

## Assessment of Cameron Government's Austerity Policy and its 2015 General Election Result

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### Abstract

Governing in the aftermath of financial crisis, the Cameron government adopted harsh austerity policies, aiming to reduce high debt and deficit and build a new economic model founded on saving and investment. The necessity and efficacy of the austerity have been a source of controversy throughout the last five years as it has contributed to the stability and sustainable development of the economy but at the same time deprived citizen's interests. Widespread predictions of the 2015 general election showed a close contest with the centre-left Labor opposition and the possibility of another coalition as neither Conservative nor Labor could secure a majority. However, the result turned out that the Conservatives won a slender majority but a resounding victory, with 101 more seats than the Labor. Through exploring the austerity policies and their effects, this article intends to make an objective evaluation on how people's evaluation towards them is related to the Cameron government's 2015 general election result. The results suggest that austerity has contributed to a strong recovery of employment and the nation's development. The generally good economic performance of the Cameron government, to some extent, contributes to its winning in the 2015 general election.

### Keywords

Cameron Government; 2015 General Election; Austerity; Rational Choice Theory.

### 1. Introduction

The 2008 financial crisis severely hit the UK economy, leading to soaring unemployment, public unrest and huge public debt. The 2009 European sovereign debt crisis further worsened the recession and impeded the recovery process. The Cameron government assumed power in this context, confronted with a tough fiscal climate and ongoing social policy challenges. Just as Cameron described in the 2010 manifesto, "Our economy is overwhelmed by debt, our social fabric is frayed and our political system has betrayed the people" [1].

Faced with this, the Cameron government set reducing deficit and government debt as the top priority [2]. Also, it promoted a new economic model founded on investment and saving instead of borrowing and debt. The key to this model lied in creating more jobs, boosting enterprise and getting better value for money from the public sector [1].

To realize these goals, the Cameron government adopted harsh austerity policies primarily in the form of deep spending cuts with comparatively smaller increases in tax to reduce the deficit, give confidence to the markets and therefore deliver growth to the economy. Efforts were made to reengage the unemployed in the labor market and encourage the self-employed, small companies and enterprises to enter the market and thus create more employments. Management, ownership and services of the NHS were devolved to the private sectors as the Tories believed that delivering better value for money required reform of public services and decentralizing power, particularly the NHS [1].

These policies contributed to a strong recovery of the economy and an unprecedented job creation record. However, they have harmed many people's interests. The rich saw a 10% increase in Capital Gains Tax and the higher-rate threshold was reduced to £42,835 [3]. The vulnerable groups suffered

under the welfare cuts. The privatization of NHS services put NHS staff at the risk of unemployment. Several protests against the austerity took place during 2010 and 2011, with the Tottenham Riot being the most massive one in 30 years.

If the UK public is unhappy about their interests being harmed by the austerity, why most of them still vote for the Cameron government in the 2015 general election? Through exploring the austerity policies and their effects, this article intends to make an objective evaluation on how people's evaluation towards them is related to the Cameron government's 2015 general election result. Based on this aim, this paper proceeds in two sections. The first part is around austerity policies and their effects based on the analysis of taxation policy, benefit curtailment and NHS reform. The second part will consider the relationship between people's overall evaluation of these policies and their voting behavior, based on rational choice theory. The article will conclude that austerity has contributed to a strong recovery of employment and the nation's development. The general good economic performance of the Cameron government, to some extent, contributes to its winning in the 2015 general election.

## 2. Theoretical Framework

Performance politics remains important for understanding electoral choice<sup>2</sup>, which has been supported by the study of rational choice theory. The landmark of this theory is *An Economic Theory of Democracy*, in which Downs commented that voters seek to maximize the utility of their votes as the party acts to maximize electoral gains [4]. This theory considers that what matters to voters most is not ideology but concrete policies that government takes. In relation to the government party, voters calculate the expected value according to the previous policies, assuming that there will be continuity of policy pursued if this party is still in power during the next term. Voters will then compare their losses and gains under this party and make their decision according to self-interest. Some scholars suggested that responses to the individual-level consequences of welfare state programs may affect political attitudes and behaviors [5]. However, they also found that evaluation of the national economy have stronger effects on voting behavior than do egocentric evaluations [6].

This research is a qualitative one based on documentary analysis, aiming to achieve a better understanding towards public's evaluation on the austerity programme. This paper has used both primary sources of government official publications as well as secondary sources.

