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UK Government From 2010 To 2015: A Case Study In Management

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ABSTRACT

This paper investigates the effects of changing UK government policies from 2010 to 2015. It considers government spending, and the effects this had on UK government debt. Evidence in this paper suggests there was a critical period around 2012, which may have taken UK from sustainable growth to the edge of financial crisis. Future governments can learn from what happened in UK between 2010 and 2015: this paper is intended to shed light on the effects of choices made by the coalition government. A particular sequence of events may have shaped the UK economy's future: staff shortages, overwork, and illness, leading to poor judgement. Keynes [1] suggested we should learn from history: "I do not know which makes a man more conservative – to know nothing but the present, or nothing but the past".

Keywords:

UK; 2008 global financial crisis; recession; government policy; civil service

INTRODUCTION

There is widespread agreement among economists that problems in the USA sub-prime housing market led to a global financial crisis around 2008, and that the U.K. government responded successfully to the problem from 2008 to 2010 [2]; by 2009, the UK economy seemed to have turned a corner: the commercial banks which seemed most vulnerable had been supported by the government, and there were signs of economic recovery.

This paper investigates the UK economy from May 2010 to May 2015. Many countries had increased government debt in this period; this paper investigates some reasons for increasing debt in UK. From 6th May 2010 to 6th May 2015, the UK government was a coalition of two political parties: Conservatives and Liberal Democrats. George Osborne, as the Chancellor of the Exchequer, was responsible for the government's financial decisions. There have been controversies about economic decisions made by the UK government from 2010 to 2015, such as 'Quantitative Easing', 'Universal Credit', and 'Big Society': they may have led to large increases in the UK debt-to-GDP ratio. Seemingly mundane factors such as overtime may have had large effects on government effectiveness. This paper investigates these events, and finds evidence that a period around 2012 seems to have been a critical time in UK history; in particular, growing UK debt is a cause for concern.

Reinhart & Rogoff [3] claimed that if government debt exceeded 90% of GDP, this harms economic growth: "the relationship between government debt and real GDP growth is weak for debt/GDP ratios below a threshold of 90 percent of GDP. Above 90 percent, median growth rates fall by one percent, and average growth falls considerably more. We find that the threshold for public debt is similar in advanced and emerging economies". More recent evidence on the 90% threshold suggests rising debt is the problem: if debt is over 90% but falling, it seems manageable [4].

The following section of this article reports previous evidence on the UK economy from 2010 to 2015, in the form of a 'time-line' of events related to UK government economic policy. There is insufficient space to analyse all aspects of UK history for this five-year period, so this summary of recent history is highly selective. More research is needed.

LITERATURE REVIEW

There is widespread agreement that the UK government from 2005 to 2010 reacted effectively to the global financial crisis [2]; “UK monetary policy in the period 2007 to 2009 appeared successful; policy-makers learned the right lessons from the 1930s Great Depression” [5]. Joyce et al. [6] report economic growth returned in 2009.

George Osborne, as the Chancellor of the Exchequer, was responsible for UK economic policy from 2010 to 2015. He doesn’t consider himself an economist [7], and does not have an economics degree or even A-level [7]. This suggests the role of economists working in the UK civil service would be more important than usual, from 2010 to 2015. There were dramatic changes to UK government policy after the General Election in May 2010: “The 2010 Spending Review planned to cut investment spending by departments in real terms by 15.9% over the four years up to 2014–15 [...] illustrating the stark difference between the coalition’s spending plans and those of other governments over the last 35 years” [8]. UK economic growth slowed from 2010 [6].

Ganesh [7] comments that in the 2011 Autumn statement, “Osborne reported some of the bleakest economic news the country had heard since the Second World War”. The Bank of England encouraged the Treasury to improve its planning for a possible imminent crisis – but Bank employees thought it too dangerous to criticise George Osborne’s in public, because such criticism might damage confidence: “The Committee made an initially private recommendation to HM Treasury that its contingency planning should be as comprehensive as possible and include arrangements for recapitalisation, and the restructuring of bank liabilities in circumstances in which their survival was threatened. It judged that publishing on 3 October 2011 this recommendation in the record of its meeting would be contrary to the public interest given the risk of further undermining already fragile market sentiment” [9].

