From Broke To Brexit

Britain's Lost Decade

Michael Burton

palgrave macmillan

From Broke To Brexit

Michael Burton

From Broke To Brexit

Britain's Lost Decade

palgrave
macmillan

Michael Burton
London, UK

ISBN 978-3-030-81888-3 ISBN 978-3-030-81889-0 (eBook)
https://doi.org/10.1007/978-3-030-81889-0

Cover credit: Peter Dazeley/Getty Images

This Palgrave Macmillan imprint is published by the registered company Springer Nature Switzerland AG
The registered company address is: Gewerbestrasse 11, 6330 Cham, Switzerland

Preface

This is an account of one of the most extraordinary decades in modern British political history, the first of the 21stC, a period bookended at the start by the aftermath of the worst recession since the 1930s and concluding with the departure of the United Kingdom from the European Union after almost half a century of membership. The permanent loss of economic growth from the recession and the accompanying decline in living standards led the years being dubbed by some economists as 'the lost decade.'

It is no coincidence that the two events, recession and Brexit, are linked for the one in essence led to the other. The 2008/9 fiscal crisis or Great Recession as it became termed, resulted in big cuts in public spending, stagnant wages for the lower paid, permanently lost economic growth and anger at the political and business establishment. The introduction of 'quantitative easing' to flush money through the financial system along with record low interest rates benefited those wealthier owners of capital and assets, exacerbating inequalities. Resentment among those whose standard of living flatlined found expression in xenophobia, fuelled by global events such as Islamic terrorism, the eurozone crisis, the Syrian civil war, mass immigration from eastern Europe into the UK, and the refugee crisis, much of it fanned by a mushrooming social media, which in turn provided oxygen for a resurgent Eurosceptic and populist far right. Into this toxic mix was injected the longstanding feud over Europe within the ruling Conservative Party which led its leader, Prime Minister David

Cameron, to attempt to head off the mounting threat from the right and his own Eurosceptic wing by agreeing to hold an in-out referendum on EU membership. Offered the opportunity to register its discontent against the established political classes, and following years of either indifferent or negative media coverage of the EU, the British electorate duly delivered its verdict by voting to leave, ignoring warnings of the economic damage such a choice might inflict.

The result, with 52% voting to leave and 48% to remain in the EU, bitterly divided the UK, families and friends and upended the political system. For the next four years politics was dominated by one question: are you a Leaver or a Remainer? It split both the Labour and Conservative parties with members and MPs voting on both sides. An ugly seam of xenophobia emerged in the aftermath of the referendum vote whose result gave succour to displays of racism and intolerance that consensus politics had previously made unacceptable. The result also threatened the unity of the UK itself, with Scotland and Northern Ireland voting to remain in the EU, and even had global implications, influencing American voters later in the year who backed the pro-Brexit populist Donald Trump. To liberal commentators in the outside world and indeed to many in the UK the referendum decision appeared incomprehensible, almost suicidal. Why would an advanced industrial nation choose to quit the protection of the world's biggest trading bloc at a time of such global turmoil?

This book is not a polemic arguing for one side or the other. It sets out to answer the above question while also examining the wider socio-economic and political forces, some with their roots years back in the past, which influenced the referendum vote and changed the course of British political history. When these are considered, the conclusion has to be not so much why the UK voted to leave the EU but why the majority was not bigger. The referendum coincided with one of those rare historical episodes, a confluence of disruptive socio-economic and political forces, some global and some local, that mostly had little to do with the EU but whose victims found their expression of rage in Brexit. Most of the causes of resentment which manifested themselves in a Leave majority were unrelated to the EU and indeed in most cases the solutions lay in the hands of the UK government, not Brussels.

The idea for this book, which is aimed at both general readers and in particular students of British politics, economics and history, came about after many years of my commenting on British politics which included writing a study on the 2010–2015 UK Coalition government's fiscal policy, *The Politics of Austerity: A Recent History* (Palgrave Macmillan, 2016). It was clear the UK was experiencing a decade like no other in its recent history and that the dramatic political events were inextricably linked with their origins in seismic socio-economic forces underneath the body politic as yet not fully understood. The Great Recession and the Brexit referendum result were a cause and effect, by coincidence straddling the same decade roughly 2010–2020, for the latter is impossible to understand without also examining the undercurrents in British society that led to it.

