

WESTERN POLITICAL SCIENCE ASSOCIATION

The Politics of Peril and Opportunity
March 24 – 26, 2016 – Manchester Hyatt, San Diego, California

Eddie Ashbee and Ole Helmersen (Copenhagen Business School, Denmark) *Fiscal policy and Challenges to the “Leaner State”: Intercurrence and the U.K. Experience*

This paper considers the pursuit of fiscal consolidation in the United Kingdom. It argues that the Conservatives’ faith in “austerity” and the “leaner state” conflicts and competes with their rival commitment to the spatial and sectoral “rebalancing” of the British economy. Both policy frameworks are tied to different and distinct logics although both of these are rooted in neoliberal interests. The paper draws upon the concepts associated with the study of American Political Development (APD), its accounts of multiple orders as well as the approaches employed in the study of neoliberalization, to suggest that British economic policy has been largely shaped by intercurrency and friction between these rival logics. On the basis of this, the paper argues that macroeconomic policy is likely to lack coherence and prove more unstable than it might at first sight appear over the coming years.

Introduction

From 2010 onwards, the Conservative-led coalition and the Conservative majority government that won the UK’s General Election in May 2015 have been very largely defined by their commitment to fiscal consolidation, austerity and the vision that took shape during the coalition years of a “leaner state”. At the same time, however, these governments have sought to “rebalance” the British economy. Rebalancing was in significant part based around the construction of a “northern powerhouse” so as to reduce the country’s economic over-dependence upon the financial sector and growth in London and the south-east.

This paper considers the relationship between these different goals by drawing upon the theoretical frameworks that underpin the study of American Political Development (APD) and the stress that it places upon the “friction” and “abrasion” between multiple and competing orders. The paper suggests that this analytical framework may not only be employed in the accounts of the “orders” that provide a basis for APD but also in the study of logics (of action). Seen in this way, and although both tied to *neoliberalization* processes, British “austerity” and “rebalancing” constitute competing logics. The paper argues that the chafing and abrasion between these logics will in all probability undermine **both** the prospect of a “leaner state” and the construction of a viable “powerhouse”. These processes give the making of economic policy an inherent instability.

The multiple orders framework

The emergence of contemporary APD can, in part, be dated to efforts during the mid-1980s to “bring the state back in” and offer a corrective to the implicit pluralism that underpinned many

political science projects in the US.¹ In contrast with many studies of the US which for example focus, in considering the role of the presidency, on leadership questions, APD's sphere of interest is much more expansive insofar as it surveys the structures and processes that shape governance. Instead of, for example, looking at the relationship between president and Congress in terms of a president's persuasiveness or the immediate resources that can be marshalled APD therefore focuses on the position of the president within "... a thick network of overlapping institutional relationships, each implicated in relations of functional interdependence ... In sum, the governance frame draws attention to the allocation of authority within a given political regime and the modalities of regular intercourse that arise within it." (James, 2009: 58).

APD belongs to a wider family. It owes much to the theoretical propositions and methodologies underpinning historical institutionalism (HI). Indeed, there would be difficulty finding a discernible or consistent dividing line between APD and HI and APD's practitioners often describe themselves as historical institutionalists. Both APD and HI accounts suggest, at times implicitly but often explicitly, that institutions (which are understood in broad terms as policy regimes, rules and "standard operating procedures" and the legacies of past policies) mediate between processes and outcomes or in some accounts alter or create interests: "... institutions construct politics .. they shape action, conflict, order, change and meaning" (Orren and Skowronek, 2002: 737). From this perspective, politics are, to use Bismarck's celebrated phrase, structured around "the art of the possible" insofar as institutional arrangements constrain the options open to actors while at the same time offering some opportunities and indeed resources for empowerment. Seen in this way, there are long-run continuities and few chances of path-departing change outside of acute but short-lived crisis periods when both institutions and ideas are at least for a period highly fluid.

Differences

Having said this, there are important points of difference between HI and APD. In studying processes of political development, APD stresses that there are multiple orders.

'Orders' however require some discussion. Within APD, accounts of orders all share a presumption of internal coherence. In other words, there are at least implicitly complementarities *within* an order:

"...the effects of the component parts are cumulative and mutually reinforcing, that they generally point most actors in the same (or at least complementary) directions most of the time. (This is not to say there is no conflict, only that conflicts are fundamentally stable and predictable and tend to be contained and resolved within the normal

¹ APD is not of course a monolithic bloc: "No membership card is required to participate; indeed, it is common for individual researchers to move closer to the central concerns of APD in one study and far afield in the next" (Orren and Skowronek, 2004: 5).

political processes that constitute the order in question according to generally agreed upon or conventionally understood rules and expectations.)" (Lieberman, 2002: 702).

