The economic response to COVID-19 and the Conservative Party's failure to depart from Thatcherite orthodoxy

Tom Hoctor *writes that, despite much talk around 'levelling up', the government's response to the pandemic points towards an inability to resolve a long-standing Conservative Party dispute: that between Thatcherism and the more interventive, investment-led approach to the economy which the country needs.*

We tend to think of the Labour Party as having the greater dilemma in its relationship to capitalism, but this would be a mistake. I suggested in a recent article that the Conservatives and wider British society need to come to terms with the market, concluding that it might be time to 're-evaluate what it can and cannot effectively and efficiently organise'. Arguably, the response to COVID-19 represents just another expression of this unresolved and often unexpressed tension at the heart of the Conservative Party's economic thinking.

Though it is an oversimplification, it is helpful to think of the Conservatives as split between two positions: the neo-Thatcherite position associated with George Osborne's austerity programme and the European Research Group (ERG), and a more Thatcher-sceptic wing of the party. Examples of the latter position would include David Cameron's 'Compassionate Conservatism', which later became the 'Big Society'; Philp Blond's proposed 'Red Toryism'; and before that, 'Civic Conservatism' and 'active citizenship' proposed by David Willetts and Douglas Hurd respectively.

Much of this alternative economic thinking responded to what Andrew Gamble refers to as the 'Thatcher myth'. This is the enduring and powerful idea in the Conservative Party that Margaret Thatcher's electoral popularity and political success stemmed from her personality, dry economic platform, union-bashing and 'pro-business' policies.

The Conservative Party itself as well as some commentators have presented Conservative economic thinking under Boris Johnson as a departure from Thatcherite orthodoxy. Nebulous statements about 'levelling up' and Rishi Sunak's stimulus package in response to the COVID-19 pandemic have been offered as evidence that the new approach to the economy is not just talk. However, it may be better to understand this apparently more interventionist approach as the expression of a much longer-running dispute about the nature and working of markets and the concrete nature of the measures themselves. In other words, to understand it as yet another expression of the Conservatives' difficulty in coming to terms with the market.

Britain is already confronted with the worst recession in the G7 and the scale of the recession resulting from the pandemic *so far* dwarfs the 2008 financial crisis. It is estimated that the UK economy has already contracted by 20.4% in 2020, compared with the still very high 6% in 2008-09. The government is proposing stimulus measures of £190 billion (9% of GDP). Although such large spending commitments may seem like a serious change from the austerity programme of the Cameron era, they may still not be enough. By way of comparison, the European Union is negotiating a proposed 750€ billion stimulus package (around 5% of EU GDP, in addition to actions taken by national governments). In the United States, measures to the value of $2 trillion have just expired and are likely to be followed up by a further $1 trillion (or more if the Democrats get their way).

The only solution to a crisis of such magnitude is investment, but just as critical a question as 'how much?', is 'on what?'. As a rule of thumb, crises tend to deepen and accentuate existing structural issues, rather than operating in a vacuum. This is why people from BAME backgrounds, women, and the precarious have been disproportionately affected by national and local lockdowns and the ensuing economic contraction.

Though headline spending figures may be eye-catching, the substance of the measures themselves is a cause for concern and demonstrates an unrealistic reliance on free markets. Measures such as the employee furlough schemes are essential to prevent a crisis becoming a catastrophe. However, gimmicky proposals like 'eat out to help out' do very little to orient the economy in a positive direction for the future. The fact that the British economy is so reliant on coffee shops and restaurant chains servicing the commuter economy is a sign of weakness, not strength. Other measures have failed to target the people who need them most. For instance, support for those in the private rental sector was principally made available to landlords rather than tenants, many of whom, although they cannot currently be evicted, have run up significant rent arrears which they will struggle to pay back. Similarly, the government granted loans to struggling businesses which many will struggle to pay back. These measures defer, rather than solve the problem. In contrast, the EU has made its funding available as grants and in the US eligible citizens will be given a direct financial transfer of $1,200.

Unlike the European and American responses, the UK government's approach is a very concrete expression of the idea that left unchecked, the market will rationally distribute resources to where they are needed. But this is precisely what the market does not and cannot do, especially in a crisis. Although a greater willingness to spend may seem like a radical ideological shift, it is the traditional pillars of the Thatcherite economy – principally large businesses and landlords – which have so far benefitted most from the government's largesse.

Rather than re-enforcing existing structural weaknesses, what is required is a serious engagement with the limits of the market. Handing out money to banks, landlords, and large firms may massage GDP figures in the short-term, but it seems bizarre for a government which talks about 'levelling up' to introduce measures which will, at best, restore a situation which was unsustainable before the pandemic began.

To paraphrase Saatchi & Saatchi, 'the market isn't working'. This has been and will continue to be brutally exposed by the coronavirus recession. Money is piling up in the wrong places (principally bank balance sheets, the stock market, and the private rental sector) and not getting to where it is desperately needed (investment in small and medium-sized enterprises, capital infrastructure projects, and wage packets).

Rather than a sea change in economic thinking, this is yet another Conservative leadership which cannot resolve the internal dispute between the true believers in the Thatcher myth and the more interventive, investment-led approach to the economy which the country desperately needs. Far from the Thatcherite sacred cow being slaughtered at last, what we are seeing is a government trying to have its cake and eat it by touting seemingly impressive headline investment figures while still wedded to the idea that the market will provide.

Note: the above draws on the author's published work in *British Politics*.

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