No such thing as a free lunch? Economic constraint, fiscal consolidation and UK social democracy since 1945

Abstract

The debate over the politics of economic consolidation and 'prudence' in the UK has, in practice, been defined by 'austerity' policies since 2010: spending cuts, welfare retrenchment and public sector underinvestment. However, adopting a longer-term historical perspective indicates that conflating all economic consolidations with cuts to public expenditure is misleading and constrains imaginative thinking about macroeconomic policy.

This paper introduces historical case studies of the British left's attempt to navigate the politics of fiscal constraint since 1945 to advance three broad arguments. Firstly, strategies of economic consolidation, including but not limited to fiscal consolidation, have been endorsed by an assortment of social democrats, left-Keynesians, and socialists at various junctures of post-war history. There is nothing inherently Conservative or neoliberal about such policies. Secondly, political appeals to 'prudential' macroeconomics reflect both an assessment of economic constraints, alongside a persistently powerful 'moral economy' that attempts to rein in personal consumption to boost production and revive public services.

Finally, and most importantly, strategies that recognise those constraints and draw on that moral economy have been used by political actors to introduce policies *favourable* to traditional social democratic ends. While the emphasis on fiscal sustainability and monetary stability is, no doubt, a *constraint* on governing autonomy in capitalist economies, it is also a potential *resource* to construct viable electoral and political coalitions while acquiring governing space to enact distinctive progressive policies.

I. Introduction

At the core of this paper is the argument that Left parties in the UK and elsewhere can adopt policies that recognise the effective reality of economic and fiscal constraint without sacrificing social democratic ends. Without question, in the absence of sustained growth, the trade-offs for social democratic parties implied by the contradictory pressures of satisfying demands for higher spending while retaining market confidence are stark. Yet in the last decade, policy discussion of economic consolidation has been conceived through the framework of ‘austerity’, understood primarily as the agenda of the 2010-15 Coalition government (e.g. Bell, 2018). For this government, ‘austerity’ was the solution to an increase in public sector debt and the budget deficit after the 2008 crash (both depicted, implausibly, as an urgent threat to UK economic stability), and encompassed spending cuts, public sector wage freezes, and reduced capital investment ‘rather than raising revenue’ (Mabbett, 2016: 207).

The emphasis on spending cuts as the main form of macroeconomic ‘prudence’ comes in part from popular and misleading ‘household’ and ‘credit card’ metaphors of public debt. Economists and commentators have challenged such framings by stressing the sustainability of debt burden interest repayments rather than debt-to-GDP ratios (Wren-Lewis, 2022). They have also emphasised austerity’s debilitating effects on inequality and state capacity, as well as economic growth (Burn-Murdoch, 2022). Yet this ‘household’ framing is still firmly entrenched in public discourse (Dilnot and Blastland, 2022; Freedman 2023). The focus on spending cuts also comes from the political culture of UK elections. Partisan competition in the UK has long been conducted through a ‘fiscal register’ (Sloman, 2023), placing an electoral premium on the performance of fiscal ‘credibility’. The problem is compounded by the widespread assumption in political commentary that Anglosphere voters tend to support parties of the economic ‘centre’, and that this necessitates performative fiscal constraint (Hay, 1999; Jennings & Green, 2018).

All too aware of unsuccessful efforts to project fiscal credibility in the party’s history, the current Labour leadership have responded to the challenge in several ways. Firstly, Keir Starmer’s team have discarded or watered down costly policy commitments such as the renationalisation of utilities and £28 billion of green investment. Secondly, they have emphasised their commitment to ‘strong’ (if also tweaked) fiscal rules which promise balanced current spending and a falling debt-to-GDP share over a rolling five year period (Reeves, 2024). Thirdly, they have avoided explicit commitments to more borrowing or higher taxation –with a few exceptions, namely the imposition of Valued Added Tax (VAT) on private school fees. All three approaches attest to the state of public debate in the UK on macroeconomic ‘prudence’, ‘consolidation’, and ‘credibility’, which focuses disproportionately on the question of government’s ability to constrain spending as against its capacity to tax and borrow. If it wins power, major questions will await the UK’s first social democratic government since 2010.

II. Academic Literature: Conflating 'Consolidation' with 'Austerity'

To devise a plausible economic and fiscal strategy, that government could draw on the wide-ranging academic literature that addresses the political economy of fiscal policy. Many academics are not surprisingly critical of the austerity policies of the 2010s, and have convincingly contested its theoretical assumptions, distributive effects and social consequences (Blyth, 2013; Mabbett, 2016). Yet by criticising the UK austerity project of the 2010s, and by doing so in the context of the eurozone crisis, those scholars have inadvertently reinforced the association of strategies of economic 'prudence' and attachments to fiscal and monetary 'orthodoxy' with public service under-investment, spending restraint, and welfare cuts. Discussion of 'constraint' and 'orthodoxy' still focuses on the specific form of austerity adopted during the Coalition era, largely comprised of spending cuts (e.g. Davis, 2022, Bremer, 2024). The economist Simon Wren-Lewis once recognised that point by seeking to define 'austerity' as an 'outcome' of cuts that increases unemployment, rather than fiscal consolidation per se (Wren-Lewis, 2016), but this is not a commonly used definition.

Recently, a group of scholars identified a specifically *social-democratic* version of austerity in the 2010s. However, they similarly focus mainly on forms of consolidation that constrain government welfare spending and investment.[1] Social-democratic austerity emerged, these authors argue, because of the 'asymmetric fiscal reputation' (Kraft, 2017) of European centre-left parties among voters, which meant social democratic politicians 'corrected' for this negative perception by imposing cuts or limiting their spending aspirations. It arose too because macroeconomic 'prudence' was associated with 1990s 'Third Way' theories of supply-side reform in North America, Western Europe, and in the Nordic countries (Bremer and McDaniel, 2020; Bremer, 2023). As a result, these authors focus on social democratic support for expenditure cuts that undermine the capacity of the state. In the contemporary literature, appeals to economic 'credibility' and 'prudence' from the left are portrayed as manifestations of concession or defeat to the political right, as a symptom of the historical electoral and ideational weakness of social democracy (Mudge 2018).

