Britain: Three major parties pledge to slash public spending

Chris Marsden
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All three major parties in Britain are now pledged to massive cuts in the public sector. Following weeks of attacks by the Conservative opposition and the media for its attempts to deflect the issue, Prime Minister Gordon Brown told the Trades Union Congress last week that cuts would have to be made.

His statement was followed by an announcement that Chancellor Alistair Darling was holding a series of meetings with Cabinet members to discuss which areas of public spending could be cut. Darling has emphasized the government's determination to "never risk the fiscal sustainability of our economy" and that he and Brown understand this means "hard choices on public spending." Schools Secretary Ed Balls was first off the mark, telling the *Sunday Times* he wanted to slash £2 billion, or 5 percent, from education by limiting pay rises and making schools share senior staff.

The *Guardian* reported that government ministers had "disclosed" that Brown had agreed twice before to set out "the eventual need for public spending cuts." The newspaper reported that "it is clear ministers are seething that Brown has been so cautious for so long."

With Business Secretary Lord Mandelson having previously accused the Tories of planning "savage" cuts, it is a measure of how fast things are moving that Liberal Democrat leader Nick Clegg proclaimed the need for "cuts that are savage and bold" at his own party congress.

Calling for an 8 percent cut in public spending, Clegg told the BBC, "We need to make significant, big, serious cuts in public spending … to fix the great black hole in the public finances."

"I think it is wrong, simply wrong," he added, "for the Conservatives and Labour politicians to have this childish debate about whether they use the c-word or not—whether it's 8 percent, 9 percent, 10 percent for this department or that department."

In reality, even bigger cuts are on the agenda.

With the budget deficit expected to reach £175 billion by the end of the financial year, Liberal Democrat Treasury spokesman Vince Cable has said cuts of £80 billion to £100 billion are needed. So fully have the Liberal Democrats adopted the rhetoric of the Tories that Conservative Party leader David Cameron urged them to join together in a new "national movement" reflecting the fact that there was "barely a cigarette paper" between them.

The cuts agenda is being set by the ruling elite, which is demanding that working people pay for the worsening crisis gripping British and world capitalism, and for the massive cost of the bailout of the global banking system.

Internationally, the cost of the various stimulus packages has added $35 trillion to state borrowing and Britain's commitment, £50 billion ($83.4 billion), is proportionately larger than most. Darling officially estimated that the government's total additional borrowings would be £175 billion this year due to the bailout, other stimulus measures, rising social costs, and falling tax revenues. Some analysts, however, have said borrowing will be between £15 billion and £50 billion more than this. The International Monetary Fund expects the UK budget deficit to exceed 13 percent of gross domestic product next year, the most in the Group of 20.

According to reports, state borrowing for last month was £16.1 billion, raising the total to a record £800 billion, 57.5 percent of national output. Interest on this level of government debt is expected to be as much as £30 billion a year, £500 for every person in the UK. The Institute for Fiscal Studies predicts the government will have to cut spending at the fastest rate since Britain negotiated its finances with the IMF in 1976. The IFS suggest Britain will pay £63 billion ($104 billion) on debt interest in 2014, which exceeds the education budget.

This does not factor in the impact of an ever-worsening recession that is unfolding despite all talk of "green shoots" and a return to growth.

To illustrate the precarious state of the UK economy, according to the ratings agency Moody's, British banks face another £130 billion losses in the next 18 months, on top of the £110 billion already incurred. Retail sales have stalled, notes the Office for National Statistics, despite lower mortgage payments, lower inflation and the boost provided by the car-scrapping “cash for clunkers” scheme. Once the current VAT cut ends and it returns to 17.5 percent at the end of December, spending must plummet further. The housing market has not recovered significantly either, with mortgages hard to come by and first-time buyers asked to find a quarter of the purchase price. Average mortgage rates have in fact risen despite the Bank of England lending rate of 0.5 percent.

The economic contraction has impacted heavily on government finances. Tax receipts for August fell by 9 percent compared with last year. The *Daily Mail* drew attention to a highly significant factor in this decline in revenues. More than 200,000 companies have signed up to a programme introduced in last year’s pre-budget report known as “time to pay” and involving national insurance contributions, VAT, corporation tax, and other taxes on business. This has allowed then to put off payments totalling £3.6 billion.

The *Mail* reports that Peter Sargent, president of the insolvency trade body R3, has warned that Britain faces a spike in corporate insolvencies as these arrangement come to an end. “R3 is expecting to see nearly 30,000 corporate insolvencies this year, up from 23,000 in 2008, leading to soaring redundancies and yet more economic pain,” the *Mail* states. Of the 200,000 deals agreed, “some 33,000 firms have entered into repeat deals affecting £440 million of taxes. In total, some £2.49 billion had been repaid to HMRC [Her Majesty’s Revenue and Customs] since the scheme was introduced after the November PBR [pre-budget report], leaving £1.11 billion still to be paid,” it points out.

While revenues decline, public spending has risen by almost 3 percent. Spending on benefits grew by £900 million to £13.5 billion. This is due mainly to growing job losses, which saw unemployment rise to 2.47 million in the three months to July, or 7.9 percent, the highest level for 14 years. It is on track to hit 3 million next year, around 10 percent, even without the cuts planned for the public sector, which some have said could bring the total to between 4 and 4.5 million.

Unemployment among 16- to 24-year-olds has reached 947,000, with one in five of Britain’s young people jobless (19.7 percent). Around 34 percent of school leavers cannot get work. The numbers categorized as “economically inactive” have also reached a new high. Growth in earnings is also down dramatically, from 1.9 percent to 1 percent in July—below inflation.

Writing in the *Independent*, Adrian Hamilton stated baldly, “Sorry, but the recession is not over.”

This is far from an exclusively British problem. Rejecting talk of an economic recovery, William White, the former chief economist at the Bank for International Settlements, warned instead of a “double-dip” recession followed by protracted stagnation. The Organisation for Economic Co-operation and Development has warned that governments must take urgent action if the global recession is to not turn into a long-term unemployment crisis.

The pro-Tory *Telegraph* spelled out the implications for working people. “Public spending needs to be slashed,” the paper wrote. “And the consequences for the economy are going to be bloody.”

The *Telegraph* identified what it believed had to be cut, noting that “public-sector employment has risen by 549,000 to its current total of 6 million. True, about one-third of that uplift reflects the nationalisation of financial institutions. The real increases have been in health, education and the police. In the past seven years, National Health Service employees have risen by 220,000, teachers and classroom assistants by 148,000 and police by 49,000 … The budget decisions facing Brown or his successor as prime minister will therefore be painful indeed.”

Writing in the same newspaper, Conservative Mayor of London Boris Johnson called for “public-sector non-jobs” to be slashed. “Cuts! We’re gonna have cuts! All three parties are now engaged in a competitive slash-fest,” he exclaims. “What a transformation. These Lib Dems have spent decades bleating for more taxpayers’ money to be squirted at just about everything you can think of.”

“But what shall they cut?” Johnson asks. “The obvious answer is to look at the armies of public-sector officials, whose salaries make up 85 percent of government spending.” In addition he calls for “a vigorous discussion with the unions and the public about the future of the economy. We need to talk about ways to reduce the pensions and wages bill.”