## 3. Literature Review

Literature on the Cameron government's policies has been enormous, and the focus mainly falls on four aspects: 1. to analyze the theories embedded in a policy; 2. to compare the current policies with relevant policies implemented by the previous Labor government; 3. to examine public attitudes towards a specific policy; 4. to assess the effects of a policy.

Plenty of researches have been conducted to study the austerity policy, which can be divided into three categories based on the author's attitudes: support, cautious neutrality and intense criticism. Based on focus groups study, Stanley found that there is a general acquiescence to the idea of fiscal consolidation, despite the potential harm of the measures, and he praised it as "shared popular wisdom and experience" [7]. Lowndes considered austerity as an "active politics" which stimulates local governments to act to the change of policy [8].

However, there are also negative responses towards austerity policy from scholars. Jorda and Taylor criticized austerity as a "drag" on growth especially in depressed economies [9]. Several other researches studied the negative effects that austerity has imposed on the poor, women, low-income children and other vulnerable groups in the society [10].

Meanwhile, other scholars tended to make a balance when making their judgments. The Social Policy Association investigated how austerity policies change the shape and nature of British society, particularly the welfare state, and pointed out the implications on different groups [11]. Borges et al

adopted a multivariate model that incorporates demographic, attitudinal policy beliefs and economic evaluations to study the austerity policies, revealing public skepticism on the policies.

Those past works, valuable as they are, are not without their limitations. Since most of the studies were conducted in the first two years of the Cameron's term, they are less likely to examine the overall effects and receive an objective evaluation on the austerity during the 5-year-term. Also, few attempts have been made to assess how people's evaluation of these policies is related to their voting behavior in the current 2015 general election. This article, using updated data, intends to give an objective evaluation of the austerity policies, and assesses how they influence people's voting behavior.

#### 4. Austerity Policy

When the Cameron government assumed power in May 2010, it was confronted with a tough fiscal climate characterized by £956.4bn net public sector debt (62% of GDP), £103.9bn budget deficit and 3% inflation rate [2]. Unemployment was 2.53m, the highest record in two decades, and the proportion of the working-age population actively looking for work was only 8.1%, while 4.93m people were claiming out-of-work benefits [12]. The government believed that it was the comprehensive benefits that severely weakened people's working incentive and imposed a huge financial burden on the government.

In this context, the government adopted a harsh shock-therapy-styled austerity programme, the top priority of which was to reduce deficit and government debt [2]. This policy necessitated painful reduction in benefit and increase in tax as the government proposed to reduce the budget by £83bn by eliminating 490,000 government jobs, cutting £16.7bn benefits and increasing £16.4bn tax incomes in order to reach a balance economy in four years [13]. Spending cut also extended to the health sector as the government withdrew government funds and devolved the ownership of NHS services to private sectors. These policies are part of the government's plan to build a new economic model founded on investment and saving which relies on creating more jobs, boosting enterprise and getting better value for money from the public sector [1].

##### 4.1 Taxation and Benefit Policy

As part of the deficit reduction programme, the Coalition government has made tax changes to reduce borrowing by £16.4bn in 2015-16: the net effect of £64.3bn of tax rises and £48bn billion of tax cuts [14]. The taxation policies also aimed at improving fairness and narrowing down the inequality between the rich and the poor, as Chancellor George Osborne stated that "fairness means that those with the broadest shoulders should bear the greatest burden."

Tax increases were implemented early in the parliament: a rise in the main rate of VAT from 17.5% to 20% (no taxes imposed on zero-rated items such as food and children's clothes), a 1% increase in all rates of National Insurance Contributions, an increase in Capital Gains Tax from 18% to 28% for higher rate taxpayers only and a reduction for the higher-rate threshold from £52,765 to £42,835 [3].

The three major tax cuts have a combined cost of £19.5bn. Income tax allowance was increased from £6,475 in 2010-11 to reach £10,000 by 2014-15, which was worth about £550 per year for most income taxpayers. It was expected that 880,000 of the lowest-paid would be taken out of income tax altogether. Corporation Tax fell progressively in 1% increments for each of the next four years, from 28% to 24%. Fuel duties were cut by 15%. Other cuts included a £100 million tax relief for creative and high-tech industries and lower tax rate for the self-employed and small companies [3].