But while the Great Recession led to Brexit, the latter was also a protest against years of globalism by voters in deprived, former manufacturing areas or rundown seaside resorts who felt themselves victims of forces over which they had no control; it is no coincidence that the leave campaign's referendum slogan 'Take Back Control' struck such a chord. Buffeted by the cold winds of globalism, these disillusioned voters were then doubly, even triply adversely affected by the Great Recession through stagnant wages and cuts in welfare caused by austerity imposed to restore the public finances. It was this Leave-backing group of largely white, working class voters in former industrial areas and poorer pockets of the otherwise prosperous South East that later also gave Boris Johnson his majority during the December 2019 general election in which he campaigned on the slogan 'Get Brexit Done.' Post-referendum analysis bracketed Leave voters as mainly white, less educated, older and poorer, living in former industrial cities with struggling local economies like Stoke on Trent (69% backed Leave) or ailing seaside towns like Great Yarmouth on the Norfolk coast (71.5% backed Leave) while conversely Remain supporters were ethnically more mixed, younger, better educated, more cosmopolitan and living in successful cities like Bristol (61.7% who voted Remain) or university cities like Oxford (70.3% for Remain) and better off.

However this disillusioned section of the electorate did not alone create Brexit in 2016 and the Leave vote cannot be explained just as a protest by deprived areas or against immigration. Every one of the nine English regions apart from London registered a Leave majority and there were plenty of areas which were neither deprived or contained immigrants, EU or non-EU. It is the combination of often unrelated issues that flowed together into the Leave vote that I intend exploring in this book.

Firstly I set the scene in 2009/10, regarded in the UK as the depth of the Great Recession, when the deficit in the public finances breached an unprecedented 10%. I look at the wider socio-economic forces that would later emerge as major influences on Brexit and also at British attitudes to the EU and vice-versa. I then outline the 2010–2015 Coalition government's austerity policies which especially hit poorer householders most dependent on welfare and who in 2016—not without coincidence—would be most prominent among Leave voters. I examine the inequalities in British society, not just between the very rich and the poor but between London and the more deprived regions of the UK and indeed within London itself. As immigration was a key issue in the 2016 referendum I examine the facts and fiction about the influx of EU workers into the UK since the early 2000s which provided a major boost to the Leave vote. I also comment on some of the decade's dramatic global events which increasingly persuaded many UK voters that the world outside their borders was a dangerous and unstable place and they were better off having as little as possible to do with it. It is not possible to cover the politics of the decade without examining the huge impact of social media which disrupted traditional political engagement as well as giving voice to views, often extreme, otherwise excluded from the mainstream media.

I cover the longstanding split in the Conservative Party over Europe and the rise of UKIP, which sucked in right-wing Conservative voters, putting pressure on Prime Minister David Cameron to make his fateful decision to call a referendum. Surprisingly in 2015 Cameron gave the Conservatives their first outright general election victory since 1992 and I then analyse the politics of the period up to 2016 including the extraordinary resurgence of Labour's far left under its populist leader Jeremy Corbyn. My final chapters are devoted to May's term in office including her disastrous election campaign in 2017, her failure to strike a Brexit deal, and the splits over Brexit that threatened to tear apart both Labour and the Conservatives. In the end she failed and resigned and it was Boris Johnson, the former Mayor of London and the most charismatic and controversial politician among an otherwise lacklustre generation, who replaced her in a leadership contest and to no great surprise won.

The unlikely denouement of this decade was the emergence of Boris Johnson, an Old Etonian, upper middle class, American-born Prime Minister with Turkish ancestry who was dedicated to delivering Brexit and in the last days of 2019 won a general election in a landslide thanks to the support of white former Labour-voting, anti-immigration working class areas in England. They had helped deliver Brexit in the referendum: now, after Theresa May's troubled interregnum, they expected her successor to deliver the goods and end their lost decade.