Osborne said that 2012 was “probably the most difficult year for me in this parliament” [...] “I got myself into a position where I wasn’t popular” [10], perhaps referring to the audience at the 2012 Olympics medal ceremony [7]. Elliot [11] wrote “George Osborne is under mounting pressure to moderate his austerity strategy after the International Monetary Fund went public with fears that the pace of budget cuts is too severe for Britain’s ailing economy”. Hutton [12] considered Chancellors of the Exchequer in the preceding 34 years, and wrote “None would have introduced a budget as ruinous as Osborne’s this spring. All would have been more intellectually interested in how to deliver growth in the wake of a credit crunch. All would have been more suspicious about King’s overconfident advice. None would have demeaned themselves by trying and failing to smear a shadow chancellor, as Osborne did Ed Balls. Most suffered calamities, but none as self-made as Osborne’s. Cameron faces the decision of his life: to sink with his friend or fire him and rescue his government” [12]. There seems to have been a period around 2012 when the UK Treasury faced various challenges, some of which are examined in this paper; for example, European Commission [13] report “The ONS confirmed that no data were currently available to provide a breakdown into increase/reduction of loans [...] It was previously expected that the Flow of Funds project would deliver these disaggregated. The ONS explained that the scope of the Flow of Funds project had changed [...] it was necessary to secure the required data on government loans via a separate exercise”. Problems also occurred in other UK government areas: “It is extremely disappointing that the litany of problems in the Universal Credit Programme were often hidden by a culture prevalent in the Department which promoted only the telling of “good news”. For example, officials were aware that a critical report highlighting many of these issues had been discussed internally for months. Indeed, there are real doubts over when officials became aware of these problems and it is difficult to conceive, based on the evidence we were presented with, that officials within the Department did not know of them before July 2012” [14]. Hutton [12] wrote “George Osborne’s tenure at the Treasury has been a disaster”.

Reinhart & Rogoff [15] suggested some European governments are in denial, i.e. unable to accept the crisis they face: “In Europe, where the financial crisis transformed into sovereign debt crises in several countries, the current phase of the denial cycle is marked by an official policy approach predicated on the assumption that normal growth can be restored through a mix of austerity, forbearance, and growth”. Bell & Van Reenen [16] imply criticism for Osborne’s tax cuts for rich bankers in 2013. Independent credit-rating agencies downgraded the status of the UK government in 2013, implying lending to the UK government had become more risky [17].

Keynes & Tetlow [8] expressed concern at UK government plans: “If current policy were to be implemented [...] spending on public services (defined as total spending less that on social security and debt interest, and alternatively as ‘general government consumption’) will be at its lowest level since records began in 1948–49 [...] It is unlikely that the large cuts will be implemented without some fall in either the quantity or quality of public services, in which case voters may find such cuts to public services spending unpalatable”.

Bennett [18] wrote “economists and other experts have rounded on the chancellor’s proposal. Speaking to the Huffington Post UK, former Treasury adviser James Meadway said: “Osborne’s aim to generate a surplus is foolish but, I’d suggest, unlikely to be achieved if it is attempted - on current evidence, the economy will crash before that surplus is ever achieved””. The remainder of this paper considers new evidence on what happened in the UK government – and why.

DATA AND METHODS

This paper uses data from the ‘Labour Force Survey’ (LFS) carried out by the UK government: it is a survey of households living at private addresses [19]. Data from quarterly LFS surveys are available from 1992. LFS uses a panel design, where each person interviewed stays in the sample for five consecutive quarters; it uses unclustered sampling – covering the whole of the UK, but with only partial coverage of people in Scotland north of the Caledonian Canal [19]. This paper uses all quarterly LFS surveys from 2004 to the most recent data available at the time of writing, December 2014. LFS surveys include very large samples: for example, LFS samples in 2014 include 398,637 people. LFS includes people who are employed, unemployed, and people not seeking paid work (e.g. retired people). Variable PUBLICR identifies government employees: “The public sector comprises central government, local government and public corporations” [20]. LFS variable ICDM is used to identify each person’s (main) job; for this paper, economists are defined as people with their job as category 70229, 72200, and 84130 [21]. Weighting is not used for this paper.

RESULTS

The following Charts are based on LFS survey data, and are intended to give insights into the UK economy during the period from 2010 to 2015.