Another important aspect in the austerity is the benefit reform which has been central to the Coalition's programme of public service reform and spending cuts. Spending on benefits and pension was £220bn in 2010-11, which equaled to 27.6% of government spending [15]. Facing the large budget deficit, the government proposed to cut £16.7bn in benefit spending by 2015-16.

Also, David Cameron believes that it is unfair that those who don't work are favorably treated than those who work, as he stated at the 2010 Conservative Party Conference that "fairness means giving

people what they deserve, and what they deserve depends on how they behave.” In this context, the Cameron government was determined to reform the benefit system to make it fairer, more affordable and better able to tackle poverty, worklessness and welfare dependency.

Several benefits have been cut or abolished. Child benefit was frozen for the first three years. Tax credits were reduced for families earning over £40,000 next year, but low income families would get more [15]. Health in Pregnancy grant, the Social fund and Child Trust fund were abolished. Housing benefit and disability benefits were cut as well [16].

Efforts were made to reengage long-term unemployed people, lone parents, disabled people and others in the labor market. The government provided help for those who cannot work, and training and support for those looking for jobs, but sanctions for those who turn down reasonable offers of work or training. All existing welfare to work programmes were ended and replaced by a single welfare to work programme, where Jobseeker's Allowance claimants aged under 25 would be introduced to after a maximum of 5 months. Long-term benefit claimants who fail to find work will be required to work on community work programmes. All current claimants of Disability Benefit would be reassessed for their readiness to work. Those assessed as fully capable of work were moved onto Jobseeker's Allowance [12]. Unemployed people would see their Housing Benefit cut by 10%, after 12 months of claiming Jobseekers Allowance from April 2013 [3]. Lone parents were expected to look for work when their youngest child goes to school. The unemployed were also encouraged to set up their own enterprises through the support of a new programme named “Work for Yourself” which gave them access to business mentors and start-up loans.

The complexity of benefit system in UK was considered as preventing people from focusing on getting back to work. To deal with this, a new Universal Credit was introduced in April 2013, aiming to simplify the benefit system and improve incentives to work. The single payment would replace Working Tax Credit, Child Tax Credit, Housing Benefit, Income Support, Jobseeker's Allowance and Employment and Support Allowance.

The tax and benefit reform has influenced the distribution of income, poverty, inequality, and working incentive.

First, it results in a loss of £1,127 in annual average household income [17]. According to Figure 1, the combined tax and benefit changes affect both bottom and top deciles most stringently, involving a loss equivalent to 4% and 3.5% for the poorest and the richest respectively. Intermediate group experiences smaller falls in income. This loss has negatively affected people's living standard, especially the vulnerable groups, and to some extent, shrank people's purchasing power. The government insists that the rich should pay more and the policies do cling to this point. However, the poor are severely damaged by the benefit cuts since they are more dependent on the benefits. Besides, researchers have found that women are more vulnerable to these new social risks owing to their dual and potentially conflicting roles in reproductive care and paid work and children of low-income families suffer most [18,19]. Moreover, people are disappointed by the unfulfilled promises made by the government in 2010. The government, to some extent, sacrifices people's interest to reduce debt and deficit. But progress towards this goal is slow. Government debt amounts to £1.56 trillion (81% of GDP) in 2015. Although current budget deficit is reduced to 4.8% of GDP, it is far away from the original target of 1.1% made 5 years ago [20].

However, takeaway from households' incomes is inevitable given the need to correct fiscal deficit. In the aftermath of crisis, people will see their income falling sooner or later [21]. There are only measures to postpone this situation such as temporary cut to the main rate of VAT and the official Bank Rate implemented by the previous Labor government, but no solutions eliminating it [22]. In order to get the country back on track and reduce future pressure for government spending, policies that reduce income directly such as raising tax and cutting benefits are painful but necessary steps. This awareness is also shown in public attitudes towards these policies, which have generally changed from disapproval to neutrality and acceptance since 2012. Several protests against the austerity occurred in 2010 and 2011. Since 2012, public attitudes have softened as people became

more aware of the fact that high public spending and high welfare do harm to the recovery process in these tough years and that austerity policies indeed contribute to the stability and sustainable development of the economy conditions [23]. According to *British Social Attitudes*, 52% of the UK public hold that taxation and public spending policies should stay at the same level as they are now while 37% favor more benefit spending [24].