Beyond this shared scholarly territory there are however significant differences between APD accounts. In broad terms, three positions can be identified. First, there are accounts that see orders as being drawn from particular institutional configurations. They are thus "... a constellation of rules, institutions, practices and ideas that hold together over time" (Orren and Skowronek, 2004: 16). They equate orders with policy regimes citing the "American health-care policy regime" and the "American pension policy regime" (Orren and Skowronek, 2004: 16). This approach appears to tie institutional and ideational variables together although it at the same time seems to give primacy to institutions insofar as ideas appear to express themselves through governing and other political institutions:

"Traditions of ideas and ideologies are always carried by particular organizations or sets of organizations within the coalition that constitutes a political order ... Ideas can produce political change only when particular, identifiable political institutions, groups, and actors advance them" (Smith, 2006: 109).

Second, and in contrast, some adopt a broader and at the same time looser perspective and refer to ideational as well as institutional orders. From this perspective, ideational and institutional orders are largely separate from each other:

"There is no reason to presume, however, that the ideological and institutional currents that prevail at any given time or place are necessarily connected with each other in any coherent or functional way" (Lieberman, 2002: 702).

Seen in this way, there are thus processes of intercurrency between different institutional orders, different ideational orders and between institutional and ideational orders: "... friction among ordered political patterns however constituted, whether institutional or ideational. Institutions can clash with each other, as can ideas (Lieberman, 2002: 703).

A third approach stresses the ways in which the exercise of power is integral to representations of orders. "Orders" incorporate power relationships, assertions of power, and efforts by interests to secure power. They are "... a durable mode of organizing and exercising political power at the national level, with distinct institutions, policies, and discourses" (Plotke, 1996: 1). It is thus possible, from the early 1930s onwards, to speak of a Democratic political order structured around Democratic Party networks, national state, interest groupings and social movements (Plotke, 1996: 1). The post-1930s order was tied to discourses that rested upon democratization, modernization and government action. A further but related represents an "order" in a way that incorporates elements from within the state as well as movement actors

and others and, just as importantly, ties "orders" to the articulation and promulgation of particular interests. Orders are:

".. coalitions of state institutions and other political actors and organizations that seek to secure and exercise governing power in demographically, economically, and ideologically structured contexts that define the range of opportunities open to political actors" (King and Smith, 2005: 75)

Thus, within an "order" ".. anything worthy of that name must have among its components at least some 'governing institutions' that can assert legal authority to enforce their goals, rules, and policies against at least some outsiders" (Smith, 2006: 108).

Intercurrence

Nonetheless, whereas HI emphasizes the formation of complementarities within and between orders (so that in some accounts there is a "fit" between the overall structure of a national economy and the character of its political system), APD points to what it sees as the inevitable "chafing", "abrasion" and "friction" between such orders. Indeed, these processes of *intercurrence* are the defining feature of APD.

Intercurrence occurs because orders invariably emerge at different points in time, in different settings, for different purposes and amidst different configurations of political forces:

".. we can consider that any political moment or episode or outcome is situated within a *variety* of ordered institutional and ideological patterns, each with its own origins and history and each with its own logic and pace" (Lieberman, 2002: 701).

Put another way, ".. institutions congeal time ... within their sphere .." Orren and Skowronek, 1994: 319). Although there will be periodic compatibilities or "fits" between orders, intercurrence presumes that there will rather more probably be disorder and incongruity: ".. any realistic depiction of politics in time will include multiple orders, as well as the conflict and irresolution built into their reciprocal interactions" (Orren and Skowronek, 2004:17). In other words, and this often places those who explore intercurrence apart from those drawing upon other scholarly approaches, there are no ".. a priori presumptions of order" (Orren, 1995: 97). Within this context, inter-currential friction and abrasion are significant drivers of change: ".. change proceeds through the push and pull of differently constituted elements simultaneously engaged" (Orren and Skowronek, 2002: 736).

Although the term is not always employed, important studies have been structured around intercurrence. In a study of race and the US labor movement, Paul Frymer surveyed the ways in which labor and race policy regimes developed separately from each other thereby creating and maintaining profound differences of perceived interests. Many labor unions resented the

shift towards racial rights and affirmative action through a succession of court rulings that they saw as a threat to interests of their white memberships. There were “.. two vectors of power involving labor and civil rights, created in different historical moments, each with each other, leading to unintended consequences” (Frymer, 2008: 9). In another exploration of multiple orders and intercurrency, Desmond King and Rogers Smith consider the interaction between different and conflicting “white supremacist” and “transformative egalitarian” racial institutional orders since the colonial period and the early days of the republic (King and Smith, 2005: 77).

Orders and logics

The concept of an “order” is a central feature of APD. As has been noted, one influential representation of orders emphasised that they had, by definition, a foothold in governing institutions. This however narrowed down the concept of an order and limited the application of intercurrency.

An alternative and more fruitful theoretical course would be to broaden out, rather than narrow down, our understanding of orders and the settings within which intercurrency can be employed. Seen in broad rather than a narrow way, what is said within APD about “orders” can also be applied to paths and “logics”.

