
Special report:
Britain

The future

Great Britain or Little England?

Fingers crossed that the country will choose wisely

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BRITAIN WAS AT its most decisive when its cities lay in ruins. Within a few years of the end of the second world war a Labour government had founded the National Health Service, provided for universal free secondary schooling, introduced unemployment and sickness pay and child benefit and embarked on a public-housebuilding spree.

No less than 19th-century Anglicans heading into the bush, the architects of the British welfare state had a profound sense of mission. “Society must be brought under control in exactly the same way as man has tried to bring natural forces under control,” explained Aneurin Bevan, the mighty health minister who supervised the introduction of the NHS.

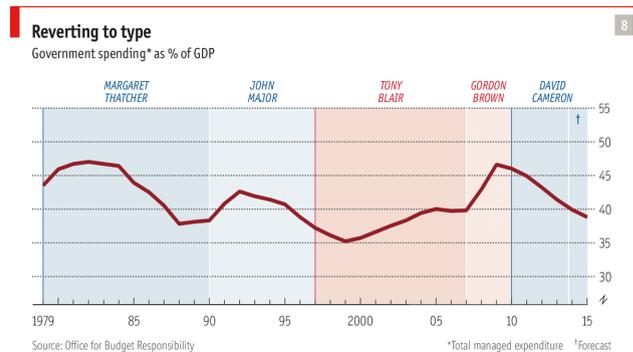
The state grew ceaselessly, even through recessions and the leadership of Margaret Thatcher. Between 1948 and 2009 spending on education, health and social security rose by an average of 4.5% a year in real terms. Generously supplied, well-run public services are still part of Britain’s image of itself, proudly projected to the world: recall the Olympics



opening ceremony, with its vignette of children bouncing on hospital beds. But the economic crisis has led to something almost unthinkable.

The present government is in the midst of an unprecedented state-pruning exercise. By the middle of the next parliament almost the entire surge in spending that occurred under Labour's Tony Blair and Gordon Brown will have been reversed (see chart 8). The health and schoolteaching budgets have been protected, but only in nominal terms: the NHS must still treat more people with less money. Everything else has been slashed.

You can quibble with the details. It was foolish to make such deep cuts in spending on infrastructure, which helps the country run better. Welfare for young adults is being cut more than welfare for the old largely because of crude politics: the old are more likely to vote. And the coalition's bigger goal, of bringing down the deficit, is still miles away.



According to the “plan A” laid down in 2010 by George Osborne, the then new chancellor of the exchequer, Britain was to borrow £60 billion in the current fiscal year. The outturn may be almost double that.

None of this detracts from the coalition's success in cutting costs, though. It has stuck to its painful course, and common British decency has done the rest. A multitude of government departments, local councils and public agencies have thought carefully about what they could afford to lose—a police car here, a library there, a nursery—and have quietly got rid of them. Predictions of social catastrophe have not come to pass. Despite deep cuts to policing, for example, crime continues to fall. The nation is learning to live within its means.

The state is changing shape as it shrinks. Police chiefs can now be sacked by elected police and crime commissioners. The unemployed are being steered back into work by private companies, who are paid by results. The probation service is being privatised, too. Some initiatives have run into trouble—reforms to the NHS are in a special circle of bureaucratic hell—but few are likely to be reversed completely.

One reform is proceeding more quickly than all the others. The coalition has freed many schools to alter the curriculum and vary teachers' pay. Few are using their new powers yet, but the system is on the move. Chains of academies have emerged, pushy and competitive. ARK and Harris schools (the latter sponsored by a carpet magnate) boast about their pupils' exam results just as private schools do. And the coalition's education reforms act as a ratchet. Labour may slow them if it comes to power in 2015, but it will not reverse them.

In another way, though, the coalition has gone backwards. The Labour government that lost office in 2010 encouraged immigration and smiled on one immigrant-dominated activity in

particular: the financial-services industry. It used the proceeds to run up spending on public services. In effect, globalisation paid for an increasingly generous welfare state. The current Conservative-dominated government, in reversing the rise in state spending, has unfortunately also reversed much of Labour's internationalism. It has pulled back from the EU and talks of withdrawing from the European Convention on Human Rights. Britain is on the way to becoming more solvent but also more insular.

Countries often try to pull up the drawbridge when times are tough. They may lower it again when the economy improves. But in Britain's case a possibly temporary grumpiness could turn permanent.

The trick for Britain in the future will be to combine a smaller, more efficient state with a more open attitude to the rest of the world

Within five years the United Kingdom may be down one country and Britain could be negotiating its departure from the European Union. It would still be an interesting, plucky nation but no longer an important one. A smaller, footloose Britain might rediscover an enthusiasm for trade and financial services, becoming a kind of nuclear-armed Hong Kong. But do not count on it. Norway and Switzerland, free from the constraints of EU membership, throw subsidies at their farmers and impose tariffs on food imports.

Although the most zealous Eurosceptics are Conservative, Britain is at least as likely to leave the European Union under a Labour government—if the party ends up holding a referendum, at any rate. David Cameron has raised expectations that the country will manage to drag powers back from Brussels. Labour prefers a gentler, slower, more consensual approach to European reform. That is more realistic, but it may now strike Britons as too soft.