This approach certainly has merits. It is possible to identify powerful constraints on centre-left governments in the 21st century, whether they are political, ideological, or financial-economic. The literature highlights the deepening of such constraints since the late 1970s. It is the case, for example, that Labour governments and oppositions of the 2000s and 2010s became more hostile to welfare spending (O'Grady, 2022). Much of the shift is due to electoral dilemmas and asymmetric fiscal reputations in democratic politics, whether justified or not (Sloman, 2021). It may reflect policy

[1] Bremer (2023: 6) defines austerity as a 'fiscal consolidation' when the economy is below capacity, and does not distinguish between expenditure and revenue consolidations (i.e. between cutting spending and raising taxes). In practice, however, his analysis focuses on 'austerity polices that would cut government spending and threaten the welfare state' (2023: 228), understandably so given his research puzzle focused on centre-left parties since 2008.

convergence with the right on core policy issues (Hay, 1999; Mudge, 2018), due partly to developments in New Keynesian thought (Bremer, 2023). These developments have unquestionably challenged Labour's traditional support for increased spending, especially on the party's left (Sloman, 2023).

However, the chronological focus of the literature on 'social-democratic austerity' means that contemporary analysis generally regards *any* strategy of economic 'orthodoxy' or fiscal constraint from the left as equivalent or analogous to 2010s 'austerity' (see for example Bremer 2024). Although the anti-austerity literature has argued for policy alternatives by emphasising the agency of social-democratic parties (Bremer 2023), the focus on critiquing the austerity of the 2010s obscures the role of political actors in narrating and redefining key terms such as 'economic credibility' while shaping the nature, speed and purpose of consolidation to suit more progressive ambitions. Indeed, this latter point is reinforced by the observation that the 'austerity' of Conservative(-led) government was as much about 'statecraft' (Gamble 2015) as neoliberal ideology or financialised globalisation. In the late 2000s and early 2010s, the Conservative opposition and the Cameron government were 'proactive and strategic' in defining 'economic prudence' in terms favourable to them (Mabbett, 2016: 204). Recent research on the main institutional innovation of the 2010s austerity era, the Office for Budget Responsibility, has shown that its criteria are politically malleable and that its work is not inevitably favourable to spending restraint or the political right more generally (Clift 2022). Institutions such as the OBR are 'orthodox', but they are not inevitably 'austere' in a 2010-2016 sense.

The other key issue is that many scholars in this literature appear to see borrowing to invest as the main remedy to 'austerity' (e.g. Blyth, 2023). This is a problem in the context of the 2020s. During the 2010s, critics of austerity stressed – correctly – that interest rates in developed economies (particularly outside the Eurozone) were at historic lows, opening up space for more borrowing and investment since 'deficit reduction should be left until a time when interest rates are high' (Wren-Lewis, 2015). Borrowing will remain core to any government strategy and is necessary for capital investment. However, since interest rates and interest rate debt burdens have risen significantly and are likely to remain volatile, a case that argues *simply* for more borrowing is unlikely to win a sympathetic hearing.

Recent trends in the UK macroeconomic policymaking community reflect this growing scepticism about borrowing: the 'Economy 2030 Inquiry' of the Resolution Foundation think-tank argued for primary surpluses (Pittaway and Smith, 2023). Meanwhile, the Marxist economist Chris Dillow has made the 'case for fiscal austerity from the left', insisting that it is necessary to run a tight fiscal policy when the economy is close to full capacity (Dillow, 2024). It is important to recognise the range of levers and 'predistributive' interventions available to Left parties in pursing egalitarian ends beyond more public spending. In addition, arguing for economic constraint should not be the sole preserve of the centre-right, since critics of the Coalition government's austerity were equally concerned with the consequences of *private* indebtedness, stemming in part from the ultra-loose monetary policy of that era (Crouch, 2009; Davis, 2022). If we follow the logic of these criticisms, forms of economic constraint and consolidation – focused on private debt reduction – are vital for a stable political economy.

III. Method and Approach

The benefits of a historical perspective

We contend that historical research has much to contribute to understanding the broader politics of economic constraint.[2] In this paper, we adopt a historical perspective to demonstrate, empirically, that throughout the last century, state-led strategies of economic and fiscal consolidation in the UK have varied considerably in purpose, duration, and form. As Tomlinson (2017: 19) highlights, even the meaning of a term as politically controversial as 'austerity' has shifted dramatically over time. As such, we focus on a broader and more diverse array of consolidatory economic strategies. Our focus encompasses *any form of economic consolidation of public or private consumption and/or investment, pursued by a government for a strategic purpose*.

Policies in this vein can and often do take the form of *fiscal* consolidation – the conventional definition. Yet, consolidation can also be comprised of expenditure changes (spending cuts) *or revenue changes* (tax rises), which could affect the pattern of public and private consumption to varying degrees with highly differentiated redistributive implications. Consider, for example, the difference between increasing VAT on certain goods and equalising rates of capital gains tax with income tax.

Moreover, an economic consolidation could be *non-fiscal*, and can manifest in other policy areas, including monetary policy (interest rates, financial repression, exchange controls) and industrial strategy (tariffs, quotas, rationing, other physical controls). Its timing can also vary: economic consolidation can be protracted and incremental, or short and sharp (Hood and Himaz, 2017). Finally, the ultimate purpose inevitably varies. Strategies of consolidation are often imposed to ensure fiscal sustainability and minimise debt repayment burdens. However, they can serve other strategic purposes, such as post-war reconstruction, transformative industrial strategies and rebuilding public sector capacity.

We adopt this more capacious analytical focus because British political history demonstrates that previous strategies of economic consolidation, including fiscal consolidation, have differed significantly from the Coalition and Conservative approach after 2010. The Coalition government's

[2] For the contribution that British political history can make more generally, see Murphy (2023).

'austerity' strategy – an economic consolidation primarily focused on fiscal policy and particularly on spending cuts, lower capital investment and public sector wage freezes, pursued alongside an ultra-loose monetary policy with regressive effects – is not the only option available to governments and policymakers in hard economic times.

In particular, the existing political economy literature on austerity has neglected key historical examples from the 1940s to the 1970s – an era when politicians were more likely to pursue 'full employment' in demand management, when income inequality was falling, when government owned a larger share of the domestic economy, and when the global economy was more regionalised and controlled by states.[3] The Labour government of Clement Attlee in 1945-51 is a case in point. 'Austerity' was critical to their economic strategy. This government does show that British social democrats and socialists partly embraced economic consolidation for defensive reasons. This government grappled with the challenges of post-war reconstruction and wartime debt. Initially, its 'austerity' meant rationing and physical controls, favoured by Attlee's first chancellor, Hugh Dalton. Attlee's second Chancellor, Stafford Cripps, is associated with introducing Keynesian economic policymaking over Dalton's more interventionist approach. Yet Cripps also adopted harsh, 'hairshirt' budgetary restraint (to the extent of running budget surpluses) and prioritised a tight squeeze on consumption to address the country's acute dollar shortage, an urgent priority until the Marshall plan took effect and the post-war growth spurt began (Tomlinson, 1995; Clarke, 2003).