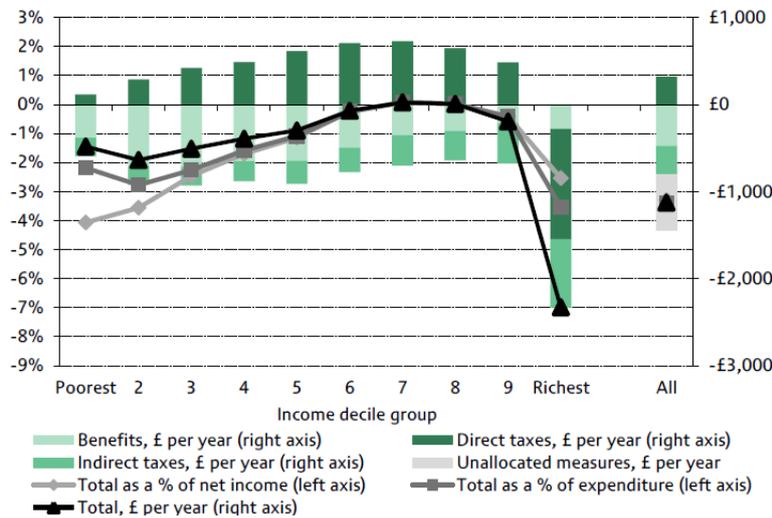


Figure 1: Impact of tax and benefit reforms from May 2010 to May 2015 by income decile [17]

Note: Income decile groups are derived by dividing all households into 10 equal sized groups based on different net incomes.

Secondly, income inequality and poverty have decreased. Financial crisis normally deepens poverty and income inequality, as shown in the cases of France and Italy. But this trend was not showed in UK. In 2012 and 2013, the 90/10 ratio (the difference between the top and the bottom) was 3.9, the lowest level since the late 1980s [22]. It has since remained essentially unchanged to 2014 and 2015. The proportion of the population in absolute poverty fell from 18.2% to 16.1%. The change in relative poverty is very similar, falling from 18.2% to 16% [22].

Thirdly, the policies lead to rising employment. Unemployment is now at a six year low and is still falling, with a 1.7 million increase in employment [25]. Policies that reduce the level of benefits for the unemployed and those that increase the income for people involving in work result in a better balance between welfare and responsibility. Social assistance cuts, stricter work tests and disability tests and sanctions on those who refuse to work not only involve more people in the workforce, but also send a message to those who rely on benefits instead of themselves that work is the best route out of poverty.

In the process of encouraging people to involve in the workforce, the government also determined to create more job opportunities. On one hand, the government supported national business and industry through reducing tax rate for corporations, small companies and the self-employed, and providing them with help of business mentors and start-up loans. The number of the self-employed in 2014 was the highest in 40 years, at 4.6 million or 15% of the workforce [26]. Besides, the government has implemented Industrial Strategy to strengthen the working partnership between government and industry and deliver long-term plans to secure jobs and growth. The UK Guarantees Scheme offers up to £40 billion in government-underwritten guarantees to infrastructure projects [27]. On the other hand, the government worked hard to attract investment across the globe to further strengthen the economy. The government encouraged FDI (Foreign Direct Investment) through simplifying the complex controlled foreign companies rules, moving towards a territorial corporate tax system that only taxes profits generated in the UK, creating an attractive tax environment for intellectual property, and launching the Regeneration Investment Organization that directs investors to credible UK

industry-backed development opportunities throughout the country [1]. From 2014 to 2015, UK attracted 1,988 FDI projects, which have brought almost 85,000 new jobs and 23,000 safeguarded jobs across the UK. The value of accumulated FDI in UK broke £1 trillion in 2014, the highest in Europe and third in the world [28]. Employment plays a key role in a country's productive potential and the stability of the society. This strong recovery of employment helps the country walk out of recession in a relatively shorter time.

In sum, the tax and benefit reform is painful but necessary. Many people's interests are harmed by the austerity, especially the vulnerable groups. However, it contributes to the recovery of employment and a healthy development of the national economy.

#### 4.2 NHS Reform

The austerity also infiltrates into the health area as the Cameron government withdrew public fund and devolved management and ownership of the NHS, its hospital and other facilities to physicians and private investors, even though it had promised to leave the health system intact during the 2010 general election. The NHS reform also embodies the government's determination to deliver better value for money, a key aspect in the promotion of the new economic model, which requires the reform of public services, particularly the NHS [1].