And in some ways the Labour Party has forgotten its internationalist history, or rejected it outright. Ed Miliband, Labour's leader, has apologised fulsomely for three mistakes (as he sees them) made by his predecessors. One is the Iraq war. Another is New Labour's enthusiasm for financial services. The third is the decision to let so many eastern Europeans into the country. Mr Miliband pledges to make it even harder for companies to import talent, by obliging them to provide an apprenticeship for every foreign worker they hire.

Immigration policy has become an auction, with Labour and the Conservatives bidding to make life ever tougher for newcomers—particularly, but not only, illegal ones—and the people who employ them. A big turnout for the UK Independence Party in next year's European elections will encourage both parties to promise more restrictions. Yet it is becoming harder to find an MP who can defend anti-immigration policies, except by saying that they are popular. They make little economic sense. Christian Dustmann, an economist at University College London, and others have shown that the Poles and other eastern Europeans who arrived in Britain from 2004 have been net contributors to the national

purse. They are more likely than natives to work and less likely to claim benefits or use public services.

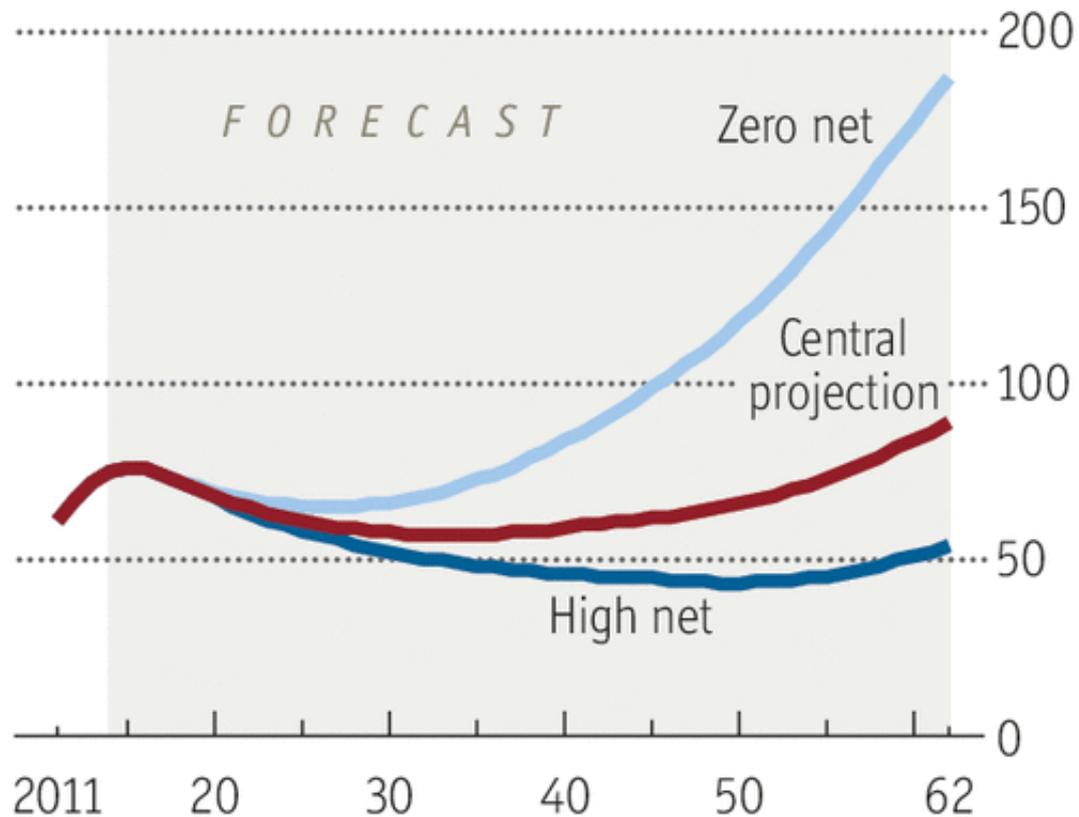
A pain in the wallet

In
the

The price of populism

9

Public-sector net debt in
different immigration scenarios



Source: Office for Budget Responsibility

long term, a closed nation would become poorer. The government's fiscal referee, the Office for Budget Responsibility, has produced a series of forecasts for Britain's debt under different immigration scenarios. They show that the more immigration is cut, the more the country sinks into the red as the ratio of working-age people to the general population shrinks (see chart 9). If that happens, all the state-pruning will be for naught.

It need not. Under a more optimistic scenario, Britain will vote to hold together and stay in the European Union, where it will continue to push for free trade. It will become better at exporting and more tolerant of immigration, though still not enthusiastic.

Devolution to Northern Ireland, Scotland and Wales may even turn from being an untidy mess into a catalyst for radical reform that could sweep the entire nation. Peter Hain, who

oversaw devolution to both Northern Ireland and Wales under Labour, points out that there is a solution to the “English question”—shorthand for the problems that arise from devolving powers to the Celtic fringe but not to England. Although an English parliament is out of the question, the government could proceed piecemeal, allowing competent, successful cities like London and Manchester to take greater control over money and policy. Others would clamour for similar powers.

Like the isolationist scenario, this could come to pass under any government. Although the Conservative Party contains only a handful of outright Europhiles, many of its MPs would rather change the subject. And Labour has some cheerleaders for free trade and critics of state over-centralisation. Its new education spokesman, Tristram Hunt, wrote a wise book about the rise of city governments in the Victorian era and their decay since.

The country truly faces a fundamental choice. In the next few years it could lapse into isolation, or it could succeed in combining a smaller, more efficient state with a more open attitude to the rest of the world. So, Britain, which is it to be?

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