The term “logic” is used in different contexts. Those who refer to a logic of appropriateness suggest that decision making is structured in large part by social norms rather than a simple cost-benefit calculus. In Mancur Olson’s celebrated study, *The Logic of Collective Action*, large-scale collective action has a logic insofar as it creates incentives for free-riding. There is however a common thread here. A logic can be understood as an ordered and sequential chain of impulses that structures the behavior of actors. It may take an institutional or ideational form. Thus, significant forms of institutional change within a sector create new logics “.. as a result of which the incentive structures for key actors and patterns of strategic interaction between them within the sector have changed substantially” (Deeg, 2005: 170). Thus, for example, within some countries there is a logic that leads to cooperation between firms (and to some degree between capital and labor) whilst in other countries there is a logic that points, and leads, to more overtly competitive and sometimes antagonistic relationships.

As has been seen, at certain points the concept of “path” underpinned historical institutionalism although later HI scholars have downplayed the extent to which actors are bound by paths and have instead emphasised the importance of gradualist change.² Those however who stress the degree of boundedness within a path point the challenges that neoliberal reformers faced in seeking to dismantle the forms of social provision established during the 1930s and 1940s.

² Like orders, paths tend to elude precise and accepted definition. As has been asked: “Does the path consist of patterned and continuing behavior by actors (e.g., consumers, producers, stakeholders, policy makers)? Is it embodied or embedded in the behavior of formal, and perhaps informal, institutions? Is the path a program or set of programs the presence and density of which preclude the adoption (and perhaps serious contemplation) of alternatives?” (Brown, 2010: 645).

Logics, paths and orders are not synonymous. The concept of an order broadly refers to policy arrangements or forms of governance whereas logics and paths have more of a temporal dimension. Nonetheless, they are very closely related to each other. First, they all emerge in particular historical circumstances and their characters are shaped by the circumstances of their emergence. Second, each of them guides, shapes and moulds the behaviour of actors. They “.. generally point most actors in the same ... directions most of the time” (Lieberman, 2002: 702). Third, they are assumed to have a measure of internal coherence. In other words, there is a degree of temporal stability and predictability and, across an order, there are broadly shared rules and procedures. Fourth, all are, either strongly or weakly, logics subject to structured and bounded reproductive processes. Thus, and the differences between the concepts are relevant here, logics and paths structure the ways in which orders are reproduced. In HI, this is of course referred to as path dependence but logics are also subject to reproduction through either self-reinforcing sequences (the most usual form of HI that points to the increasing “stickiness” of policy regimes over time) or reactive sequences. If paths and logics are seen in this latter way, one perhaps small action, event or decision lays the basis for, or triggers, a subsequent action, event or decision: “These sequences are ‘reactive’ in the sense that each event within the sequence is in part a reaction to temporally antecedent events” (Mahoney, 2000: 509).

Having said this, a caveat should be entered. There are legitimate debates about the ways in which orders, paths and logics “point” actors. Some might stress the rational responses of actors to a given architecture of incentives and disincentives whilst others emphasize ideational structures or the inherent ambiguities of the contexts within which actors find themselves and degree of individual and collective creativity that is thereby called forth. From this perspective, actors employ techniques such as *bricolage* thereby ensuring that logics are invariably reproduced in untidy and uncertain ways. Given all of this, logics inevitably clash with each other leading to both chafing and abrasion.

Competing logics and British economic policy

The theoretical approaches underpinning APD and the study of “orders” may thus be employed more widely. It can be used in studies of political development in a diverse range of settings and the assumptions underlying representations of “orders” may be relaxed and the concept employed more broadly.

Given this, the development of British economic policy from May 2010, when the Conservative – Liberal Democrat coalition government took office, onwards can be understood in terms of competing logics and the processes of intercurrency between them. Policy outcomes reflected the tensions and clashes between a logic of austerity and a logic of “rebalancing”.

Since 2010, British governments have been defined by their commitment to fiscal consolidation and “austerity”. For their part, the Conservatives went further and moved beyond representing the austerity process as a necessary corrective to earlier “overspending”. Whereas the

preceding Labour government and the Liberal Democrats, the junior partner in the government, spoke of a need to reduce the budget deficit that had dramatically increased following the onset of the financial crisis and the “Great Recession”, the Conservatives increasingly spoke of a commitment to the “leaner state”. Prime Minister David Cameron’s remarks to the Lord Mayor of the City of London’s Banquet in November 2013 are instructive. Drawing implicitly on the concept of “crowding out”, he pointed to the danger that a large-scale budget deficit would divert funds from the private sector and trigger increased interest rates. However, he went beyond this, earlier Conservative statements, and the policy positions adopted by the other parties by putting forward a vision resting on a reconfiguration of the British state and its relationship with both civil society and the market: “It means building a leaner, more efficient state. We need to do more with less. Not just now, but permanently. It can be done” (*Daily Telegraph*, 2013). As a corollary, although the commitment failed to secure the allegiance of Conservative backbenchers and was only put forward in an uneven way, Cameron spoke of building a “Big Society” whereby voluntary effort supplanted state provision. Implicitly, austerity and the “leaner state” also required the market as well as civil society organizations to take on some of the social functions that hitherto been state responsibilities. In other words, there were to be processes of commodification and recommodification as the market was extended into areas of provision that had formerly been, even if only partially, decommodified.