London, UK Michael Burton

Acknowledgements

I am grateful for the many stimulating discussions with work colleagues, think-tanks and those directly involved with the events of the lost decade whether local or national politicians, Whitehall and local government special advisers or private and voluntary sector providers who helped guide my thoughts in writing this book. In particular I would like to thank my old friend John Tizard, a longstanding public policy expert and commentator who scrutinised my draft and made many detailed and valid comments. I am deeply grateful to Sir Bob Neill, chair of the House of Commons justice select committee, former local government minister and an MP at the centre of the Brexit parliamentary debates whom I have known for many years and who gave me his deep insight regarding my chapters on Europe and the May and Johnson premierships. Thanks also go to John O'Brien, former chief executive of London Councils, ex-Whitehall advisers Jackie Sadek and David Godfrey and Heather Jameson, editor of The MJ, for their helpful comments. It goes without saying that any errors in this book are entirely mine.

Contents

PART I

The Undercurrents

CHAPTER 1

From Boom to Bust

On the eve of what became known as the Great Recession in 2007 the UK was one of the developed world's strongest economies with 15 years of successive increases in GDP, substantial investment in public services, stable politics and a booming financial services sector. The government's March 2007 Budget referred to 'the longest period of economic stability and sustained growth in our country's history' while the economy was growing faster than all the other developed G7 countries (the US, Canada, France, Italy, Japan and Germany).[1] In June 2007 a prominent British broadcasting journalist, Andrew Marr, ended his 2007 five-part TV series *The History of Modern Britain* with a ringing endorsement of the country's economic and social progress since 1945 and in particular its booming financial services industry. Marr referred to the 'constant gush of global money' and a 'time of plenty,' even 'a golden age,' though he also concluded with a prescient warning that while the UK was more open to the world it was also 'perhaps more vulnerable than ever before.'[2]

He was right though to be optimistic about the economy and the 'constant gush' of tax revenues flowing from London's booming financial services sector. The last recession had ended 15 years previously in 1992, meaning an entire generation was growing up having never experienced an economic downturn, in stark contrast to every decade since the 1950s which had experienced crashes and high unemployment, notably in the 1960, 1970s and 1980s. The new Prime Minister Gordon Brown, who

M. Burton, *From Broke To Brexit*,
https://doi.org/10.1007/978-3-030-81889-0_1

entered Number 10 Downing Street in June 2007, had, in his previous role in charge of the nation's finances as Chancellor of the Exchequer (1997–2007), pledged 'an end to boom and bust' and it seemed he had achieved his goal.

The Boom

The strong economy in the first eight years of the century had enabled the Labour government, in power since 1997 under firstly Prime Minister Tony Blair (1997–2007) and then Gordon Brown (2007–2010), to pour money into public services.

For Labour's inheritance in 1997 had indeed been enviable. With a tired and unpopular Conservative government under John Major (1992–1997) and a charismatic, reinvigorated Labour leadership under Blair and Brown there was little question that Labour would win the 1997 general election. In fact it achieved a landslide with a majority of 179 so large this virtually guaranteed a second and even a third term. Furthermore Labour also benefited from an improving economy, recovering from a recession that had ended in 1992, and the previous Conservative government's tough approach to managing the public finances through tax rises and spending cuts. Most governments run annual deficits, the amount they need to borrow to cover their outgoings for the year. Aware of the need to show it could be trusted with the public finances Labour initially stuck to the Conservatives' stringent targets with the result that for three successive years from 1998/9 the government not only cut the deficit but actually ran a surplus. Such an achievement would not be repeated and by 2002/2 the deficit was back.

From then on the brakes were taken off public spending which as a proportion of the nation's wealth—or gross domestic product (GDP)—rose from 36% in 1999/2000 to 40% by 2005/6. The UK entered the longest period of sustained above-inflation spending since 1945 as money poured into health, schools, welfare and local government. The National Health Service had experienced average annualised real increases of 3.2% under the Conservative governments from 1979–1997 but under Labour from 1997 to 2008 it shot up to 6.3%.

Unsurprisingly a combination of a strong economy and investment in public services was also good news for the government and Labour was re-elected twice, in 2001 and 2005. Even the Conservatives in opposition felt obliged to match Labour's spending plans confident that growing

GDP would cover the costs. The argument was not about whether public spending should increase but at what rate.