Nonetheless, the postwar Labour government's programme was not just a story of concession to economic constraints and external shocks. The 1945 administration was consciously 'productivist', focused on expanding the productive capacity of the economy over enhanced consumer purchasing power (Rodrik, 2023).[4] As Tomlinson reminds us, the postwar Labour government constantly exhorted the nation to 'produce more and consume less' and, as such, was a markedly and consciously 'austere' administration (Tomlinson, 2023b).

The Attlee government are not an outlier. Historians have shown that Keynesians and socialists have repeatedly and actively *endorsed* 'austere' policies. In his analysis of 2010s austerity, Liam Stanley identified a powerful narrative of *moral* failure ('overspending') underpinning domestic political support for the Conservative's proposed spending cuts (Stanley, 2022). Yet historically, it was the left and Labour that traditionally posited moral critiques of overconsumption and 'living beyond our means'. Significant elements of the twentieth century British left drew on older, nineteenth century liberal politics, looking suspiciously on state spending as a symptom of 'Old Corruption' and

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[3] As an example, it is revealing that the 'natural history' of austerity in Mark Blyth's influential *Austerity: The History of a Dangerous Idea* skips straight from the 1930s-40s to the 1980s (Blyth, 2015: 205).

[4] When defining 'productivism' as an active, rebalancing, supply-side industrial policy, Rodrik defines it against not only 'neoliberalism' but also the 'postwar welfare state'. However, on this definition, postwar policymaking was in reality deeply productivist in orientation. See Edgerton (2018).

warmongering (sBiagini and Reid, eds., 1991). Stoking consumption and debt while failing to 'pay our way as a nation' through deregulating controls, loosening monetary policy, and cutting taxes were policies associated with 1950s-60s Conservative governments rather than Labour (Black, 2004). As Martin Daunton (2002) attests, taxation policies in the 1940s and 1960s were adopted to encourage productivist investment – in tune with the 'growthism' of that period's politics (Tomlinson, 2023a) – which led Labour governments to constrain as well as encourage demand. This social-democratic moral economy and productivist-Keynesian intellectual framework was crucial for postwar policymaking. Without it, defining fiscal policies of the era – notably Harold Wilson's selective tax on employment advocated by his Keynesian advisor, Nicholas Kaldor – make little sense (O'Hara, 2006).

It is relatively unusual, however, for political scientists and political economists to refer to this history – to say nothing of contemporary policymakers. While scholars have a developed understanding of the politics of macroeconomic consolidation in the 2010s, their grasp of what a *social-democratic* politics of macroeconomic prudence looked like in the past – and may look like in future – remains partial and inadequate. There is an urgent need for scholars to reacquaint themselves with previous forms of 'social-democratic consolidation' if they are to interpret policy dilemmas and opportunities in the 2020s.

Case study selection

This paper will introduce two historical case studies of economic constraint from the Keynesian tradition and the Left to illustrate in empirical detail three broader points:

- Firstly, that policies of economic consolidation (fiscal or otherwise) have long been a feature of social-democratic politics and policymaking in the UK.
- Secondly, that the turn towards 'prudential' macroeconomics reflects conjunctural constraints that are both economic and political; the latter, moreover, are shaped by the enduring appeal of a moral economy that puts the emphasis on Britain 'paying its way' in the world.
- Thirdly, that while the politics of fiscal sustainability and monetary stability imply notable *constraints*, they are a *resource* for building electoral and political coalitions while acquiring governing autonomy to enact flagship progressive policies.

The first case study concerns the work of the Cambridge Economic Policy Group (CEPG), and especially Wynne Godley, Francis Cripps, and Nicholas Kaldor, between 1972 and 1976. These economists were leading Keynesians, central to the public politics of British macroeconomics in the 1970s. As advisors to Labour politicians, they were partisan participants in the debates within the troubled Labour governments of 1974-9, especially during the 1976 IMF Crisis.

The second case study examines New Labour's decision in 2001-2 to raise National Insurance (NI) contributions and freeze personal tax allowances to increase funding for the National Health Service (NHS). We argue the NI rise was a targeted form of economic and fiscal consolidation (in a context of overall growth) since it raised tax revenues to address historic under-investment in public services. The Blair and Brown governments elaborated a rationale for investment supported by the work of think-tanks, further assisted by a Treasury-sponsored review which gathered evidence to articulate a persuasive case for the shift in fiscal policy.

The case studies have been chosen through the methods of both agreement and disagreement (see Skocpol, 1979: 36-8). By and large, the method of agreement is used: these case studies share key (if divergent) similarities with the politics of today, which makes it possible for contemporary policymakers to draw conclusions from them.

The first case study has been selected since these actors were most active during a period of economic turmoil: high inflation, stuttering economic growth, industrial dislocation, energy crises, geopolitical uncertainty, alongside a potential paradigm shift (Ferguson et al., 2011). The economists developed a Keynesian version of austerity in direct response to a period of Conservative fiscal and monetary incontinence. The parallels with today are striking.

The second case study reflects a persistent concern of contemporary politics, namely how governments should respond to the perceived crisis of under-funding in public services given resistance to higher taxes among voters in Anglosphere economies. Politicians and policymakers in the 2000s devised a rationale to respond to voter's preferences for higher public spending by constraining the rise in real disposable incomes. The increase in NI appealed to an alternative moral economy that emphasised improvements in public services, even if that necessitated reduced growth in personal consumption, a marked reversal of the stance of the Thatcher governments in the 1980s.

However, the first case study has crucial differences with the second. In the first, the key actors were associated with a radical Keynesian critique of mainstream postwar economic policymaking in the 1950s and 1960s, and politically with the rising Bennite Left within the Labour Party. This point is important: it demonstrates that the politics of macroeconomic prudence was not simply a 'right-wing', 'centrist', or 'neoliberal' phenomenon alone.

The second difference is that the CEPG failed in winning broader approval for their policies. In contrast, the think-tanks and Labour politicians who favoured more 'tax and spend' policies, at least in part, succeeded. Those think-tanks acted as a praetorian guard, creating space within the dominant political and public policy discourse for Ministers to take the relatively bold decision to increase taxes. This difference will be discernible in the characterisation of our case studies, with the focus of the latter tilted more to government, and less to think tanks, than the former. A proper explanation for that divergence is not readily discernible, not least because of the incomplete declassification of the

New Labour-era papers at the National Archives. Nonetheless, a comparison between the cases will reveal the pitfalls involved in navigating the politics of prudence from a social-democratic perspective.