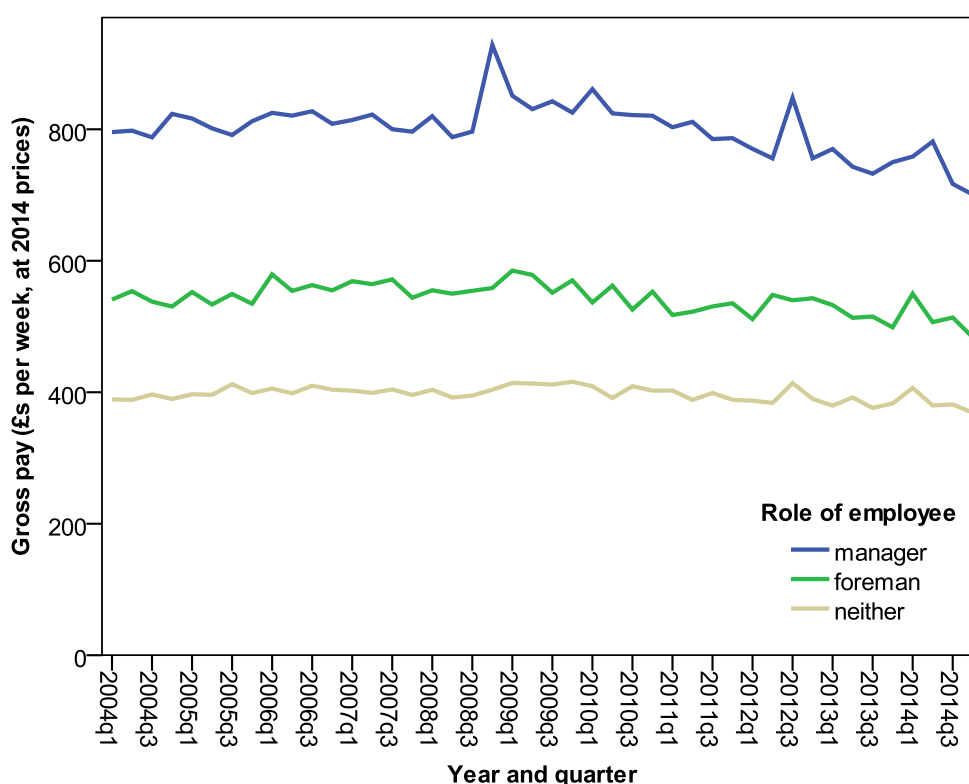


Chart 1: earnings of government employees, 2004 to 2014.

Source: LFS (author’s analysis).

Economic opinions could be divided about Chart 1. Keynesian economists (who generally advocate a more active government) might suggest the government should have spent more from 2010 to 2015, to get the economy moving; but neoclassical economists (who prefer a more free-market economy) may welcome the reduced earnings of government employees from 2010. Note, however, that the extent of austerity in UK from 2010 seems to be limited. Other LFS data (not reported here, due to limited space) indicates that there has been a small decline in the number of civil servants since 2010; as explained below, this may have had a disproportionate effect of the effectiveness of UK government departments such as the Treasury.