Politics in 2007 was still dominated by the two main parties, Labour (on 355 seats, its majority down to 66 in the 2005 election) and Conservatives (198 seats) plus the Liberal Democrats third with 62 seats, the most seats of any third party since 1923. The tiny right-wing, anti EU UK Independence Party (UKIP), whose later rise in the UK polls helped lead to the EU referendum, polled no seats and just 2.2% of the vote although by number of votes it was the fourth largest party. However UKIP was already a presence in the European Parliament where in the 2004 euro elections it gained 11 seats.

Coverage of British politics was still dominated by the mainstream media, the press, radio and TV, social media being then in its infancy. Twitter, launched in 2006, was then barely known in the UK though by 2008 it was posting 100 m tweets per quarter worldwide. Facebook, launched in 2004, had 100 m users by 2008.

There were however serious weaknesses in the economy and wider society that were masked by the strong growth in GDP which reached a high of 3.7% in 2007. Firstly, public spending was dependent on buoyant tax revenues, in particular tax from the booming global financial services sector in the City of London which represented some 12% of all tax receipts and 25% of corporate tax. Labour had, in the words of one of its ministers, been 'intensely relaxed about the filthy rich' because their tax paid for its public spending priorities. When the new Chancellor of the Exchequer, Alistair Darling, arrived at the Treasury in June 2007 he found no evidence that any top officials were unduly concerned about this imbalance in tax revenues or what might occur should there be a downturn in the global financial services sector. After all, the last recession which ended in 1992 was a distant memory, GDP had increased every year since then and the City of London following the deregulation of the Stock Market in 1986 had established the UK as the world's second largest centre for financial services after New York. As one financial journalist later wrote: 'It is almost impossible to overstate the breadth of relaxed consent, if not evangelical support, for the City and its doings at the zenith of the boom. The ruling left had few complaints about a sector that sent tax revenues cascading into the Treasury.'[3]

Secondly, strong economic growth obscured serious regional variations. For years London and the South East of England had been the powerhouses of the economy, driven by the buoyant services sectors, especially financial, and by their proximity to Europe, the UK's largest export market. They were the only two out of the nine English regions above the European Union prosperity average while neither Wales, Scotland or Northern Ireland met the grade either. The weakest English regions were in the former industrial areas of the North West, North East, Yorkshire & Humberside and the Midlands which had been devastated by closures of mines, steelworks, shipbuilding and factories and the decline in manufacturing since the recession of the early 1980s. It was these areas which later voted to leave the EU in 2016.

While unemployment rates fluctuated nationally between 4.8% and 5.7% from 2000 to 2008 the rates were invariably higher in the former industrial areas. Furthermore the official rate based on those who claimed unemployment benefit did not include the 'hidden unemployed' such as those on incapacity benefits which were particularly high—as much as 10% of 16–59/64-year-olds—in South Wales, Merseyside, the North East and Clydeside in Scotland.[4] This is not to say that the government—and indeed its predecessors—was unaware of these regional imbalances. Ministers made strenuous efforts to encourage investment out of London and the South East such as setting up Regional Development Agencies in 1999 in each of England's nine regions with an economic development brief. There was a blizzard of initiatives to revitalise rundown areas to boost jobs, skills and infrastructure such as the Single Regeneration Budget, Education Action Zones, Enterprise Zones, Housing Action Trusts and Learning and Skills Councils. There were also notable successes in the reinvigorated car industry with overseas investment especially prevalent in the Midlands and North East. The so-called core cities, the biggest cities in the regions such as Manchester, Liverpool, Newcastle, Nottingham, Birmingham, Bristol, Leeds and Sheffield, also experienced a renaissance but smaller towns continued to struggle with declining local economies. Poorer areas were also more dependent on welfare, whether through benefits paid direct to claimants or from grants paid to local government to tackle specific deprivation challenges. Many of these would be slashed during spending cuts after 2010, taking millions of pounds out of already anaemic local economies.

Inequality was not confined to regional disparities. The consequence of the booming financial services sector which bankrolled public spending was a widening gulf between the very rich, especially bankers, and those on low or even middle incomes. Although the number of extremely wealthy people was small they contributed an increasing share of tax revenues while the size of their salaries, so out of kilter with what most of the population was earning, bred a resentment among voters, especially in deprived areas, that they were the victims, not the beneficiaries, of the economic boom of the previous decade.