IV. Case Study 1: The Cambridge Economic Policy Group (c.1973-1983)

The Cambridge Economic Policy Group (CEPG) was among the most significant voices for Keynesian radicalism in public debate and government policymaking in 1970s Britain. In the UK, its leaders were as prominent as the American monetarist, Milton Friedman (Maloney, 2012). Emerging in 1973 the CEPG was an academic outfit led by economics professor and former Treasury mandarin Wynne Godley, and the bright young economist Francis Cripps (grandson of Sir Stafford). Through their activity, these academics became leading players in a vibrant print culture of British macroeconomic politics, in an age when broadsheet newspapers would regularly debate economic theory while economics journalists wrote key speeches for prime ministers. Their interventions ended up contributing to the 'Alternative Economic Strategy' of the 1970s and 1980s Labour Left, particularly through Cripps's position as a leading advisor to the Labour politician Tony Benn (Thompson, 1996: 213-4; Murphy, 2023: chap. 1).

Not surprisingly, the CEPG is rarely discussed today. Conventional historical narratives date the 'collapse' of Keynesianism (and, sometimes, the rise of 'Thatcherism' or 'neoliberalism') to this period, implying that Keynesian policymakers of that period were intellectually stagnant and politically ineffectual.[5] However, as John Maloney has suggested, CEPG's theories were taken seriously by the British establishment, including the Treasury itself, as it grappled with the turmoil of the period (Maloney, 2012). They were also attractive to politicians and policy advisors, not all of them on the left. Even committed opponents of their ideas, like the monetarist journalist Peter Jay, argued that the models of the 'illustrious' Wynne Godley should be 'taken most seriously' (Jay, 1975). It was not for nothing that, by 1979, there was speculation that Godley might be the 'new Keynes' (Jenkins, 1979).

Radical Keynesian Austerity

It is even less well remembered that the CEPG initially built their high public reputation by *arguing for austerity*. In the early 1970s they demanded a sharp consolidation in response to what they perceived to be the dangerously loose fiscal and monetary policy of Ted Heath's Conservative government.

Initially, they responded to the ill-fated 'dash for growth' declared by Heath's Chancellor, Anthony Barber, in a highly reflationary Budget in 1972 which badly overheated the economy. In January

[5] See for example Vinen (2009: 114-6) and Mudge (2018: 337-9). For critical discussion of this narrative, see Sutcliffe-Braithwaite et al. (2021).

1973, Godley and Cripps attacked Barber's policies in the *Times*. They predicted that Barber's attempt to reach five per cent growth through reflation would, in short order, lead to a rapid influx of imported consumer goods, and thus an unprecedented £1bn deficit in the current account of the balance of payments (Godley and Cripps, 1973: 17).

This was an explosive prediction. Its true significance may not be immediately apparent, as the balance of payments holds less symbolic significance than it once did (Clift and Tomlinson, 2007). It is worth noting too that Godley and Cripps were then developing a contentious and heterodox brand of Keynesian macroeconomic modelling, which made the balance of payments unusually critical in the determination of full employment (See Kenway, 1994: chap. 6). But as many influential economics analysts of the time noted, one did not have to share their unusual theoretical and modelling views to see the portentous significance of their prediction – which soon proved accurate.

Importantly, a balance-of-payments crisis and its close sibling – a collapsing currency – had been the joker in the pack for UK economic policy since the 1940s, wrecking the strategies of successive governments. Economic policymakers grappled with several interconnected issues: the overhang of wartime debts to the US and the sterling 'balances' (i.e. debts) to its former colonies; the protracted decline of sterling's role as a global reserve currency (Schenk, 2010); and an engorged manufacturing sector that, by the mid-1960s, was relatively uncompetitive in key areas. In combination, this put the UK in a persistently vulnerable position in the Bretton Woods system of managed exchange rates: its trade balance was worsening, it was unusually exposed to currency speculation, and it had inadequate foreign exchange reserves as protection. This was the crucial context to the multiple currency crises in the postwar period, including those of 1949 and 1967. Overlaying these short-term constraints was the powerful moral impulse to correct the balance of payments deficit. In postwar political culture, a balance of payments current account deficit implied that Britain was not 'paying its way in the world', consuming more than it was producing (see Tomlinson, 2017: chap 9).

In theory, the possibility of a currency peg crisis, as occurred in 1949 and 1967, vanished after the collapse of the Bretton Woods system. As it now floated, sterling should adjust to a balance of trade deficit by declining in relative value, leading to increased competitiveness for British exports and a return to trade balance. Some Keynesians and Labour politicians at the time made this argument (e.g. Gould et al., 1979). However, in the 1970s they were intellectually on the backfoot. In Keynesian circles, devaluation was undermined as a strategy since it failed to solve the medium-term balance of payments problem after 1967. Moreover, the early 1970s *also* featured the global OPEC oil crisis, and a spike in industrial conflict, symbolised by the 1973-4 miners' strike, both of which contributed to sharply increasing inflation. In an inflationary economy, a plummeting pound (with its inflationary effects on imports) was not an attractive option (Schenk, 2010: 419). For these reasons, Kaldor, Godley and Cripps rejected devaluation as a solution in the early 1970s. This rejection was given added significance given that all three had, in different ways, been involved in arguing for or implementing Wilson's 1967 devaluation as advisors or civil servants. By 1979, CEPG declared that devaluation had been 'discredited as a remedy' to the balance of payments trap (CEPG, 1979: 4).

Crucially, this had implications for government spending plans. As all postwar policymakers knew, a Keynesian fiscal stimulus would boost investment, growth and employment – but it would also increase consumption, and thus imports. A government facing a balance of payments current account deficit and a corresponding currency run would, therefore, be forced to deliberately constrain consumption to return to balance.

In combination, these arguments meant that, for much of its existence, the radical Keynesians at the CEPG advocated imposing austerity. As the Barber Boom spectacularly unravelled, long-term Labour advisor Nicholas Kaldor set the tone, using Godley and Cripps' *Times* prediction of a large balance of payments deficit to write a bleak public letter to the *Guardian*, January 1973. He called in blunt terms for £1bn of public spending cuts or tax increases:

> no amount of devaluation is capable of restoring equilibrium in the balance of payments so long as the public sector remains as unbalanced as it is at present … *This requires increasing taxation or reducing expenditure by 'at least' £1,000m. This will undoubtedly increase unemployment until export-led growth reduces it again …* Nothing could be more inimical to the national interest at the present time than an air of phoney and superficial optimism designed to conceal the need for harsh and unpleasant decisions (our emphasis) (Kaldor, 1973: 14).