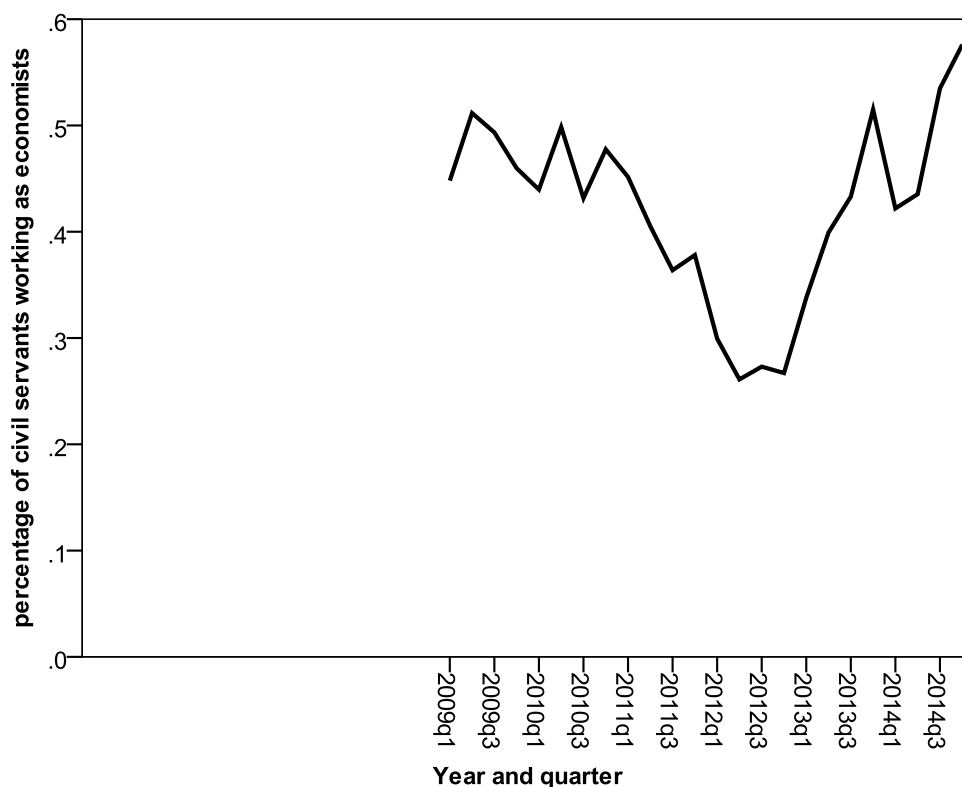


Chart 2: fraction of government employees who are economists, 2009 to 2014.

Source: LFS (author's analysis).

Chart 2 indicates a change in the fraction of civil servants hired as 'economists' (using the definition in the 'Data and methods' section): from 2010 to about 2012, fewer economists were employed in the civil service; 'economist' refers to the LFS respondent's job title, not to their degree (most 'economists' were not graduate, according to the author's analysis of LFS data). Data in Chart 2 is only available from 2009, so the horizontal axis on Charts 2 to 4 has been adjusted for comparability with Chart 1.

According to Ganesh [7], George Osborne always feared the "cloying inertia" of the civil service; and the 2010-15 coalition government felt civil servants were hostile [7]. The falling number of economists might have been a result of civil servants being deployed from economics jobs into other civil servant jobs – but there is a large increase in the number of private-sector economists from around 2012, according to the author's analysis of LFS data. The shortage of economists may have led to unfortunate results for the UK government, as discussed below.

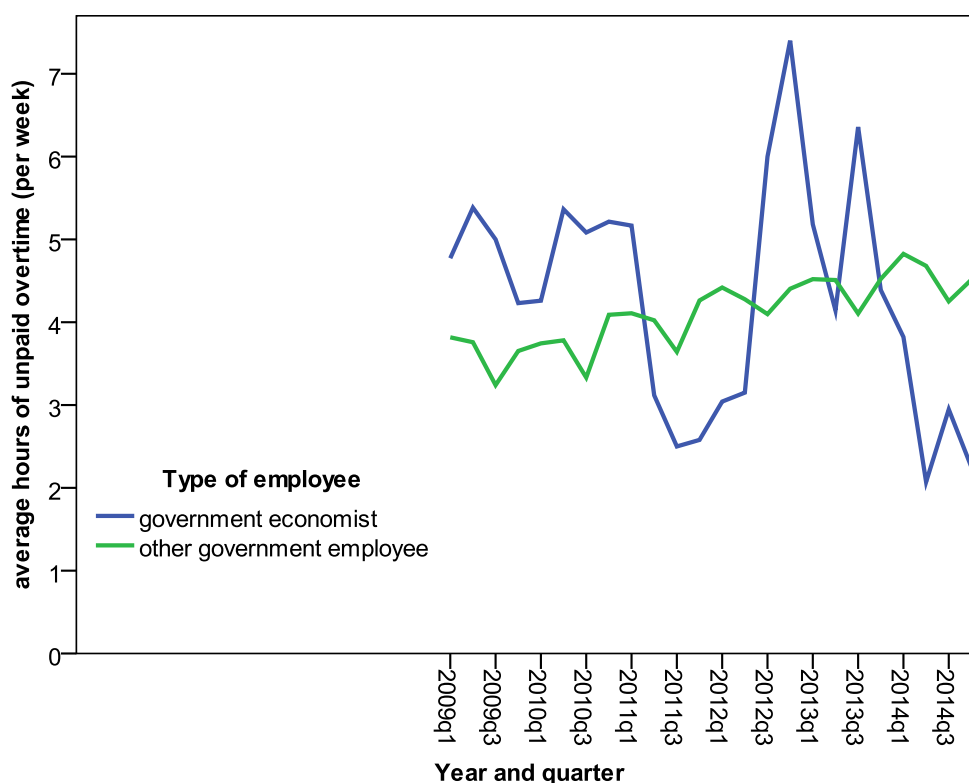


Chart 3: unpaid overtime by government employees, 2009 to 2014.