The government believes that an effective NHS system needs removing excessive regulation and bureaucracy and empowering citizens to take direct control of their own communities and facilities [29]. This notion emphasizing self-reliance, personal freedom and community spirit is in sharp contrast to the previous Labour government's big government policy promoting statist and centralizing tendencies.

An "any qualified providers" rule was introduced to promote competitive tendering between public, private and third sector providers [2]. Reforms emphasizing decentralization, competition and outcomes have resulted in new arrangements for health services commissioning, management and provision. The new decentralized structure included an independent NHS Board; the abolition of strategic health authorities and the existing Primary Care Trusts; and the creation of GP-led clinical commissioning groups (CCG) [30]. Volunteers were encouraged to enter the NHS to help provide services.

Public reactions towards the reform diverge, as patients show general satisfaction while most NHS staff and health experts attack the reform.

Patient surveys indicate that satisfaction is improving across most services. Satisfaction fell dramatically in 2011 to 58% largely result from the worry about the future of NHS at a time of controversy surrounding the Cameron government's NHS reform [24]. This tendency has reversed since 2013. Patient experience of the NHS generally remains positive after 2013 and public confidence is close to an all-time high in 2015. Health care-acquired infection rate has continued to fall in recent years and has now broadly stabilized at a historically low rate [31]. However, patients are dissatisfied with the long waiting time for the beds and spent in the Accident & Emergency Department.

Staff satisfaction has decreased, especially the GPs. An important part in the NHS reform is handing more power to the GPs, particularly the spending decisions. Anger from the GPs intensifies as cuts lead to rationing and GPs are forced to tender out services to the private sector [32]. Some GPs face charges for colluding with hospitals to get personal profits. During the 2015 general election, more than 140 leading doctors in the NHS wrote a letter attacking government's record on NHS and criticized the privatization as it "not only threatens coordinated services but also jeopardizes training of healthcare providers and medical research, particularly that of public health"[33]. As dozens of Accident and Emergency Departments, maternity units, 51 NHS walk-in centers and more than 60 ambulance stations have been closed or earmarked for closure or downgrades, more staff in the NHS are in the risk of unemployment.

Health experts hold a pessimistic view towards the NHS reform. They argue that it can result in the bureaucracy, and the waste of time and resources, as bids are entered, assessed and contracts issued [34]. The services may be given to the lowest bidder regardless of quality. Also, private organizations may maximize profits by employing under-trained and cheaper staff. Beside, as the reform processes, the extension of competition may lead to privatization of provision and fragmentation of services and thus it will be hard to provide a closer integration of care for patients. What were once the NHS's strengths – resources, expertise and the united focus on the patients being replaced by a fragmented service bound by a contract instead of a duty of care is also a shared worry of the patients.

Although patients' reaction towards the NHS services is generally good, it can not block the two biggest problems in the reform. Firstly, it threatens the interest of NHS staff. They are at the edge of losing jobs as more services are sold to private sectors. The government has not yet provided any help or backup plans for them, which may result in a decrease in working incentives and the quality of current services. The second problem in the NHS reform lies in the accountability of private sectors as the current devolution of services and facilities relies on bidding instead of quality level [35]. Lack of supervision to the accountability of the private sectors and their services will prevent the healthy development of the NHS system. Therefore, the Cameron government's plan for a new NHS is not a thorough one and there exist lots of problems to tackle.

## 5. Assessment of Cameron government's 2015 general election

Rational choice theorists believe that voters make logical decisions that provide them with the greatest benefit or satisfaction and that are in their highest self-interest. In the basic rational-choice model of voting and political participation, the relative utility of voting, for a particular eligible voter, is  $\Delta U = pB - c$ , where  $p$  is the probability that a single vote will be decisive,  $B$  is the relative benefit associated with desired candidate winning the election, and  $c$  is the net cost of voting [4].  $B$  includes both individual benefits  $B_{self}$  and social benefits  $B_{soc}$  for an affected population of size  $N$ :  $B = B_{self} + \alpha NB_{soc}$  ( $\alpha < 1$ ). Here,  $B_{soc}$  is the average benefit per person if the preferred candidate wins, and  $\alpha$  is a discounting factor to reflect that benefits to others are less important than benefits to self [36]. Acting in a manner consistent with this sort of cost-benefit analysis is the standard definition of rationality as utility maximization.