Godley was equally austere in his pronouncements. Indeed, financial journalists interpreted the early interventions of Godley as calls for austerity. During a 1975 Select Committee investigation into public expenditure, Godley dramatically identified a 'missing £5bn' in the Treasury accounts as an expert witness and declared public expenditure to be 'out of control', which subsequently became a political symbol of government overspending. It underpinned Godley's prominent call for monetary cash limits on public spending and further contributed to his growing celebrity as the 'don on the trail of Britain's missing billions'. (Davie, 1975; Keegan, 1975)

As such, on the eve of the pivotal 1976 IMF crisis, CEPG's regular report stressed in one passage their prudential credentials: 'Ever since the CEPG has been in existence, we have consistently emphatically, and publicly opposed the kind of fiscal laxity which … generated consumption-led expansions', which had driven the 'progressive structural distortion of the economy' (CEPG, 1976: 2).

CEPG and the IMF Crisis

It is in this context that we can best understand what CEPG are most renowned (and notorious) for proposing: widespread and immediate protectionism on manufactured imports. This was CEPG's strategy to escape the balance of payments constraint and fiscally expand to reach full employment. CEPG argued consistently for import controls from 1973 until the mid-1980s, in order to protect a macroeconomic reflation. This was, no doubt, a polarising and unpopular proposal. Yet, given the perceived severity of macroeconomic disorder in the 1970s, it was taken seriously. Their strategy was closest to power during the 1976 IMF Crisis, as they were advocated by Cripps's political patron, Tony Benn, and others like Peter Shore (for accounts of this crisis, see Burk and Cairncross, 1992; Hickson, 2005; Harmon, 1997). The famous Cabinet debates at the height of the crisis revolved around debates for and against protectionism, with the circulated Cabinet papers drawing directly on the ideas of Cripps to prepare the 'for' case.[6] The Treasury also prepared emergency import controls to be imposed at six weeks' notice, should the decision have been taken.[7]

As is well known, Chancellor Denis Healey's case won the day and the Labour government borrowed from the IMF, avoided general import controls (selective controls were another story), and imposed steep spending cuts to stem the currency run. Yet, despite its later mythologization as 'cuts' versus an 'alternative', the debate did not really pivot over the necessity or otherwise of austerity. All sides accepted its inevitability in the short term. As we have seen, the main proponents of import controls, Godley, Cripps and Kaldor, had been willing in 1973 to accept a fiscal squeeze, even below full employment. Accordingly, during the 1976 crisis, they conceded publicly that the protectionist alternative implied an 'appropriately severe fiscal and monetary policy' (Godley, 1976) to avoid borrowing from the IMF while waiting for protected industries to expand. Some CEPG figures argued that, if Healey adopted import controls, he could rely on taxes rather than spending cuts (Neild, 1976). Yet here, the argument was over the form and extent of fiscal consolidation, not its necessity. After their political defeat, CEPG called for a stimulus to address the social consequences of Healey's cuts. They were even more critical of Thatcher's policymaking and alarmed at the steep rise in unemployment in the early 1980s. Even so, they continued to assert the need to rebalance fiscal deficits over the medium (five year) term (CEPG, 1977: 1, 5; CEPG, 1981: 3-4).

[6] Kew, National Archives, Cabinet Papers (hereafter: CAB) 184/272, John Hunt to Kenneth Berrill, 15 October 1976; CAB 184/272, John Hunt to Tony Benn, 27 September 1976; Tony Benn, *Against the Tide: Diaries 1973-6*, ed. Ruth Winstone (London, 1989), 617 [3 October 1976]. For the papers, see CAB 129/193/6, CPRS, 'The Case for and against Import Controls', 30 November 1976.
[7] Kew, National Archives, Treasury Papers (hereafter: T) 390/744, Department of Trade, 'Direct Action to Improve the Balance of Payments', 11 September 1975; Kew, National Archives, Department of Trade: General Division: Registered Files (hereafter: PJ) 2/1.

Implications

The CEPG arguments demonstrate four essential points. Firstly, that particular forms of fiscal consolidation and economic constraint could be firmly endorsed by the consciously socialist left,[8] especially during a period of macroeconomic instability and perceived dysfunction. Secondly, left-wing austerity arguments in the 1970s were the result both of economic constraints in the short-to-medium term (in this case, the UK's vulnerable balance of payments during a moment of global monetary transition), and a powerful moral economy for the need of the UK to 'pay its way' in the world. Thirdly, restrictive fiscal, monetary, and physical control policies could be proposed by the left in service of a higher purpose – in their case, protecting a transformative industrial strategy, mitigating deindustrialisation, and maintaining full employment.

Finally, however, CEPG's experience demonstrates that political actors attempting to build the political coalition behind social-democratic prudence need to be agile, clear-eyed, and politically savvy. There is a good reason why scholars have not stressed the austere implications of the Bennite alternative strategy: many of its political supporters – including Tony Benn himself – were reluctant to publicly admit their existence. The very language of the 'alternative economic strategy' implied an alternative to the pain of the cuts, when the reality was that the CEPG's strategy was in its own way bracingly austere. This undermined its political credibility in decision-making centres at the heart of the British state. According to contemporary accounts, Healey even read out Godley's letters to the *Times* during the pivotal Cabinet debates in 1976, undermining Benn by pointing out that import controls would involve a fiscal squeeze (Hattersley, 2003: 174).