Source: LFS (author's analysis).

Chart 3 shows how UK much unpaid overtime was done by government employees; it indicates that in 2013, they worked more hours than would be expected of a full-time employee (over 7 hours per week more, in the first quarter of 2013). This may seem a desirable result: why pay economists for overtime, if they are prepared work for nothing? However, Chart 4 suggests this is not a situation which is sustainable for long: there was a large increase in the number of health problems among government economists around 2013 to 2014 – up to about 47%; space does not permit a thorough investigation, but some economists said they felt mental stress and depression. It is not clear from LFS data if this kept staff away from work; but it would be expected to impair their performance. The next question is: does it matter if there are few government economists, or if almost half of the economists are ill? The remainder of this paper considers how successfully these economists performed.

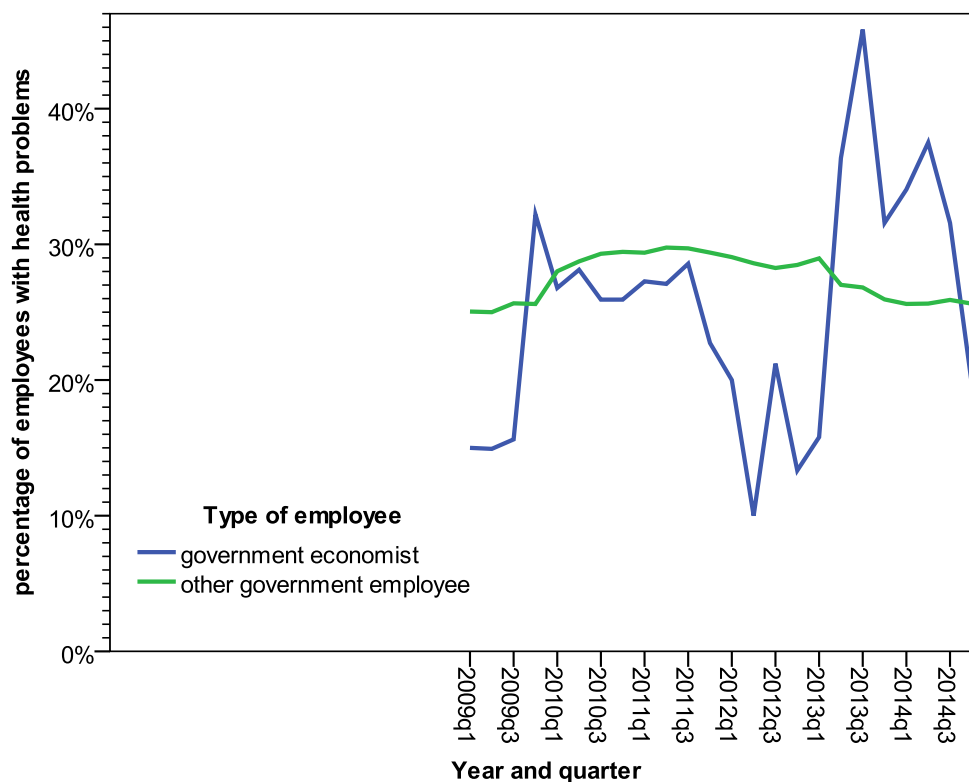


Chart 4: health problems among government employees, 2009 to 2014.

Source: LFS (author's analysis).

