
- 9 See: <http://cfmsurvey.org/surveys/importance-elections-uk-economic-activity>
- 10 <http://www.britishelectionstudy.com/data-objects/panel-study-data/page/2/>
- 11 See: *Britain's Industrial Future* (Benn, 1928), pp. 198–204.
- 12 It is striking that even Cole fails to notice another arguably distinctive Liberal Democrat policy success, the introduction of the 'happiness' agenda into the policy process. The use of measures of welfare other than GDP dates back to the party's 1992 manifesto and was championed in the 2005 parliament by Jo Swinson.
- 13 J. M. Keynes, 'Can Lloyd George do it?' in *Essays in Persuasion* (CUP, 1972 [orig. 1931]), pp. 86–125 at p. 125.

Journal of Liberal History 88: Coalition and the Liberal Democrats

Our autumn issue in 2015 was also devoted to the impact of the Liberal Democrats on the coalition and the impact of the coalition on the Liberal Democrats. Contents include:

- Coalition and the Liberal Democrats. Duncan Brack introduces this special issue of the *Journal*.
- Coalition and the deluge. Adrian Slade interviews Nick Clegg and ten other former Liberal Democrat ministers on their experiences of the 2010–15 coalition.
- Why did it go wrong? Stephen Tall, Nick Harvey, John Pugh and Matthew Huntbach offer their analyses of why the coalition experiment ended so disastrously for the Liberal Democrats; David Howarth reviews Seldon and Finn, *The Coalition Effect 2010–2015*.
- Managing the coalition. How did the coalition work as a government? And how was the party itself managed? Contributions from Robert Hazell and Peter Waller, Jonathan Oates, William Wallace and Matthew Hanney.
- The impacts of coalition. The coalition and Liberal Democrat members, by Craig Johnson; the impact on the party in Scotland, by Caron Lindsay.
- The 2015 election campaign and its outcome. John Curtice and Michael Steed analyse the election result, and Mark Pack looks at what happened to the party's campaigning machine.
- Comparing coalitions. Jim Wallace compares the coalition with the Scottish experience of 1999–2007; David Dutton draws parallels from history.

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