This having been said, and given the frequently tepid performance of the UK economy, the government’s fiscal targets proved more challenging than had been anticipated. By the end of August 2013, Gross Domestic Product was still 2.7 per cent smaller than in 2008. Manufacturing output was about 10 per cent below its pre-recession level (Inman, 2013). Nonetheless, the government repeatedly reaffirmed its commitment to securing a balanced budget and running a surplus in “normal times”. Indeed, this goal was enshrined in law in the wake of the Conservatives’ 2015 general election victory (*BBC News*, 2015). Thus, projections for public sector net borrowing had to be negative by the final year (2019 – 2020) before the next general election. The Office for Budget Responsibility (OBR) projected a surplus of 10.1 billion pounds or 0.5 per cent of GDP in that year. The OBR also asserted that the Government was “.. more likely than not to meet its new target on existing policy” (Office for Budget Responsibility, 2015: 186). As Table 1 suggests, the deficit fell fairly continuously after 2009 – 2010 and it was assumed that this path would continue.

Table1: UK Public Sector Net Borrowing (PSNB) 2007 – 2021

Financial year	PSNB (% of GDP)
2007 - 2008	2,7
2008 - 2009	6,8
2009 - 2010	10,2
2010 - 2011	8,6
2011 - 2012	7
2012 - 2013	7,1
2013 - 2014	5,7
2014 - 2015	4,9
2015 - 2016*	3,9
2016 - 2017*	2,5

2017 - 2018*	1,2
2018-2019*	0,2
2019 – 2020*	-0,5
2020 - 2021*	-0,6

Source: Matthew Keep (2016) *Government borrowing, debt and debt interest: historical statistics and forecasts*, House of Commons Library – Briefing Paper 05745, January 22nd, 5. Note: an asterisk (*) denotes a projection.

Deficit levels can be reduced in different ways. These include economic growth (which generates increased tax revenues and reduces some of the demands upon government), increases in taxation or the charges that government makes for service provision, or through cutbacks in expenditure or planned expenditure. Governments of almost all political hues have proved reluctant to increase taxation for fear of curbing economic incentives and have often sought to reduce marginal rates although the Coalition raised the Value-Added Tax (VAT) rate from 17.5 to 20 per cent and increased Capital Gains Tax for higher rate taxpayers. Nonetheless, spending cuts constituted 77 per cent of the retrenchment process whilst tax increases constituted 23 per cent (Lupton et. al., 2015: 2). Economic growth has, as noted above, been limited in character and therefore only provided limited fiscal gains. Thus, economics fused with memes about welfare dependency and bloated government as well as moral judgements about the “undeserving poor” to ensure that government services and social provision bore the brunt of the retrenchment process.

Although schools and the National Health Service (NHS) were ring-fenced, other public services were significantly reduced in size and scale. Local government faced the biggest expenditure reductions and given the character of the services that local councils provide, the budget axe hit those who were already disadvantaged:

“Between 2009/10 and 2014/15, local government funding in England fell by an estimated 33 per cent. Within particular service areas, spending on children aged under five fell 21 per cent between 2009-10 and 2012-13, with falls of 11 per cent for early education and 32 per cent for Sure Start. These reductions coincided with a 6 per cent increase in the number of under-fives. Spending on housing and community amenities, which includes funding to build social housing, fell by 35 per cent between 2009/10 and 2013/14 ... Budgets for residential homes and other adult social care community services were cut by 7 per cent between 2009/10 and 2013/14, while the population aged 65 and over grew by 10 per cent” (Lupton et. al., 2015: 4).

From 2015 onwards, when the commitment to austerity was renewed through the Conservatives’ election mandate, although there was some projected easing. The projected cuts to public services spending (as a share of GDP) were to be around a fifth smaller than those imposed in the preceding Parliament. Capital spending, which had been cut back, was then to remain almost flat as a share of GDP. In his 2015 Autumn Statement George Osborne

reiterated the £12 billion of “welfare savings” that had been pledged at the General Election earlier in the year (Gov.uk, 2016). These savings were expected “.. to contribute more than twice as much to improving the budget” (Office for Budget Responsibility, 2015: 19). This, it was said, would allow the government to secure a budget surplus while at the same time the move was framed in terms of are “standing up for hard-working people” and backing “strivers” rather than “skivers”. As George Osborne, the Chancellor of the Exchequer, had put it in 2013: “Fairness is about being fair to the person who leaves home every morning to go out to work and sees their neighbour still asleep, living a life on benefits” (Mason, 2013).