The other forms of austerity implied by the full-blooded protectionist strategy – especially restricted consumer choice and effective rationing of manufactured goods – were also damaging to its political prospects. This was grasped by the prime minister himself, as demonstrated in private correspondence between Benn and Callaghan in August 1976, after Benn sent Callaghan a paper by Cripps on the alternative strategy. As Cripps outlined the strategy's necessary corollaries – budgetary deflation, credit controls and rationing – Callaghan tartly annotated that this was 'hardly an Election winner!' In reply to Benn, he dismissed the strategy as an 'electoral albatross'.[9] Thus, any social-democratic politics of prudence should judiciously consider the political plausibility of its policies in their context and adjust them accordingly.[10]

[8] Cripps was a committed socialist. Godley was not. Their ideas were, however, firmly endorsed by much of the Labour left in the 1970s. See Murphy (2023: chap 1).
[9] Kew, National Archives, Prime Minister's Papers (hereafter: PREM) 16/1007, Benn to Callaghan, 5 August 1976; Francis Cripps, 'Strategy – Borrowing v. Protection' (August 1976); Callaghan to Benn, 24 August 1976.
[10] A similar point can be made about the *geopolitical* plausibility of any social-democratic politics of prudence. We do not have space to develop the point here, but it should suffice to say that imposing import controls on West German cars and Italian suits just as the UK entered the EEC and confirmed membership via nationwide

V. Case Study 2: New Labour's rise in NI to pay for the National Health Service in 2001-2

The second case-study examines the Labour Government's decision to raise National Insurance (NI) contributions while freezing personal tax allowances in 2001-2. The NI rise was a form of economic and fiscal consolidation quite different to the post-2010 coalition government since it increased tax revenues to address long-term under-investment in public services. The shift in fiscal policy occurred despite New Labour's commitment at the 1997 and 2001 elections to govern as a low tax party. The veteran *Times* economics commentator Anatole Kaletsky (2002) called the decision to raise NI, 'the boldest and clearest reassertion of social democracy to be heard since the 1970s'. The increase raised the tax burden on the working age population to enable higher spending on public services.

The decision indicates that New Labour had its own version of 'economic prudence' focused not on eliminating public debt and deficits, but on limiting the growth of personal consumption to support increased public spending. The NI rise amounted to a form of economic constraint that appealed to an alternative moral economy, which prioritised the public realm over acquisitiveness and individualism. This approach inverted J.K. Galbraith's axiom that industrialised market economies favoured 'private affluence' over 'public squalor'. The rise in NI was an explicit case of economic consolidation through tax rises (rather than expenditure cuts) to achieve quintessential social democratic ends.

While rhetorically New Labour rejected 'tax and spend' – which it claimed was part of the failed legacy of 'Old' Labour culpable for the party's past defeats – public spending and the tax burden rose during the Blair and Brown years. Moreover, the increase in spending on the NHS after 2000 was the largest since the Second World War. It meant that the UK matched levels of health spending usually observed in Germany and the Nordic states. Although the literature on the New Labour governments focused on the influence of Thatcherism emphasising ideological continuity with previous administrations (e.g. Heffernan, 1998; Hay, 1996; Shaw, 2007), the Blair/Brown Government's stance on taxation and public spending was more nuanced. Indeed, there were vigorous debates about the strategy among leading figures, as their personal memoirs reveal (Blair, 2010; Mandelson, 2010; Brown, 2017). The paradox of New Labour is that while politicians disparaged the politics of 'tax and spend' as an electoral liability (Mandelson and Liddle, 1996; Gould, 2010), the post-1997 administrations were committed to a 'tax and spend' agenda.

Prudence for a Purpose

New Labour is a case study of the social-democratic politics of 'prudence'. Its approach aimed to create room for manoeuvre on fiscal policy, increasing public spending without alienating 'median

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referendum, and on American and Japanese manufactures at the height of the Cold War, posed severe and probably insurmountable geopolitical problems. So did arguing for the UK to have special dispensation for import controls when all western countries grappled with oil trade deficits after 1973, and as North Sea oil began to come onstream.

voters' by destroying the party's reputation for economic stewardship. A significant move was the adoption of fiscal rules by Brown, advocated by his economic adviser, Ed Balls. The first fiscal rule was known as the 'golden rule': it stated that over the economic cycle, the Government would only borrow to invest rather than to fund current expenditure (Balls & O'Donnell, 2002). A second 'sustainable investment' rule committed the Treasury to keep public debt at a 'sustainable and prudent' level: 40% of GDP (Tomlinson 2017: 111-12). The fiscal rules combined with a lasting institutional innovation in British monetary policy: operational independence for the Bank of England, enacted immediately after the 1997 election (Balls & O'Donnell 2002).

The fiscal rules sought to establish 'credibility' with markets, enabling Labour to increase public spending while avoiding the difficulties of economic management encountered by previous administrations (Clift and Tomlinson 2006; Balls 2016). As Clift and Tomlinson (2006) highlight, New Labour sought to build confidence among market actors, creating space to pursue social democratic policies. The aim was to achieve sustainably higher spending and investment in core public services. This doctrine of constrained discretion embodied in fiscal rules was deployed to enhance Labour's governing autonomy, since it enabled fiscal activism rather than undermining a traditional social democratic agenda. As such, the narratives and tools of prudence are as much a resource for politically astute actors as they are a binding obstacle to policy action.

Of course, it is important to appreciate that New Labour's 'golden rule' was forged in more benign macroeconomic circumstances – characterised by low inflation and sustained economic growth – which facilitated both spending and government borrowing. That approach is less obviously applicable in a more challenging environment following recent geo-political shocks, Brexit and the legacy of economic policy in the 2010s. As such, it is necessary to examine the full range of strategies by which the 1997-2010 governments created fiscal space for public and social investment, reshaping the politics of prudence.

The problem of tax

The centrepiece of Labour's strategy in the run up to 1997 election was its claim to be a party of low taxes contrasting with the party's position for the period following the Second World War. Paul Keating, the former Prime Minister of Australia, told the Labour leader that raising taxes was tantamount to electoral suicide (Blair, 2010). Many believed the party had lost the 1992 election because of its commitment to raise the threshold on NI contributions and increase the top rate of income tax from 40 to 50 per cent (Gould, 2010). The planned tax rises were deemed necessary to fund an increase in child benefit while restoring the link between the state pension and earnings. Yet, the claim that Labour lost in 1992 as a consequence of its tax policies was always suspect. In *Labour's Last Chance* (1994), John Curtice and colleagues insisted that Labour's reputation for economic mismanagement was to blame for the defeat (many voters apparently had painful memories of the 1978-79 Winter of Discontent) rather than fears of rising taxes. Even so, the Conservatives devised an effective campaign focused on Labour's 'hidden tax bombshell', despite the fact the UK tax burden had actually risen during the Thatcher era.

The presumption in the 1980s was that UK voters exhibited resistance to higher taxes and were increasingly persuaded by New Right arguments about state inefficiency and bloated public sector bureaucracy (Shaw, 2007). In truth, taxation had been a growing problem for both Labour and Conservative governments throughout the post-war decades as acquiescence to austerity and constrained personal consumption in the immediate aftermath of the Second World War succumbed to frustration amidst a growing desire for materialism (Clarke, 2003). Conservative governments in the 1950s sought to engineer a political economy that replaced post-war austerity in favour of rising personal affluence through income tax cuts (Tomlinson, 2017). The rise of the so-called 'affluent voter' meant that the Conservatives dominated the politics of that decade. Roy Jenkins' tax-raising budget in 1969 was blamed for ensuring that the Wilson Government was defeated within six years (Pimlott 1992). The 1970s confirmed Labour's reputation – however unfairly – as the high tax party. Yet taxes were raised not to pursue the 'politics of envy' but to constrain personal consumption amidst soaring inflation and persistent crises over the UK balance of payments.

