British government prepares dismantling of welfare

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The second budget of the British Labour government paves the way for the complete dismantling of the postwar welfare state system. It will transform Britain into a vast sweatshop economy, with welfare benefits replaced by "workfare" forced labour programs and private pension and health provisions.

Prime Minister Tony Blair described last week's budget as stage two of a three-part offensive to replace the existing welfare system with the Labour government's "New Deal." The first budget drafted by Chancellor of the Exchequer Gordon Brown last July adopted the previous Tory government's harsh public spending targets and initiated a range of workfare schemes mainly targeting workers under 25 years of age. He boasted that the new budget "begins the task of modernising not just taxation but the entire tax and benefits system of our country."

The centrepiece is a system of Working Family Tax Credits to be implemented by October 1999. This supposedly guarantees a basic income of £180 a week for families with at least one person working. This was accompanied a new childcare tax credit to cover 70 percent of costs of up to £100 per week for a first child and £150 for two or more.

Though hailed as measures to alleviate poverty, Brown's aim is to end the right to welfare payments and force people to work for a pittance. By fundamentally realigning the benefits system away from payment as a matter of right to means-tested tax credits allocated via the workplace, the drive to exploit the unemployed as cheap labour has been extended to encompass single parents.

The £180 minimum guaranteed income is substantially below the present official poverty line of £210. Labour is widely expected to introduce a minimum wage of £3-3.50 an hour, so to earn anywhere near the paltry £180 a week, at least one low-paid person must be working full time and their partner a substantial number of hours. Brown has only redistributed income from the poor to the very poor.

Similarly, there is a shift in the burden on low-paid workers who lose a portion of their benefits as a result of additional wage earnings. The number of people who will be penalised by losing 70 pence of their benefits with every extra pound they earn will fall from 740,000 to 260,000. However those who have 60 pence cut for every extra pound earned will rise from 760,000 to more than a million. Loss of other state benefits, particularly rent subsidies to the poor, could lead to a substantial reduction in family incomes. Government payment of 70 percent of childcare costs is only open to those women earning less than £90 a week, and childcare is largely unavailable anyway.

In his budget speech Brown warned, "because in future work will pay, those with an offer of work can have no excuse for staying at home on benefits." Anyone refusing a job, no matter how badly paid, faces having their benefits stopped. Child Benefit, presently paid to all mothers regardless of their income, will in future be taxed for "better-off" families. This sets a precedent for taxing other universal benefits.

Brown's last budget raised taxes by almost 3 pence in the pound and shifted the tax burden away from business towards working people. This trend continued in the present budget. There was no real increase in welfare spending, with all new measures paid for by raising taxes elsewhere. The 20 percent increase in Child Benefit of £2.50 a week was matched by a 5 percent reduction in the married couples' tax allowance. Meagre increases in health and education spending represented a standstill in real terms and were covered by increased duty on petrol and tobacco.

Labour has spent substantially less on public services than was planned for by the Tories. Last year they

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undercut this target by £1.5 billion. The Tories predicted £19 billion in government borrowing this year, while Brown expects only £5 billion—a fall from 3 percent of national income last year to around 0.5 percent this year. He wants a balanced budget by the year 2000, which indicates further massive spending cuts. This will insure Britain's eligibility for eventual entry into the European Monetary Union. By switching from benefits to tax relief, the government has already saved £2.5 billion in public spending.

The real beneficiaries from Brown's budget were the major corporations and small and medium sized businesses in the service sector, especially those employing low-paid part-time workers. Even right-wing columnist Richard Littlejohn wrote in Murdoch's *The Sun* newspaper that Labour's new measures rewarded sweatshop employers.

Taxes on business were slashed by £1.5 billion, including the introduction of a 30 percent main rate of Corporation Tax, the lowest rate in any industrialised nation. Brown made an across-the-board cut in employees' National Insurance Contributions and stipulated that no worker will make contributions on the first £81of earnings. This is a subsidy to employers which Brown boasts will cut the cost of hiring 13 million low-paid employees by £250 pounds a year.

National Insurance is the financial bedrock of the welfare safety net. Contributions are paid by both employers and employees to cover provision of state pensions, unemployment benefits and sick pay. The millions of workers no longer paying in will be left without social protection and the overall loss of contributions from employers and workers will hasten the collapse of the entire system. This is Labour's intention. On March 26 Minister for Welfare Reform Frank Field will issue a government Green Paper which is expected to call for state provision to be largely replaced by private pensions and health protection, with only the most impoverished granted minimal government help, along the American model. In preparation for this, the Inland Revenue has been given responsibility for collecting National Insurance for the first time, giving the Treasury direct control of the benefits system.

Labour is seeking to create a low-wage economy, with employment costs for welfare provision largely eliminated. This is the only way that British capitalism will be able to remain competitive in the global markets and continue to attract investment from the transnational corporations. Brown warned repeatedly of the risk from "an unaffordable rise in wage inflation" and complained that wages had risen "even in the manufacturing sector."

Global imperatives have ended the possibility of the type of national economic regulation that was the bedrock of Labour's old reformist policies. On taking office, Labour handed over the right to set interest rates—the most important form of national economic regulation—to the Bank of England. Since then rates have risen again and again, costing industry billions. Mounting costs for mortgage payers threaten thousands with the repossession of their homes should they default.

Immediately after the budget, both Tory Party leader William Hague and Trades Union Congress General Secretary John Monks warned that overvalued interest rates and the high price of the pound could provoke a recession by making exports too expensive. Commenting in *The Guardian*, Hugo Young wrote, "This was a new kind of budget, which did not address the main issues of the economy, interest rates and the exchange rate ... no incentives to work, however imaginative, will work if work itself does not exist. And this is now contingent on another body than the Treasury, the Monetary Policy Committee (MPC) of the Bank of England, which will make its own judgement on the Chancellor in deciding whether to raise interest rates, thereby affecting, perhaps decisively, the level of the pound and therefore exports, therefore work itself."

Brown's budget introduced a new clause in the Finance Bill designed to reassure the major corporations that they will do nothing to hinder their drive to maximise profits. It forces all future governments to adopt "transparency" as one of five key principles of fiscal and debt management. This meets the demands of the International Monetary Fund, which insists that international capital markets must be able to "evaluate and discipline government policy" and so make "unsustainable policies politically risky."

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