Rebalancing the UK economy

There was however a parallel discourse alongside the calls for austerity and retrenchment. In the wake of the 2008 – 2009 financial crisis, Conservative policymakers and commentators increasingly spoke of the need for national economic “rebalancing”.³ This process was to have sectoral and spatial dimensions. There were calls for efforts to move the locus of growth away from finance and credit provision and towards manufacturing and from debt and consumption to investment. The 2010 Conservative manifesto committed the party to building: “..a more balanced economy that does not depend so heavily on the success of financial services .. ” (The Conservative Party, 2010: 3). Such moves, it was argued, would lessen the likelihood that the British economy would generate the types of asset bubble (in for example property prices) that had preceded the “Great Recession”. It would provide a basis for stable and sustained growth. There was parallel talk of shifting the UK’s centre of economic gravity away from the London region so as to promote growth in the north of England and alleviate the north-south divide that had long been a defining feature of discourse about British society and the economy: “we will increase the private sector’s share of the economy in all regions of the country, especially outside London and the South East” (The Conservative Party, 2010: 23). These commitments were not forgotten when the coalition agreement was concluded between the Conservatives and the Liberal Democrats in the aftermath of the general election: “We want to create a fairer and more balanced economy, where we are not so dependent on a narrow range of economic sectors, and where new businesses and economic opportunities are more evenly shared between regions and industries” (HM Government, 2010: 9). The commitment to spatial rebalancing was later popularized in claims that a “northern powerhouse” would emerge.

Constructing a “northern powerhouse”

Rebalancing and the “northern powerhouse” were tied to plans for HS2 and HS3, the proposed high-speed rail lines. The Conservative – Liberal Democrat coalition government’s commitment

³ “Although the term has not always been used, “rebalancing” has, in different forms, been a long-familiar theme within British political discourse. Although Google searches suggest that it only emerged at the beginning of the current century, it appeared, for example, during the inter-war years in both Keynes’s critiques of the City of London and the divide between the “rentier” and manufacturing industry and commentaries – anticipating later references to the “north-south divide” - on the fate of the traditional industries, most notably the coal-mining (Froud, Johal, Law, Leaver and Williams, 2011: 5).

to HS2, that will connect London and Birmingham and then provide branches to the North-West and Yorkshire, (thus forming a “Y” across a significant part of England) surprised many commentators. Some saw the commitment to HS2 as a policy legacy from the preceding Labour governments that the coalition had, perhaps for reasons of path dependency, been unable to abandon.

The coalition government did not however just reaffirm the project but embraced it with a significant degree of vigour. There was a commitment there that self-evidently went far beyond the concept of policy “lock-in”. Indeed, the government began to look ahead to the construction of HS3, also sometimes dubbed the “transnorth” network. Although the route still remains undecided, this would be a high-speed line linking the major cities of northern England (including at least eventually Liverpool, Manchester, Sheffield, Leeds and Hull). In part, the high-speed line would, taken together with HS2, form a triangular rail network. Although there were also plans for road transportation, HS2 and HS3 were, as Chancellor Osborne noted, an essential underpinning for the economic development of the north: “connecting up the great cities of the north is at the heart of our plans to build a Northern Powerhouse” (Riley-Smith, 2015). The government declared furthermore that infrastructural spending of this kind was safe from the cutbacks that other parts of government had to face.

The “powerhouse” was to be structured around the development of science, technology, transport, culture, and tourism. The north would, it was said, emerge as a global centre for innovation and trade and thus be able to compete with some of the most strongly performing areas of Europe. The development process would be based around city regions.

The economic thinking behind the powerhouse was in part based on the opportunity to develop and exploit unused physical and human resources. However, beyond this, it stood in striking contrast to the logic underlying the austerity project. The concept of austerity and the arguments put forward so as to support the calls for fiscal consolidation were based, as noted above, around the concept of “crowding out”. Seen in this way, government expenditure diverts funds from a more productive private economy and at the same time puts upward pressure upon interest rates thereby further curbing private sector investment. If framed in terms of the austerity argument, the concept of “crowding out” was applied even in discussions of areas and regions where private sector activity was weak. “Crowding out” was tied to a further proposition. The calls for austerity and fiscal retrenchment were allied with the claim that the private could and would, through the logic of the market, respond to the gaps that retrenchment created and pick up the economic slack. In his 2015 Autumn Statement George Osborne tied optimistic economic projections to fiscal retrenchment.

“.. the economy will grow robustly every year, living standards will rise every year, and more than a million extra jobs will be created over the next five years. That’s because sound public finances are not the enemy of sustained growth – they are its precondition”
(Gov.UK, 2016)

In contrast, the northern powerhouse structured around the growth of “city-regions” and plans for infrastructural development was implicitly based upon “crowding in”. From this perspective, far from edging out the private sector, government spending triggers and increases private sector investment. Government establishes a framework that offers private firms the prospect of substantial productivity gains through transportation hubs, the provision of utilities and increasing returns to scale in particular localities as broadly comparable firms start to develop and grow.

