

Policy Responses to Economic Crises United Kingdom, 2008-

Note: Policy background memos contain information from various sources on the political economy of a particular country and economic and social policy choices before, during, and after an economic crisis. The memos do NOT contain any original information or analyses, but rather summarize material from various sources. The material is at times quite raw – the text is often presented in bullet points and sources are often quoted verbatim. Thus, the background memos should primarily serve as an overview of 1) policy developments in a particular country, and 2) academic research on the subject.

1 Background

Economy

The UK economy had enjoyed strong economic growth for over a decade, with average GDP growth from 1992 to 2007 being 2.8% per year, and unemployment at a low of 5% in 2007. Even so, the economy was quite vulnerable, after a large boom in the housing sector and due to dependence on the international financial sector (OECD 2009, 2009:22).

Politics

A Labour government was elected into office on 2005 and served until 2010.

2 Crisis

Given its ties with the US financial sector, the UK was one of the first European countries affected by the global crisis. Already in 2007, Barclays Bank received two financial bailouts, while the mortgage lender Northern Rock was nationalized in 2008. The financial sector was further supported later in 2008, with a 500 billion pound bailout package (Chung and Thewissen 2011, 362).

3 Policy Response and Politics

November 2008

Fiscal → The UK became one of the first countries to implement a fiscal stimulus package in response to the crisis. The budget included tax cuts, public investment in housing, education, and transportation infrastructure, and higher social spending, and was estimated to cost 1.6% of GDP over 2008 and 2009 (OECD 2009, 2009:53).

Taxation → In response to the crisis, the basic income tax allowance was increased, and a temporary 2.5 percentage point reduction in the VAT was introduced (Barnes and Wren 2012, 289).

January 2009

Unemployment → Employers receive a subsidy for recruiting a person who has been unemployed for more than 6 months. ALMPs were also introduced, with a total amount of 3 billion pounds invested in 2009 (Chung and Thewissen 2011, 362).

**Policy Responses to Economic Crises
United Kingdom, 2008-**

Housing → The Mortgage Rescue Scheme (MRS) introduced, which aims at helping low-income households having trouble making mortgage payments. The scheme allows eligible households to either sell a part share of their home (and reduce payments) or sell their home and remain in the property as a tenant (with affordable rent) (OECD 2009, 2009:42).

April 2009

Housing → The Homeowner Mortgage Support Scheme (HMSS) introduced, which allows lenders to reduce monthly mortgage payments by deferring some of the borrower's interest payments for up to two years. Borrowers must have lost their job or experienced a substantial fall in income to qualify (OECD 2009, 2009:42).

May 2010

Politics → General elections held, with the Labour government losing its majority in parliament. After the elections, the Conservative party formed a coalition government with the Liberal Democrats.

June 2010

Fiscal → The new coalition introduced its first budget, including “cut-backs of exceptional scale, speed, composition and distributional impact” (Taylor-Gooby 2012, 63). The program totals £110 billions in tax increases and spending cuts, with the spending cuts equivalent to 13% of public expenditures at the time. The program aimed to reduce the deficit from 8.4% to 0.4% of GDP in four years. Service cuts accounted for 36% of the program, tax increases for 30%, and benefit cuts for 18%. Benefit cuts were regressive, with the housing benefit, child tax credit and disability benefit among the areas affected (Taylor-Gooby 2012, 64). The budget also introduced major restructuring of welfare state institutions, with considerable extension of provision by the private sector (McKnight et al. 2015, 32).

Taxation → The previous temporary reduction in the VAT expired and instead, the VAT was raised by 2.5 percentage points – from 17.5 to 20 percent. The capital gains tax rate was increased for higher rate taxpayers, while the income tax personal allowance was raised from £6,475 to £10,000. The 50% top income tax introduced by Labour was allowed to stand until 2013, when it was to be reduced to 45% (McKnight et al. 2015, 19).

Family → Child benefit level frozen and cuts to other family-related measures, saving a total of £1 billion (van Kersbergen, Vis, and Hemerijck 2014, 897)

Employment → Commitment to spend £3 billion–£5 billion up to 2017 on work programs (van Kersbergen, Vis, and Hemerijck 2014, 897).

March 2011

**Policy Responses to Economic Crises
United Kingdom, 2008-**

Old age → Pensions reformed with the aim of containing costs (van Kersbergen, Vis, and Hemerijck 2014, 897).

Taxation → Tax free threshold for working age individuals raised (van Kersbergen, Vis, and Hemerijck 2014, 897).

November 2011

Old age → Pensions reformed, indexation rules changed and a planned increase in the retirement age from 65 to 66 moved forward, from 2026 to 2020 (van Kersbergen, Vis, and Hemerijck 2014, 897).

March 2012

Social assistance → Welfare Reform Act introduced, with the aim of cutting back spending by £18 billion per year by 2015. Measures include reform to disability benefits and social assistance benefits. A new system of child support meant to contain costs also introduced, as well as harsher sanctions in job seekers allowance (van Kersbergen, Vis, and Hemerijck 2014, 897).

Taxation → Tax cut for all income earners and corporations introduced (van Kersbergen, Vis, and Hemerijck 2014, 897)

March 2013

Family → A new tax-free childcare scheme worth up to £1200 per child under 12 announced. To be phased in from autumn 2015 (European Commission 2015).

March 2014

Taxation → The standard rate of corporate taxation reduced from 28% to 21% (European Commission 2015).

**Policy Responses to Economic Crises
United Kingdom, 2008-**

References

Barnes, Lucy, and Anne Wren. 2012. "The Liberal Model in (the) Crisis: Continuity and Change in Great Britain and Ireland." In *Coping with Crisis: Government Reactions to the Great Recession*, edited by Nancy Bermeo and Jonas Pontusson, 287–324.

Chung, Heejung, and Stefan Thewissen. 2011. "Falling Back on Old Habits? A Comparison of the Social and Unemployment Crisis Reactive Policy Strategies in Germany, the UK and Sweden." *Social Policy & Administration* 45 (4): 354–70. doi:10.1111/j.1467-9515.2011.00779.x.

European Commission. 2015. *Taxation Reforms Database*.
http://ec.europa.eu/economy_finance/indicators/economic_reforms/taxation_reforms_database/.

McKnight, Polina Obolenskaya, Kitty Stewart, Stephanie Thomson, Rebecca Tunstall, and Polly Vizard. 2015. "The Coalition's Social Policy Record: Policy, Spending and Outcomes 2010-2015." <http://www.trustforlondon.org.uk/wp-content/uploads/2015/01/RR04-Coalitions-Social-Policy-Recordv2.pdf>.

OECD. 2009. *OECD Economic Surveys: United Kingdom 2009*. Vol. 2009. Paris: Organisation for Economic Co-operation and Development. http://www.oecd-ilibrary.org/content/book/eco_surveys-gbr-2009-en.

Taylor-Gooby, Peter. 2012. "Root and Branch Restructuring to Achieve Major Cuts: The Social Policy Programme of the 2010 UK Coalition Government." *Social Policy & Administration* 46 (1): 61–82. doi:10.1111/j.1467-9515.2011.00797.x.

Van Kersbergen, Kees, Barbara Vis, and Anton Hemerijck. 2014. "The Great Recession and Welfare State Reform: Is Retrenchment Really the Only Game Left in Town?" *Social Policy & Administration* 48 (7): 883–904. doi:10.1111/spol.12063.