Hodgkin (2023) contends that British politicians exaggerated the extent to which popular attitudes to taxation imposed constraints on fiscal policy. Attitudes have not shifted that dramatically since the Second World War: it is striking that from 1983 to 2021, the proportion of voters that favoured cutting taxes never rose above 10% (Hodgkin 2023). The attitudinal data confirmed that by the mid-1990s, the central issue of concern was under-funding of public services. The evidence is that perceptions of a crisis of underfunding led to rising support for higher taxes (Hodgkin 2023).[11] The shift was scarcely surprising given growing concern among voters about rising NHS waiting lists and the deteriorating condition of British healthcare. Moreover, as Britain become materially richer (as well as more unequal), the willingness to pay taxes appeared to increase. In an affluent but ageing society, better-off voters have more discretionary income to spend on services, including public provision such healthcare and education: demand for public goods rises (Offer 2006).

[11] Prior to the 1997 election, there was a lively debate within the Opposition Treasury team about whether to reintroduce a 50% higher tax rate on those earning more than £100,000 per annum in the face of pressure from the trade unions and backbench Labour MPs such as Ken Livingstone and Tony Banks. According to the Guardian's Political Editor, Patrick Wintour, 'As late as 1995, [Brown's] private thinking was still open to a top rate of income tax of 50p for people earning £100,000, largely to fund a lower rate 10p for the poorest taxpayers'. Brown believed that Labour's willingness to increase taxes was also important in strengthening fiscal credibility. Yet he eventually acceded to Tony Blair's view that a new top tax rate, 'would have damaging symbolic consequences' (Wintour, 1997).

Moreover, Brown's commitment to a 'New Keynesian' paradigm in economic policy brought a 'market failure' perspective to the debate. The Chancellor's argument was that there were inherent 'limits to markets': left to their own devices, markets under-provide public goods such as health and education. Health insurance was not a solution to healthcare provision given uncertainty about future risks and costs, legitimising public intervention (Brown 2003: 277). As such, the NHS would not be run according to market principles with consumers paying for healthcare. Brown insisted that structural reforms such as payment by results, contestability between providers, and expanding use of the private sector would make the NHS more responsive to patients, strengthening support for the NI increase. The Government's strategy tapped into the qualitative shift in public attitudes, appealing to voter's preferences by emphasising that it was possible to increase both private and public consumption: modest tax rises combined with economic growth in a low inflation environment could deliver rising real disposable incomes *alongside* desired improvements in the public realm. Nonetheless, the effect of that fiscal policy was to ensure real incomes grew more slowly, limiting the relative growth of consumption.

At the 1997 election, Labour ruled out any increase in the basic or higher rate of income tax, retaining the spending limits set by the former Conservative Chancellor, Kenneth Clarke (Shaw, 2007). Early on in its period of office, New Labour cut NI contributions for lower earners while introducing a new 10p starting rate of tax. Nevertheless, by the 2001 election, the tax burden had risen from 35.4 to 36.7 per cent. The strategic conundrum Blair and Brown confronted was that the NHS was failing to improve: waiting lists were rising while the quality of clinical provision was declining. The UK was lagging behind its competitors and there had been a succession of NHS winter crises. In the midst of the 2001 election, Blair was confronted by an angry voter outside a Birmingham hospital whose partner waited months for life-saving treatment (Blair, 2010). The political terrain was shifting. Labour Ministers sought to identify a credible rationale to raise taxes despite the commitment not to increase the basic or higher rate. According to Andrew Rawnsley, writing in *The Observer* newspaper, Ministers insisted:

> Taxes will rise not out of compulsion, not because they've dashed the economy on the rocks. Taxes rise in the conviction that this will produce the radical improvements to public goods that Labour has long promised but not yet delivered. Messrs Blair and Brown for too long pandered to the Great Lie of British politics that we could enjoy ever-better public services and ever-lower levels of tax. Now they confront themselves and the country with the truth that serious spending requires serious tax, even if they still prefer to call it money for modernisation (Rawnsley, 2002).

Labour politicians calculated that voters would accept higher taxes that improved the quality of public services, appealing to the material preferences of more personally prosperous voters while embracing the politics of economic constraint. Whereas in the post-war decades, taxes rose to deal with the egregious consequences of economic failure, now tax increases were portrayed as a necessary investment in a modernised economy and a cohesive society.

Policy development

The policy process that lay behind the Labour Government's decision to raise NI is worth recounting. The decision emerged as the result of a series of strategic initiatives, involving both civil servants and think tank researchers. The origins of the process were that in the early 1990s, Labour's then leader, John Smith, asked the IPPR to lead a Social Justice Commission (SJC) assembling a new rationale for centre-left governance on economic and social policy. The Commission was chaired by Sir Gordon Borrie with David Miliband (Blair's future Head of Policy) as Secretary. The SJC did not make specific recommendations on NHS funding, yet its reports set the tone for New Labour's early period in government, challenging traditional arguments for 'tax and spend' social democracy (Gould, 2010). The Commission argued that an incoming administration should pivot to a 'social investment' strategy focused on education, training and welfare to work, enabling individuals to escape the cycle of relative deprivation. Moreover, the Commission averred that improvements in public services was as much about the efficacy of spending: New Labour would be 'wise spenders not big spenders' (Labour party 1997). The thrust of the SJC's report reinforced the message that New Labour was no longer ideologically wedded to higher taxes and increased spending.

Nonetheless, in government Ministers became aware of the practical long-term impact of under-funding. A vigorous debate ensued about whether tax resistance was a genuine constraint on fiscal policy (Shaw, 2007). Much of the thinking was crystallised in another report entitled *Paying for Progress: The New Politics of Tax and Spend,* published by the Fabian Society in 2000. The report was authored by its then General Secretary, Michael Jacobs. The Commission was chaired by a University of Southampton academic, Lord Professor Raymond Plant. The argument was that greater 'hypothecation' of taxes, establishing a connection between the taxes that citizens pay and the services they receive, would permit tax rises without sacrificing electoral support. The Commission recommended more transparent auditing of government performance to ensure the public had confidence that they were receiving value for money.