There were allied about the necessary and proper role of the state although a distinction should be drawn. “Rebalancing” pulled the state towards an ordering and facilitation process:

“State intervention is limited both temporally and inter-sectorally to encouraging, levering or cajoling sectors closer or further away from the economy’s fulcrum so that a natural—and self-sustaining - balance can be re-secured” (Berry and Hay, 2014: 7).

The construction of a “northern powerhouse” required much more. It was after all tied to the assertions that there had been sustained and generalized market failure and that market forces did not have the capacity to pick up economic slack. Thus, government action was required as a source of funding for infrastructural and start-up projects and also as a broker that would organize the supply of private investment from outsiders who would not simply respond to market signals.

Self-evidently, rebalancing and the northern powerhouse demanded funding. As has been noted, the powerhouse was structured around “crowding in” and the assumption that government had a proactive role to play in addressing the output gap. Funding for the powerhouse was to come from six principal sources. First, there was direct government funding for projects such as HS2 and HS3 as well as lesser initiatives such as the funding of Northern Powerhouse trade missions. Second, there were hopes that pension funds would turn towards infrastructural investment but there appears to have been little interest from the private funds ((Berry and Hay, 2014: 9). Third, European Union funding was to be channeled and directed. European Regional Development Fund funds assigned for Local Enterprise Partnerships in the North West, Yorkshire & the Humber and Tees Valley were to be combined together so as to address “ .. gaps in access to finance” (British Business Bank, 2015). Government and EU funding, it was said, offered more than £500m of funding (Frost, 2015). Fourth, councils or at least those taking on additional powers and establishing directly-elected executive mayors, would be able to expand their sources of revenue including an infrastructure levy on top of business rates. Fifth, there would be new sources of revenue including the creation of a Shale Wealth Fund whereby 10 per cent of shale gas tax revenues would be invested in the areas where extraction was taking place. Sixth, government was act as a financial facilitator, drawing in and coordinating investment funds from do,mestic and foreign sources. This was most clearly evident in the government’s well-publicized efforts to draw in Chinese investment, a process symbolised by a visit by Chinese President Xi Jinping. David Cameron announced in late 2015:

“We are committed to rebalancing our economy and building a northern powerhouse. China is a key trading partner for the UK and the partnerships being made today will see real investment going into the north.” (quoted in Bounds and Parker, 2015).⁴

On top of this, and in a gesture to more market-based thinking, low-tax enterprise zones, a concept established during the Thatcher years, were to be set up or extended.

Reinvigorating civil society

The northern powerhouse was not however only an economic concept. It was allied, and this formed part of the logic, to the prospect of localism and civic reinvigoration. As the Government’s 2015 Autumn Statement emphasized:

“The Northern Powerhouse is the government’s plan to boost the economy across the North of England ... It means investing in better transport to connect up the North; backing the science and innovation strengths of the North ... investing in culture, housing and the quality of life to make the North a magnet for new businesses and talented people; devolving powers and budgets from London to local areas across the North, and creating powerful new elected mayors who will give people in northern cities and towns a strong voice” (HM Treasury, 2015).

In sum, it was argued, economic growth not only demanded infrastructural development but also participation, a degree of competition between localities, and proactive civic leadership. In other words, civil society had its part to play. At the least, Whitehall hoped to harness local government and civic leaders and win their backing for the powerhouse. More ambitiously, there were hopes that local councils could be transformed through the creation of directly-elected executive mayors who would offer a professionalised leadership. More broadly, the commitment to localism rested on the weakening or removal of QUANGOS and the transfer of powers to councils.

There were however inherent tensions within the localism project that may limit its application. First, while the Conservatives attempted to bolster local government in some ways they had earlier spoken of diluting “bureaucratic” council prerogatives over the citizen through for example the relaxation of planning permission regulations. However, in April 2013, efforts in the government’s Growth and Infrastructure Bill to relax the requirement that limited extensions to residential properties were subject to planning permission were quickly reined in. Although the coalition government saw the relaxation of planning controls as an important part of its

⁴ Nonetheless, estimates suggested that Chinese President Xi’s 2015 visit to Britain, which was tied to the powerhouse, led to just £4m of new investment (Bounds and Parker, 2015).

"localism" agenda, a shift away from the bureaucratic state, and an extension of homeowners' rights, many Conservative MPs were fearful that neighbors would be unable to prevent unsightly or intrusive building projects. The measure, it was thus said, jeopardized the interests of neighbors and the neighborhood. In the face of the Parliamentary revolt, Eric Pickles, the Secretary of State for Communities and Local Government, backed down and promised an amendment to the proposals so as to incorporate a "light-touch neighbours' consultation scheme" for building work (*The Huffington Post UK*, 2013).

