ROLLING BACK THE FRONTIERS OF THE PRIVATE SECTOR

In 1979 Mrs Thatcher came to power. One of her avowed aims was to “roll back the frontiers of the state”. She believed passionately that Britain’s nanny state was stifling the innate genius of the British people. Three decades after the Thatcher revolution our “genius” for financial innovation should now be apparent to the whole world. After all, where would it be today without our expertise in mortgage-backed securities, leveraged finance and securities trading?

Mrs Thatcher set about reducing the size of the state via a since much copied privatisation programme. At the stroke of a pen, public sector jobs became private sector jobs. This programme, both directly and indirectly reduced the proportion of union to non-union jobs in the UK labour market too; unions were another one of Mrs Thatcher’s pet hates. However, over the last ten years, the public sector has been fighting back.

Chart 1: UK Public sector employment

Chart 2: UK Public sector job changes

Chart 1 this week shows one measure of the size of the state. The green line shows the clear increase in public sector jobs since 1999. At the start of 1999 public sector employment was 5.2m. Since then, despite a contraction between 2005 and 2007, it has risen to just under 6.1m today. Chart 2 breaks down public sector job creation over the last ten years by sector. The biggest increase has been in the NHS. Today there are nearly 400,000 more jobs in the NHS than there were ten years ago. The second largest increase has been in education where there are now 273,000 additional jobs. The data does not tell us how many of these additional jobs have gone to doctors, nurses and teachers. But one way or another the last ten years has seen a massive expansion in the size of the state.

The growth in public sector employment levels is however only one indication that the state might need to shrink. The public sector deficit and projections for government debt also imply that the UK can no longer afford to support the current state infrastructure. We should also be clear that the decline in the UK’s public sector finances has not been entirely due to the ongoing global downturn. According to the OECD, the UK’s cyclically
adjusted deficit is just under 10% of UK GDP. In other words, over the economic cycle the government needs to shrink public spending by ten percentage points or to raise taxation by the same amount to balance the budget. In fact, the UK’s is the worst structural deficit in the developed world. To put it into perspective the OECD estimate this structural shortfall in public sector finances to be only 6% in Greece; and when Mrs Thatcher first took office back in 1979 the OECD estimated the UK’s structural deficit to be just over 3% of GDP.

So where does this leave the UK’s new ConLib coalition government?

The coalition has seemed fairly cosy so far. However to put it crudely, the two party leaders have jumped in to bed together with some enthusiasm, but at the moment they still have their pyjamas on. The first true test of this political love affair will be the forthcoming emergency budget. Does the nascent coalition have the strength to enact the swingeing spending cuts necessary to make the UK’s public sector affordable again? Cuts that even the formidable Mrs Thatcher might have baulked at. Later this month we will find out.