There has been concern about whether UK government finances have been well-managed; for example, consider the government's attempts to initiate the 'Universal Credit' system: "The Department expects to spend £2.4 billion up to April 2023 on implementing Universal Credit [...] **Management of the Universal Credit programme has been extraordinarily poor.** Oversight has been characterised by a failure to understand properly the nature and enormity of the task, a failure to monitor and challenge progress regularly, and a failure to intervene promptly when problems arose" [14; emphasis in original]. "The lack of oversight allowed the Department's Universal Credit team to become isolated and defensive, undermining its ability to recognise the size of the problems the programme faced and to be candid when reporting progress. The programme's ambitious timescale and protected resources created the inevitable risk of a fortress culture developing. This risk should have been mitigated by robust management information and stronger monitoring by senior staff within the department which might have given clear and early insights into progress. Risk was not well managed and the divergence between planned and actual progress could and should have been spotted and acted upon earlier. The Department only reported good news and denied the problems that had emerged" [14]. There have been other problems: "purchase orders, one for £22.6 million and one for £1.1 million, were approved by a personal assistant to the Programme Director whose delegated financial authority at the time of approvals was only £10 million [...] the precise extent is as yet unknown because the Department's impairment review is not yet complete, relying so far on supplier self-assessment" [14]. "There has been a shocking absence of financial and other internal controls and we are not yet convinced that the Department has robust plans to overcome the problems that have impeded progress" [14].

Another government project had problems: "Network Rail had a large amount of debt (guaranteed by government) which increased to around GBP 27 billion (nearly 2% GDP) in the financial year 2011/12 and, according to the annual report published in April 2012, was set to increase to around GBP 33 billion by 2013/14" [13]. It would be helpful to know if it was well-spent; but "Limitations in Network Rail's information on its own costs are hampering the ability of the Office of Rail Regulation to judge the genuineness of the efficiency savings reported by Network Rail [...] However, there are continuing limitations in the robustness and coverage of Network Rail's unit cost information. These need to be addressed promptly to improve confidence that future efficiency targets accurately reflect Network Rail's potential for sustainable savings, as the efficiency gap narrows, and that reported savings correctly reflect efficiency gains actually achieved [...] The Regulator can specify objectives for Network Rail's management incentive plan, but has in the past expressed surprise at the levels of executive bonuses" [22].

HM Treasury [23] reports 725 'Private Finance Initiative' (PFI) projects, together worth £54.2 Billion. In 2012, "The Chancellor unveiled 500 potential infrastructure projects, worth about £250bn, that would be kick-started by £20bn of investment from pension funds. Forty projects were identified as a priority. However, eight months on the critics have only grown louder. Priority projects remain on the drawing board, just £2bn of potential investment has been found from pension funds, and the construction industry has accused the Government of delaying vital decisions and failing to turn plans into reality" [25]; critics suggested it was a mistake to focus on projects such as 'High Speed 2', because they took too long to implement.

Another government initiative was privatisation of Royal Mail; it raised £3.3 Billion for the government [26], but the 2010-15 coalition government spent £8.9 billion on the Royal Mail pension fund [24]. The 2010-15 coalition government reinvigorated the 'Right to Buy' scheme, intended to help people purchase their own home; the cost is estimated at £8.1 Billion [27]. A separate scheme, 'Help to Buy', aims to support first-time house-buyers; but it seemed to cause a house-price bubble [28].

Another policy was 'Big Society', attempting to encourage charitable and other groups to take over some roles currently carried out by the government. Wright [29] reports problems with the 'Big Society' approach; Slocock et al. [30] wrote "the Big Society has failed to deliver against its original goals. Attempts to create more social action, to empower communities and to open up public services, with some positive exceptions, have not worked. The Big Society has not reached those who need it most". Empirical evidence suggests the 'Big society' approach could never have worked [31].

'Quantitative Easing' (QE) is a method whereby the government in some countries tried to stimulate their economy: it is a form of 'monetary policy', which can be used even if central banks cannot lower the interest-rate they use for lending to commercial banks because the interest-rate is already around zero. QE includes making credit available to commercial banks, and buying financial assets [2]. Under Osborne's leadership, the UK government carried out 'Quantitative Easing' on a huge scale via the 'Asset Purchase Facility'; this may lead to costs for UK taxpayers [13]. From 6th May 2010 to 16th April 2015 (approximately the period of the coalition government), the Bank of England purchased £175 Billion of financial assets [32]; it is not clear how much will need to be repaid by HM Treasury (HMT, part of UK government): "any financial losses as a result of the asset purchases are borne by HMT [...] The size of these quarterly transfers, and the ultimate net amount transferred to or from the APF, is uncertain" [33]. IMF suggests QE could cost UK taxpayers £80 Billion [34].