That same year, the Treasury launched an independent review by Derek Wanless, the former Chief Executive of *NatWest*, to examine the future funding requirements of the NHS. This model of outsourcing major decisions to independent experts was favoured by Gordon Brown (Balls, 2016). 'Celebrity reviews' enabled Ministers to navigate their way through contentious policy decisions. In an interview on the BBC *Frost Programme* in January 2000, Blair had already committed his government to raising spending on health to at least the European average (then around 7% of GDP). The Wanless Review reported in April 2002. It was an evidence-based analysis supported by Treasury civil servants which used up to date forecasting to estimate future cost pressures. The review concluded that to deal with rising costs and higher expectations, NHS spending (and by implication, taxes) would need to rise as a share of national income. Finally, during the 2001 election, the IPPR published a report on the future of public services and the NHS entitled *Building Better Partnerships*. The research argued that major healthcare reform and a shift towards a mixed economy of provision was required, accompanied by additional funding.

As such, the decision on NI and personal allowances in the 2002 Budget did not come out of the blue. The ground had been laid through preparatory work and policy development undertaken by the ecosystem of centre-left think-tanks and policy entrepreneurs external to the Labour Government. They staked out new political territory on taxation, testing arguments and sifting evidence, giving politicians confidence that radical policies would not necessarily be electorally ruinous. Actors in think-tanks relied heavily on their links to Ministers and advisers, while supplying ideas on taxation and public spending that provided an alternative perspective to the traditional 'Treasury view'.[12]

The 2002 Budget

Labour's decision to increase NI contributions and freeze personal allowances was formally announced in the 2002 Budget. The decision coincided with a hectic phase of NHS reform. Having decided to dismantle the NHS internal market and GP fund-holding, four years later New Labour was constructing a 'quasi-market' regime within the NHS based on choice and competition (Riddell, 2006). The relationship between 'reform' and tax rises was significant: Blair believed that voters would tolerate higher NI contributions if they could access a 'responsive' NHS shaped around consumer preferences. Publicly regulated markets in healthcare were intended to increase the efficiency and productivity of spending (Le Grand, 2006). The rationing of the Thatcher years ended and capacity expanded, where necessary drawing on the private sector. New Labour embraced 'narratives of consumerism' with an emphasis on choice (Needham, 2006). Spending on health duly rose in Labour's second term to around 7% of GDP.

In the aftermath of the NI rise, the Treasury's view was that the outer limit had been reached on taxation (Balls, 2016). In the run up to the 2005 election, Brown ruled out further tax rises, insisting that public spending increases could be funded through borrowing if the trend rate of economic growth did not improve. By the mid-2000s, the UK had among the lowest levels of borrowing in the industrialised economies (Bennett 2003). The strategy nonetheless stored up problems for Brown's Government. Conservative accusations that he was a 'spend and borrow' social democrat appeared

[12] It is striking that Michael Jacobs, who authored the Fabian *Paying for Progress* report in 2000, was subsequently appointed as a Special Adviser in the Treasury after the 2001 election.

more credible in the aftermath of the 2008 financial crisis. The public sector deficit and debt duly soared: it was claimed (albeit incorrectly) that Brown failed to fix the roof while the sun was shining.

What undermined New Labour's reputation for fiscal prudence was the decision to cut corporate taxes while ruling out further rises in personal taxation. The Blair and Brown governments sought to create a 'business-friendly' environment to attract inward investment and increase the size of the financial sector in an era of hyper-globalisation: corporate tax rates were reduced while there was a more lenient approach to the regulation of tax havens and legal tax avoidance schemes, aiding the very wealthy (Shaw, 2007: 55-56). Yet subsequent shocks, not least the 2008 financial crisis, gravely undermined Labour's reputation for economic competence and fiscal probity. During Labour's second term, tax revenues from the financial sector began to decline while corporation tax rates were cut at the point where spending was beginning to rise sharply, threatening the sustainability of the public finances. The moral economy of constraining 'private affluence' to tackle 'public squalor' that momentarily shaped New Labour's approach in the early 2000s was too quickly abandoned.

While the UK Government's level of debt was low by international standards, the Blair/Brown administrations did little to address the UK's structural deficit (Tomlinson 2017: 112-13). Some economists accused those governments of complacency, believing that the cycle of boom and bust had been eradicated from the British economy while failing to prepare adequately for the recession that inevitably followed. Either way, by the 2010 election, Labour's strategy was under pressure. Brown's administration had been compelled to raise taxes while cutting public spending after 2008 as the economic firestorm took hold. Public sector capital investment was reduced sharply. The Conservatives could claim Labour's policies led to greater economic inefficiency, raising taxes, and greater inequity, namely severe public spending cuts that hit those on lowest incomes.

VI. Conclusion

Taken as a whole, our case studies demonstrate that macroeconomic constraint – fiscal, monetary, or physical – is not inevitably hostile to the goals of social democracy. In other words, constraint does not necessarily have to be pursued as part of a wider project to shrink the state. Indeed, economic constraint can strengthen state and public sector capacity while reducing inequality. Conceptions of, and arguments for, economic consolidation, 'prudence' and 'austerity' are more historically disparate than is usually acknowledged in the academic literature. Throughout post-war history, there have been powerful *social-democratic* arguments for economic prudence steeped in moral narratives that – at particular moments – many voters and market actors found convincing, not least because they emphasise the importance of protecting the public realm.

As such, 'economic constraint' is a flexible concept that can be redefined by agile political actors to support a social democratic agenda, whether it is 'austere' postwar reconstruction (1940s), 'saving the

NHS' (the 2000s), or the green transition, 'productivism' (Rodrik, 2023; Dibb, 2023), reduced inequality in the regions, job quality, and asset ownership, alongside the rescue of public services (the 2020s).

The implications of placing macroeconomic 'prudence' and 'austerity' in a long-term historical context are significant – and will become even more so if sustained economic growth fails to return (Tomlinson, 2023a). They illuminate how politicians can provide 'fuller' and 'more open' explanations for their economic vision to voters (Killick, 2023: 136). More specifically, they demonstrate that the centre-left can deploy languages of 'economic prudence' to justify policies that may otherwise be unpopular, while emphasising an array of strategies to promote egalitarian ends other than higher public spending. Social democratic arguments for prudence in the 2020s could build the case for policies that not only mitigate the tension between fiscal demands and fiscal credibility, but enable a centre-left government to reverse the long-term growth of inequality and fragmentation of state capacity while confronting the climate emergency.

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