The wealth pouring into London created another inequality gap, this time between young and old as a growing population in the capital, up by 1 m over the previous 20 years and increased by immigration, led to soaring house prices. Older homeowners benefited while the young found it increasingly impossible to afford to buy their first home. The proportion of people aged 20 to 34 living with their parents rose from 19.48% in 1997 (2.4m) to 26% in 2017 (3.4m).[5] In contrast older people, especially the so-called baby boomers born between 1946 and 1964 who were coming up to retirement were increasing beneficiaries of—or a burden on—the state through more generous pensions and their reliance on the free NHS. As the population aged so the costs of health, pensions and care swallowed a growing share of public spending. The generation gap would be later put sharply in focus by the referendum vote in which the over-65 s overwhelmingly backed Leave and the young Remain. Ironically the retired had a far greater stake in society through state pensions, a free NHS and their own homes than did the young.

A major issue bubbling to the surface by 2007 was immigration. The first immigrants mainly from the Caribbean had come to the UK in the 1950s followed later by others from the Indian sub-continent, many settling in England's northern cities where there was work in manufacturing. Most of these had long assimilated though there were tensions in some cities. Since 1998 however immigration exceeded emigration by 100,000 every year. The most recent influx of overseas workers was from the eight former East European countries that had joined the European Union in 2004, especially from Poland. Britain was one of only three countries that opened its borders straight away to citizens of the new member states who under EU freedom of movement rules were entitled to live and work anywhere in the EU. The British government assumed the numbers wishing to work in the UK would be in the few thousands since before 2004 net migration of EU nationals was below 35,000 a year. By 2007 it was running at 127,000 annually. By 2011 there were 2.68 m EU citizens living in the UK according to the Census that year. The Office for National Statistics had to revise its population estimates after the 2011 Census because England and Wales turned out to have

464,000 more inhabitants than expected. The largest single cause was the underestimation of recent long-term immigration from Central and Eastern Europe.[6]

European nationals were generally well educated, younger and in work and net contributors to the public finances as they paid taxes but tended to use health or education services less than UK or other nationals. Prevalent in hospitality and in social care, sectors that UK nationals shunned because the wages were low and the hours erratic, many East European arrivals also settled in specific geographic areas like Lincolnshire with its food packaging jobs. However there was also suspicion among many UK workers that Europeans were being hired to keep wages down as they were cheap, though this was never proved by official statistics, were taking jobs from less educated UK nationals or allowed employers to avoid training local staff, even though the immigrants often filled vacancies that local workers avoided. The UK's population was also increasing, up from 56 m to 66 m by 2018 of which 9.4 m were born abroad.

Resentment over higher than anticipated levels of EU workers became a lightning rod for hostility to immigration generally, often in areas, rich or poor, that had little or no foreign-born populations. Yet in multi-ethnic London where 36% of the population were born outside the UK, compared with 14% for the UK as a whole, immigration was much less of an issue and the capital later voted overwhelmingly to Remain. Ironically, the demand by Leave campaigners in 2016 to gain control of immigration from the EU and end freedom of movement ignored the fact that non-EU immigration, over which the UK had control, was higher. Nonetheless governments were under increasing public pressure to be seen to reduce immigration and the EU's freedom of movement policy, a key part of its single market to which the UK was an early signatory, soon became a scapegoat for concern about immigration generally.

Despite these underlying issues Labour continued to ride high in the polls, winning a record second and third term in 2001 and 2005, a triple victory never previously achieved by the party. The Conservatives, who had been in government for 18 years from 1979 to 1997 under first Margaret Thatcher and then John Major, were now in the wilderness and by 2007 onto their fourth leader since their election defeat in 1997. The new leader was a young and articulate 'one nation' Tory called David Cameron. With no sign of a downturn it was electoral suicide for any political party to suggest public spending should be cut so even the Conservatives were compelled to back Labour's March 2007 Budget raising spending to £674bn by 2010. When Tony Blair retired as Prime Minister in June 2007 handing over the keys to Number 10 Downing Street to his Chancellor of the Exchequer, Gordon Brown, there seemed no reason why Labour could not win a fourth term in 2009 or 2010.