Ideational and institutional overlaps

How should the two different logics be understood? How might the Conservatives' faith in austerity, fiscal consolidation and the "leaner state" be reconciled with their commitment to the northern powerhouse?⁵ There are some overlaps. Both projects are tied to a vision of civic reinvigoration. From an early stage, there was an understanding among policymakers and strategists that "austerity" could not be sustained and would not secure legitimacy unless, as a direct corollary, other steps were taken. The viability of the "leaner state" depended in large part, it was said, upon the nurturing of a more vibrant civil society by promoting voluntary and neighbourhood networks (the "Big Society") and facilitating the devolution of governmental power through "localism".

More significantly, both logics and discourses are derived from contemporary neoliberalism. Neoliberalism is often defined in relatively narrow terms as resting upon "... liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade" (Harvey, 2005: 2). In sum, it is privatization, deregulation and the shrinkage of the state. However, both before and after the publication of Michel Foucault's 1979 lectures as *The Birth of Biopolitics*, there has been a stress upon the multiplicity of forms that neoliberalism can take and the claim that it constitutes more a reconfiguration of the state than a withdrawal or abdication.

From this perspective, although a contrast can be drawn between the "welfare capitalism" of the mid-century years and the processes that took place during the closing decades of the twentieth century, embedded or "actually existing" neoliberalism should not be represented as the shrinkage of state. Instead, it has often brought forth an expansion of state boundaries both because enforcement measures have been required when liberalization measures have come under challenge and because deregulation (the reduction or removal of barriers to entry) has sometimes been followed – or accompanied - by processes of re-regulation and an extension, rather than a diminution, of the state's institutional capacities. In sum, neoliberal discourse "... does not actually correspond to neoliberal practices" (Konings, 2009: 110). Within the financial

⁵ Logics and paths do not necessarily rest upon more or less equal political weightings. Some are more embedded and have greater resilience (or "stickiness") than others. Having said that, "rebalancing" stemmed from the structural needs of neoliberalism as a way of addressing the risks brought forth by asset bubbles and is thus, arguably, more than a "communicative discourse" (Berry and Hay, 2014: 20). . Indeed, it might be argued that it is a relatively weak "communicative discourse" insofar as, unlike "austerity" it has not proved a core political message that has shaped the overall Conservative "brand" or served a basis for electoral mobilization.

sector, often hailed as a model of neoliberal deregulation, there was, well before the crisis broke, “.. a process whereby new organisational linkages were forged and particular relations of institutional control were constructed and consolidated” (Konings, 2009: 109).

Thus, generalizations about neoliberalism can be hazardous. There are very significant differences between national and sectoral settings. As a consequence, the impact of neoliberalization (which is arguably a more useful term than neoliberalism because it is a process rather than a fixed state) has been uneven, subject to contestation and often held back by well-located interests or processes of path dependency. Often, neoliberalism exists in a hybrid form along with institutional arrangements shaped by other traditions and frameworks. Neoliberalization is thus a *variegated* process (Peck, Theodore and Brenner, 2012: 269). At the same time, whereas it is usual to think in terms of broad periodizations and of complementarities between different economic and political processes, there is a case for also considering the gaps, tensions and *discomplementarities* between such processes.

In sum therefore, given this, embedded neoliberalization processes incorporate fiscal consolidation, austerity and commodification but **also** efforts to stabilize and contain the market imbalances that are fuelled by these processes. There is, as has been argued, a substantial difference between the textbook neoliberalism that rests upon market “fundamentalism” and embedded neoliberalization that entwines marketization together with the structures that shape different economic and political settings thereby creating extended variegation. ⁶

Chafing and abrasion

Nonetheless, despite these ideational overlaps, the projects not only have different but as has been argued competing logics. The former rests upon “crowding out” while the latter is constructed around “crowding in”. Each depicts the British economy, the relationship between the market and the state in a different way while pointing to different and particular arrangements, ways of mobilizing capital, policy steps, and outcomes. Each assembles and orders particular constituencies.

Three principal points can be identified at which the different logics of austerity and rebalancing chafed and abraded against each other. ⁷ First, there were tensions between the commitment

⁶ Martin Craig suggests, in a survey of British policy from 2008 onwards, suggests that the emergence of a more interventionist industrial policy alongside the “neoliberal” market orientation of overall macroeconomic policy reflects the existence of two competing ‘crisis diagnoses’. The former, he argues, was “.. at odds with this neoliberal crisis diagnosis” (Craig, 2015: 107). However, as is argued here, neoliberalism is in its embedded former both broader and looser than pure market fundamentalism.