Edward R. Tufte proclaimed that "when you think economics, think elections; when you think elections, think economics" [37]. This is the core of rational choice theory, which indicates the strong effects of economy evaluation on political behaviors [6,38]. "It's the economy, stupid" is the Clinton campaign slogan that still echoes in the heart of every politician. Economy is fundamental and provides a simple but useful guide for deciding how to vote. Especially for UK, a country dragged by recession, it's often economics, rather than politics that dominates. When delineating factors that affect public evaluation towards the Cameron government's performance, it is plausible that economic evaluations will be the prime determinant.

Economic voting studies vary in terms of the specific economic factors included in models of vote choice, but the general consensus is that evaluation on national economy is the best economic predictor of individual-level votes. Economic voting of this type is labeled "sociotropic voting" and suggests that voters are concerned with the economic well-being of the nation as a whole and not simply their personal financial situation [39,40,41]. When the national economy is perceived as having improved, voters are more likely to vote for an incumbent candidate or party. When a worsening economy is perceived, voters reject the incumbent.

Voters are rational as they calculate and compare the expected benefits and potential losses before reaching decisions. Tough austerity measures have resulted in spending cuts in welfare and public services. And the Cameron government made it clear that austerity would be continued if he was reelected. This news is terrible for many people. The rich will see further tax increases. People will face benefit cuts, the negative impact of which is more serious on the vulnerable groups. With further

privatization of NHS services, NHS staff still face the risk of unemployment. These are the costs that UK citizens have to bear if they vote for David Cameron.

However, the miserable spending cut and austerity measures are exactly where the Tories build their economic credibility. Britain now enjoys the strongest economic recovery of any European Union nation, the fastest rate of growth in the G7 group of developed countries and an unprecedented job creation record [42]. The under-appreciated reforms in public services are being studied and imitated by other countries. Despite some dissatisfaction to the austerity, the positive progress that the Cameron government has brought to the national economy cannot be erased. The government's efforts to support national business and industry and attract foreign investment result in more job opportunities and a 1.7 million increase in employment. As the country gradually walks out of recession, it's very likely their personal well-being will improve as well. The benefits that voters can receive from the Conservative winning come from this good national economic situation.

According to the National Bureau of Economic Research, in a country suffering from financial crisis or recession, even a mostly-selfish person would vote for what he or she perceives to be the common good, or at the least the good of a large affinity group, but not for direct individual gain [36]. In the formula  $B = B_{self} + \alpha NB_{soc}$ , the size of  $B_{self}$  may be small or even negative due to cuts in spending and welfare. However, the austerity has contributed to a good economic situation which brings benefits to the whole society and probably more benefits in the long run. The increase in job opportunities not only promotes productivity, but also restores citizen's confidence to the market and the nation. In this case, the estimated  $\alpha NB_{soc}$  occupies a bigger proportion in the calculation of benefit.

For a country stagnant in economy, there's less possibility for people to have an affluent life. In UK's case, the top priority is saving the country and getting the economy moving rather than fulfilling every citizen's welfare. Indeed the austerity harms people's interests, but it also contributes to the stability and sustainable development of the economy and brings UK out of recession. The temporary pain is the foundation of long-term benefit. For voters, the expected benefits gained from the reelection of the Cameron government offset or outweigh the potential costs they may bear.

In sum, the Tories' strength on the economy was at the heart of the party's election victory.

## 6. Conclusion

Born in the aftermath of the crisis and recession, there is no doubt that the Cameron government confronted with massive challenges: high debt and budget deficit, soaring unemployment but low working incentive and some substantial unresolved problems. In this context, the government has combined a far-reaching public sector restructuring with exceptionally large and rapid cuts, imposing real costs on poorer and more vulnerable groups. Although the austerity has harmed people's interest in many areas, it has brought a good national economic situation and shows people a brighter prospect for UK's development in the future. The Cameron government's strength on the economy was at the heart of its election victory in 2015.

This paper focuses on policy evaluation and its effect on the election result. However, there are other factors influencing voting behavior including media, campaign performance, voters' religion and social class, partisan identification and etc. Due to the space limit and restricted access to data, it is hard to elaborate on all these aspects. Future research can study these psychosocial and sociological factors and investigate their effects on the 2015 general election result.

Acting as a single majority government in the second term, the Cameron government will have more freedom in decision-making but more responsibility to undertake. In the continuation of austerity, how to maintain a healthy economy and job growth while at the same time giving proper protection to the vulnerable groups is still a challenge. For the Cameron government, there is still a long way to go to cure the country.

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