And then the US sub-prime mortgage market collapsed.

The Bust and The Great Recession

The first inkling that a growing mortgage crisis in the US had implications for the UK was when a prominent North East of England bank, Northern Rock, asked the Bank of England to help it through a liquidity crisis triggered by the US mortgage market collapse. When the news became public in September 2007 queues of panic-stricken customers formed outside Northern Rock's branches to withdraw their money, the first run on a British bank in 150 years. Like its US counterparts Northern Rock had over-reached itself and become dependent on securitisation, or cheap credit borrowed against future income streams which dried up due to the downturn in the property market. Unable to maintain liquidity the bank was nationalised in 2008 but its demise was soon followed by other even bigger bank failures culminating in the spectacular collapse of Lehman Brothers in the US in September 2008. During this fiscal crash, the initial phase of the Great Recession, Gordon Brown and other world leaders showed immense foresight in shoring up public confidence and preventing the entire banking sector collapsing through an injection of public funds, as much as a trillion dollars in the US, thus avoiding a repeat of the 1930s depression, the worst downturn in the history of the industrialised world.

However what began in Wall Street inevitably spread into Main Street or in the case of the UK, from the City of London to cities. In the UK the result of the fiscal crash was a downturn not just in the financial services sector but across the high street and in the housing market as consumer confidence wilted, bank lending dried up and unemployment rose. GDP growth, running at an average 2.2% a year throughout the entire time of the Labour government, now headed into minus as the economy contracted for five consecutive quarters. While tax revenues immediately fell public spending continued its upward trajectory previously set on the expectations the tap would forever flow with the inevitable result that the annual budget deficit, the amount the government had to borrow during the year, at 2.7% of GDP before the crash, ballooned to 8% in 2008. By the end of that year Britain was officially in recession for the first time since 1991 following two consecutive quarters of falling GDP. A later Budget report in March 2010 later admitted that the downturn was 'the most severe and synchronised contraction in 60 years.'[7]

The government's reliance on the financial sector to fund its spending plans was now starkly exposed. In October 2008 the IMF's World Economic Forum warned the UK could face the worst downturn of any of the leading industrial countries because of its dependency on City tax revenues. The question was, how would the government react? On the one hand the deficit, which reached a record 10% in 2009/10, had to be reduced; on the other, Labour and especially Prime Minister, Gordon Brown, were not inclined to slash public spending when the economy was already so weak, citing the example of the 1929 depression which was exacerbated by government spending cuts to balance budgets. The famous economist John Maynard Keynes had argued that to offset the fall in private sector activity during a recession governments should spend public money and conversely cut deficits only when the economy was on the mend. Chancellor Alistair Darling would later maintain that Labour's postponement of immediate deficit reduction—his 2009 Budget planned to halve it to 5% over the next four years—helped support the economy for another three years and prevent a recession from becoming a depression.

Nonetheless it was increasingly clear that a 10% deficit was unsustainable and the government needed to show it had a strategy to reduce it to a more manageable level, especially as the UK was heading towards bearing the highest ratio of debt to GDP among the major economies after debt-laden Japan. Public opinion was also shifting, voters becoming increasingly restive about the deficit and less enthused at maintaining previous levels of public spending. Sensing the mood change the Conservatives in November 2008 abandoned their policy of sticking to Labour's spending plans and announced that their strategy was to bring down the deficit; new battle lines were therefore drawn up between them and Labour over who was best able to manage the public finances.

After a decade of presiding over-generous spending funded by tax revenues that had now disappeared this was not comfortable territory for Labour. Chancellor Alistair Darling recognised that 'the old battle lines were now hopelessly out of date,' that deficit reduction 'gained considerable traction' among the public and that Labour had to show it could keep spending on essential public services while also reducing the deficit.[8]

In September 2009 a poll for *The Times* newspaper showed 60% of the public now preferred spending cuts to higher taxes. In autumn 2009 at the Conservative Party conference Shadow Chancellor George Osborne spelled out his remedy for the economy, effectively describing what would later become termed 'austerity' by its critics. The foundations for a vote for Brexit were being laid even if at that time there was no inkling of any referendum.