⁷ There are of course alternative explanations for the Conservatives’ embrace of “rebalancing” and the northern powerhouse although they underestimate the degree of commitment to the project and the extent to which political capital was invested. The policy has been depicted as a form of regret or “buyer’s remorse” on the part of the political classes about the effects of neoliberal policy but in reality simply “empty rhetoric” (Froud, Johal, Law, Leaver and Williams, 2011: 2). A parallel claim might be to suggest that rebalancing was a rhetorical means by which “Cameronism” could assert its own identity and mark itself out from Thatcherism’s perceived associations with “one nation” politics and the seeming abandonment of northern England and the outer nations of the UK.

to localism (that as has been seen was tied to rebalancing) and the requirements imposed by austerity. The latter necessitated a regulatory framework that limited and constrained local government expenditure. Council spending formed a major part of overall public spending and significant changes therefore had macroeconomic consequences. Thus the government retained direct controls while at the same time promoting measures that would use participatory democracy as a mechanism through which spending would be restrained. However, the character of that participatory democracy was limited and structured so as to more or less guarantee particular outcomes. From 2012 – 2013 (when the 2011 Localism Act came into effect) referendums were to be held to prevent “excessive” council tax rises. The draft thresholds for determining what was “excessive” in 2016 -2017 were four per cent for councils with social care responsibilities and two per cent for district councils, police and crime commissioners, fire and rescue services and the Greater London Authority (GLA). Significantly, and perhaps because elected officials feared that efforts to raise taxes above the threshold would face inevitable defeat, just one referendum was held under provisions of the Act. In May 2015, a proposal to raise taxes by put forward by the Bedfordshire Police and Crime Commissioner for a 15.8 per cent rise in the council tax was defeated (House of Commons Library, 2016).

Second, there was chafing between the resources required for the building of the powerhouse and the logic of austerity. Despite the Chancellor of the Exchequer’s emphasis on infrastructure, austerity took its toll on his plans. In late 2015, *The Financial Times* reported: “Mr Osborne’s professed focus on infrastructure is not matched by his record. Since he became chancellor in 2010 with a promise to kick-start various infrastructure projects, capital expenditure has fallen 5.4 per cent ..” (Giles and Plimmer, 2015). Furthermore, as a Sheffield Political Economy Research Institute (SPERI) report pointedly observed, the North-East only secure a relatively small proportion of overall funding allocations. It receives, on a per capita basis, about one-thirteenth of the planned public infrastructural spending of that allocated to projects in London (Sheffield Political Economy Research Institute, 2015: 4).

There were also limits upon government’s role as a facilitator of private investment and this appears unlikely to fill the gap. As has been noted, the efforts to secure private capital from Chinese enterprises appear to have yielded relatively little. Investment in northern infrastructure seemed an unstable and unpredictable prospect particularly at a time when the future of the Chinese economy seemed uncertain. Instead, therefore, Chinese infrastructural investment went into rather safer outlets in the south. This included for example the acquisition of a ten percent stake in Thames Water, the UK’s largest water utility (Giles and Plimmer, 2015). The core issue for both foreign and domestic investors is that future revenue streams from infrastructural projects generally seem to be limited and uncertain: “.. the conclusion any lender should come to is that, in aggregate, the lending is not founded on a secure revenue base. Can’t pay might mean won’t pay, which would mean debt might not be serviced or repaid. .. No amount of trips to China to ask lenders to cough up will solve this. Lenders are not the problem; it is the revenue streams” (Helm, 2013). In such circumstances, projects either have to be abandoned or government has to step in. Third, the chafing and abrasion between logics also shaped the relationship between powerhouse investment and fiscal consolidation

insofar as the relatively low level of public and private investment in the north, a consequence of the clashes between austerity and rebalancing, held back the UK's overall economic growth. In turn, the weakness of growth played a part in threatening the government's plans to secure a budget surplus by 2019 - 2020. At the beginning of 2016, the Institute for Fiscal Studies warned that the Chancellor could be compelled either to increase taxes or increase expenditure cuts if this target was to be realized (Elliott, 2016). Much of this was a consequence of global uncertainties but an influential thinktank (the Institute for Public Policy Research) pointed to the underexploited potential for growth in the north: "If the North was able to halve the gap between its own economic output per head and the national level then its economy would be £34 billion (11.9 per cent) bigger" (Cox and Raikes, 2015).

Conclusion

The clashes between logics constitutes, to appropriate a phrase from another context, an "invitation to struggle" and processes of contestation may intensify. Given these clashes, the forms of public policy that are taking shape are likely to be unstable and limited in character. Each logic is, in effect, undermining and weakening the other. There will be relatively little policy coherence.

It is difficult to dissent from or update the observation that ".. there is little sign of rebalancing within the British economy, on the terms publicly espoused by the coalition government" (Berry and Hay, 2014: 18). There are also, as has been seen, equally substantial question marks against the Government's projections for fiscal consolidation. Indeed, the clashes between logics jeopardise growth forecasts upon which consolidation depends. Thus, along with the uncertainties arising from the debate about the UK's continued membership of the European Union, the tensions between austerity and rebalancing cast profound doubts over the overall *de facto* character of the economic policy that will be pursued.

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