Wage restraint and privatisation from British Labour government

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The British Labour government outlined its public expenditure plans for 1999-2000 in Parliament on Tuesday. When Labour first took office in 1997 it pledged to continue with Tory spending plans until 1999. The current proposals are the first to outline Labour's own agenda for public finance.

Chancellor Gordon Brown announced an additional £19 billion for education and £21 billion for the National Health Service (NHS) over the next three years. Other pledges included the restoration of free eye tests for poor pensioners as well as travel discounts. Sections of the pro-Labour media described the measures as a return to 'old Labour.' The *Guardian* newspaper went so far as to describe them as having 'socialist proportions.'

As always, however, the devil is in the details. Despite the additional cash, Labour remains committed to cutting public spending. That is why it has moved to a three year review--the Comprehensive Spending Review (CSR)--in place of annual spending rounds. Its objective is to prevent government spending from being subject to public pressure as deficiencies and cutbacks become obvious.

The government's targets mean that the average growth of spending will remain lower under Labour than it was for most of the previous Tory government's rule. The overall increase in current public spending is to be limited to 2.25 percent, below the rate of inflation. There is virtually no growth in public spending during Labour's first two years in office. The increase in government money for infrastructure projects--from £7 billion to £13 billion--only takes capital spending back to the levels of 1993-94. In addition, Labour has substantially raised taxes on working people to pay for cuts in corporate tax. This has left the average family around £1,000 a year worse-off.

All the measures proposed in the CSR are conditional on public sector pay restraint and further privatisations. Sales of government assets are expected to bring in some £11 billion. Chancellor Gordon Brown made clear that funding is dependent on 'reform in every department.' Each government department has signed a contract explaining how the additional finances will be spent. Money will only be released if the departments stick to these undertakings.

Thus, of the £19 billion pledged for education, only £3 billion will be available before 2000, exacerbating the already chronic under-funding of state schools. The £21 billion for health is tied up with 'modernisation' projects. Under the guise of 'simplifying management structures' jobs will be cut. All hospitals will be made to publish league tables of their performance and, along with doctor's practices, will be expected to bid for money from the government's newly created 'NHS Modernisation Fund.'

All government departments have agreed to make 'efficiency savings' of 3 to 10 percent over the next three years. Much of this is to come from public sector workers' wages, which account for 60 percent of spending in health and education. The Pay Review Body, which allocates pay rises for the public sector, is to be changed, ending any semblance of independence. In the National Health Service individual boards will report directly to the Health Secretary, as well as the prime minister, who will decide whether its recommendations meet departmental budgets. In addition, the Pay Review Bodies will be charged with ensuring that any recommendation they make is 'affordable,' i.e., keeps to the government's inflation target of 2.5 percent and meets targets on output and efficiency. Social Security payments presently account for two-thirds of public expenditure. Although it was not included in the review, Brown emphasised that this area in particular would be tightly controlled.

Labour claims that the spending review means it will have balanced the books by 2001, eradicating the need for further state borrowing. However, financial analysts have contested this. The leading accountancy firm Price Waterhouse Coopers point out that if the economy stagnates next year, as is likely, and only begins to recover slowly, this would blow a hole in government spending targets. It could lead to a budget deficit of £20 billion by 2001-02 necessitating further borrowing or massive cuts.

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