In the first quarter of 2009 the economy contracted by 1.9%, the worst performance for 30 years. In that year, the depth of the recession, the deficit hit 10% but by the first quarter of 2010 growth returned, albeit at an anaemic rate of 0.1%. Darling's last Budget in March 2010 before the May general election had the optimistic heading *Securing the recovery* and astonishingly, considering the state of the public finances, declared itself 'fiscally neutral' with a target of halving the deficit within the next four years. Spending, as per Keynesianism, was forecast to actually increase the next year though at a slower rate, as growth returned to 3–3.5% in 2011 and 3.25–3.75% in 2012, predictions that soon proved to be wildly optimistic.

It is impossible to overstate the long-term damage to the economy caused by the recession. In his 2007 Budget Gordon Brown had forecast an increase in GDP of 2.5%–3% in 2008 and 2009. In fact after 63 successive quarters of expansion GDP in that period from the first quarter of 2008 to the second quarter of 2009 shrank by 6%, a difference of some 9% on Brown's forecast. This was money lost to the economy forever, national income which could have continued to fund public service investment in housing, health, social care and infrastructure for Britain's deprived areas. It took five years for the economy to return to the size it was before the recession. In 2018 the Institute for Fiscal Studies (IFS) estimated that the economy would have been £300bn a year bigger had the rate of GDP growth continued on its pre-2008 trajectory while GDP per person would have been £5,900 higher. Assuming that public spending as a percentage of GDP was 40% then the UK could have had an extra £120bn to invest in public services, the equivalent of the entire annual NHS budget.

Furthermore, unlike in previous recessions, the economy did not rapidly return to normality. As the IFS noted: 'Neither the early 1980s recession nor the early 1990s recession led to falls in median earnings among workers. In 1983, four years after the pre-recession peak in GDP, median earnings were around 8% higher than in 1979, while in 1993 median earnings were 4% higher than in 1989. By contrast, in 2011–2012, four years after the pre-recession peak in GDP, median earnings were 8% lower than before the recession.'[9]

In hindsight Labour argued that, even though GDP was up in 2010, the private sector was still weak and it was too early to impose stringent spending cuts. The Conservatives maintained that without getting the public finances back in balance the country would be laden with unsustainable debt. Either way, the recession ended with a long tail of stagnant wages, low productivity and low growth that would continue throughout most of the next decade. As a right of centre think-tank noted in 2020: 'While nominal hourly wages have been increasing throughout the last two decades, real wages have been either declining or stagnant for most of the last 10 years.'[10]

The fiscal crisis also provoked anger among the public who blamed reckless bankers for plunging the country into recession, especially when the banks then had to be bailed out by public money. They saw greedy bankers, the most prominent of whom were named and shamed in the media, being paid huge salaries with the tacit approval of the government, only to discover the same bankers had been so careless in their pursuit of profits and bonuses that they bankrupted their businesses, then walked away leaving the taxpayer to pick up the bill. As the fiscal crash turned into recession, the victims were not the bankers who caused it but the low- to middle income-earners who saw their standard of living stagnate for years.

Public disgust at the financial establishment was then followed by revulsion at politicians when full details of MPs' inflated, occasionally tax-avoiding and often ludicrous expenses claims were leaked to a national newspaper, the *Daily Telegraph* in May 2009 during the depth of the recession and despite efforts by MPs to block publication. The BBC later said the scandal 'shook the British political system to its foundations' and there were questions by commentators at the time as to whether parliamentary democracy could survive the revelations which were daily drip-fed by the newspaper and disgusted the public. Some MPs went to prison, many were vilified for their taxpayer-funded second homes and their tax avoidance or for laughable claims on items like duck houses, toilets seats and wisteria but all were tarred with the same brush, innocent or guilty. The victim was public confidence in politics and even democracy itself. Coming soon after outrage at the misbehaviour of the bankers, the expenses scandal only added to the public's perception that they were being taken for a ride by the establishment and that somehow, sometime, there needed to be a reckoning.

Far from ending 'boom and bust' Britain had begun the 2000s with a booming economy only to end in recession. As the new decade began the economy was bust and public confidence in the nation's institutions severely tested. The stage was set for a confluence of social, economic and political undercurrents that would lead to Brexit.