UK 'General government gross debt' rose from 76.4% of GDP in 2010, to 89.5% of GDP in 2014 [39]; this suggests it passed the 90% level in 2015. As discussed in the literature review, economists such as Reinhart & Rogoff suggest a 90% debt-to-GDP ratio may be a point-of-no-return. UK governments could consider the experiences of other highly-indebted countries, such as Japan (decades of recession), Argentina (where the 2005 debt default & restructuring led to ongoing legal action), and Greece (austerity has been imposed by institutions such as the European Central Bank). In 2015, UK faced a crisis associated with a high level of UK government debt: UK is fast approaching the 90% debt-to-GDP ratio, which could lead UK into a downward spiral of increasing interest-rates – as commercial firms lose confidence in the UK government's ability to repay its debts.

An IFS report stated, about the situation left by George Osborne: "this level of borrowing would result in debt continuing to increase as a share of national income in future, and is, therefore an unsustainable position for the public finances in the long run" [35]. The Conservative Party's 2015 election campaign claims they will reduce UK government debt within a few years, but their claims seem inconsistent – implying: "An increase in tax revenues of 0.2% of national income, yet their detailed tax announcements are a net giveaway of 0.1% of national income. A reduction in social security spending of 0.6% of national income, yet their detailed policies bring in only just over a tenth of that amount. A reduction in departmental spending of 2.5% of national income, yet their policies imply (relative to a real freeze) an increase in spending of 0.3% of national income" [35]. Crawford et al. appear sceptical about the feasibility of a Conservative government to achieve their stated aims: "by providing so much detail on the areas where they plan to increase spending (such as the NHS), while providing no hint of the need for cuts elsewhere, they risk giving a misleading impression of what public service spending under a Conservative government would look like" [35]. This IFS report also criticises other UK parties – for example: "the Labour Party has provided disappointingly little information on exactly how much they would borrow if they were in government" [35].

CONCLUSION

This paper suggests some useful lessons about management. The UK civil service experienced a turbulent time from 2010 to 2015. It seems, from evidence in this paper, that there was a sequence of events – the coalition government (and especially George Osborne) were hostile to state employees, which may be related to staff shortages in the Treasury (at least among economists); the government economists attempted to perform their roles in a difficult time

for the UK economy, for example by carrying out unpaid overtime. As a result of staff shortages, long hours, and stress, many economists became ill. This paper should not be interpreted as a criticism of the UK civil service: in the opinion of the author, civil servants performed a heroic job in keeping the UK economy afloat. Unfortunately, it appears that management problems led to many mistakes being made, leading to an astonishingly large debt.

To put the increase in UK government debt in context (not adjusting for inflation), focusing purely on the financial cost to UK taxpayers, the Falklands war in 1982 was estimated at £700 Million; Iraq & Afghanistan wars combined were estimated to have cost £8 Billion [36] [37]. Data in [38] indicates UK gross government debt rose from £1,190.4 Billion in 2010 to £1,688.7 Billion in 2015: an increase of £498.3 Billion (not controlling for inflation). This would be enough to have fought many wars, but taxpayers might have preferred the government not to spend it at all. Chart 1 in this paper makes it clear that civil servants generally earned less, not more, in 2015 than they did in 2010. Presumably future research by historians will clarify how much project (Universal Credit, etc.) absorbed this heightened government spending.

Between 2010 and 2015, UK government debt rose close to the 90% debt-to-GDP ratio: if the debt-to-GDP level exceeds 90%, there tends to be increasing interest-rates, because commercial investors think the country may be unable to repay their debts. If the UK economy recovers, the debt-to-GDP ratio will be a problem for decades – requiring high taxes to pay interest, and reducing economic growth. “Substantial risks remain to the structural position of the public finances. These risks include external economic shocks, such as those set out in paragraph A5, public spending pressures and weak receipts growth driven by disappointing earnings growth [...] the European Commission forecasts that this year the UK will have the third largest deficit and the largest structural deficit in the European Union” [39].

Osborne’s lack of economics training has been “endlessly invoked by Osborne’s doubters” [7]; but evidence in this paper suggests it is Osborne’s management abilities, rather than economics knowledge, which led the UK economy to the brink.

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