Notes

1. HM Treasury. (March 2004). *The Budget*.
2. Andrew Marr's. (2007). *History of Modern Britain*. BBC. 2007 and Macmillan.
3. Janan Ganesh. (2014). *George Osborne. The Austerity Chancellor* (Biteback Publishing, p. 167).
4. See Christina Beatty, Steve Fothergill, Tony Gore and Ryan Powell in *The Real Level of Unemployment* (Centre for Regional Economic and Social Research, Sheffield Hallam University, May 2007).
5. Office for National Statistics.
6. *Briefing Paper. Migration Statistics*. (December 2 2020). House of Commons Library.
7. HM Treasury. (March 2010). *The Budget*.
8. Alistair Darling. (2011). *Back from the Brink* (London, Atlantic Books, p. 282).
9. Institute for Fiscal Studies. (November 2017). *Recessions, income Equality and the Role of the Tax and Benefit System*.
10. Centre for Policy Studies. (October 2020). *A Framework for the Future: Reforming the UK Tax System*.

CHAPTER 2

'What Has the EU Ever Done for Us?'

From the day the UK joined the European Union in 1973 the British public's attitude to the EU ranged from indifference to occasional hostility, fuelled by what would become a virulently Eurosceptic press. Turnout in elections for the European Parliament was always low, being 38% in 2004, reflecting the public's general disinterest in European issues. A 2010 study from the European University Institute in Florence concluded that 'the UK is one of the most Eurosceptic countries in the Union and the negative image of the EU in the UK is alive and well.'[1]

According to a Eurobarometer survey conducted in July 2009, only 30% of people in the UK thought EU membership was a good thing. The EU average was 53%. The UK's citizens had the second least knowledge about the EU among all 27 member states in 2009 and the lowest number (13%) who said they had read anything about the then presidency of the EU council. Two-thirds of UK respondents were against a single European currency.[2]

A European Legacy

To understand why the British public were so lukewarm about being inside the security of the world's largest trading block and despite the fact that almost half the UK's exports went to the EU it is necessary to delve into the historic tensions that bedevilled relations between the UK

M. Burton, *From Broke To Brexit*,
https://doi.org/10.1007/978-3-030-81889-0_2

and Europe for what might be argued has been two millennia. Britain, or more precisely England, has always had an ambivalent relationship with Europe. For most of history Europe to England meant conquest, first by the Romans in AD 54, then Angles and Saxons, then Vikings, then Normans and but for the English Channel there would have been invasions from the Spanish in 1588, the French in 1805 and the Germans in 1940. Equally, for centuries England's destiny was bound up with Europe and it has been an ally at various times of most of the major European powers. For much of the mediaeval period from the twelfth- to the fifteenth-century England and parts of France under the Plantagenet kings were effectively the same country while the Stuart king William the Third was Dutch and from 1714 Britain's royal family was German from Hanover, a connection that lasts today. Queen Victoria, the embodiment of Britishness, was half-German and had so many relations and descendants in Europe's ruling royal families she was known as 'the grandmother of Europe.' Margaret Thatcher, the British Prime Minister so identified with Euroscepticism, said in her famous Bruges speech in 1988: 'We British are as much heirs to the legacy of European culture as any other nation. Our links to the rest of Europe, the continent of Europe, have been the dominant factor in our history.'[3]

This relationship only serves to emphasise how important Europe was to England, or the UK as it became in 1707 once Scotland joined to form the union. Its foreign policy has always been to ensure no one European power dominates western Europe. In 1839 the UK was a signatory to a treaty guaranteeing neutrality for the new state of Belgium, a decision that led Britain entering the First World War when Germany invaded Belgium on its way to France.

The exception to this close, if volatile, bond with its European neighbours was when Britain, with its huge naval power and endless thirst for trade, expanded globally, especially from the eighteenth century onwards, to form the largest empire the world has ever seen. Much of its attention was focused on protecting its immense overseas possessions, especially India. Throughout most of the nineteenth century it kept out of European disputes. Its involvement in the Crimean War against Russia in 1853–1856 was largely because Russia threatened British commercial and military interests in the Middle East and India. British foreign policy in the late nineteenth century, with its strategy of avoiding permanent alliances, was dubbed 'splendid isolation.' Britain ended it not in a treaty