Britain: What will a 20 percent cut in public spending mean for workers?

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With the international financial institutions demanding that Britain rein in its ballooning debt, all the main political parties are committed to deep-going cuts in public expenditure to pay for the bank bailout and further enrich their corporate backers.

The government's budget deficit has risen to nearly 12 percent of GDP. The total accumulated debt is £952 billion and this is set to rise to £1.4 trillion in 2014-15 as a result of the bank bailouts, subventions, guarantees and quantitative easing measures—not far short of Britain's entire GDP. With no curb on their activities, the banks continue with their reckless and semi-criminal practices.

While none of the parties are spelling out their spending plans very precisely, most estimates suggest that to reduce the deficit by 50 percent in the lifetime of the next parliament, as Labour has promised, departmental budgets will have to be cut by nearly 20 percent over the next four years.

To understand the implications, it is necessary to review the employment situation in Britain today. The years 1992 to 2007 saw the longest boom in the post war period. Real output rose by an average of 4 percent a year, but the results as far as the vast majority of working people are concerned have been meagre.

Throughout Labour's period in office, manufacturing continued to decline. The number of people employed in manufacturing fell from 4.2 million in 1991 to 2.8 million in 2007, while service employment grew from 2.4 million to 5.8 million, as Labour actively promoted the interests of the financial sector and fuelled a housing and consumer-led boom based on ever increasing household indebtedness.

Finance's share of output rose to nearly 10 percent and its profits to 12.8 percent in 2007. But despite London's position as a major financial centre, this did not result in a significant increase in jobs. In 2007, even before the financial crisis took effect, the financial sector was not a major employer. It only employed one million people and generated at most about 500,000 jobs in related business services, but certainly no more than 5 percent of the workforce. That is not much more than half the number employed in Britain's now depleted manufacturing sector.

Nearly half of these jobs were based in London and the South East, providing enormous salaries and bonuses for a thin layer at the top. This served to increase income inequality in Britain as a whole as well as the disparity in income and wealth between the Home Counties and the rest of the country, particularly the former industrial regions in the Midlands, the North, Scotland and South Wales.

While the private sector has expanded, much of this was based on privatisation of the state-owned enterprises and outsourcing, subcontracting and the Private Finance Initiative, all of which provided business with new and reliable revenue streams. Whereas wage costs accounted for three quarters of departmental expenditure in 1977, by 2007, this had declined to about 45 percent. In other words, less than half of departmental expenditure is now spent in house. This, together with the expansion in public spending after 2000, has generated a vast increase in disguised subventions to the corporate sector.

There is now a large number of facilities management and service companies that carry out parks maintenance, refuse collection, run the trains, light rail or tram services, manage leisure, school dinners, cleaning and other services on a contract basis, and own and manage care homes and nursery schools, whose fees are paid either directly or indirectly by the state. "Social enterprise" or third sector businesses manage housing estates and provide social services on a contract basis for local government. The national railways, light rail systems and some bus services also receive substantial subsidies.

None of this is very visible: official statistics do not record the number of people employed by such firms providing public services on government contracts. But a recent CRESC report by academics at Manchester University reworked the data provided in the Annual Business Inquiry published annually since 1998. They estimated that the number of people employed by both the state and the para-state sector grew from 6.2 million in 1998 to 7.5 million in 2007. That is, the para-statal sector employed 1.7 million people in 2007, particularly in health, education and social services.

Many of these are employed on low wages or on wages lower than the previous rate for the job when carried out in the public sector. The report notes that such jobs are typically female work and are often part time. Public services, whether provided by the state or the private sector, have been crucial in providing work for women. To the extent that households are dependent upon two incomes, it has been public service employment that has created the second wage earner.

Families in the former industrial regions have only been kept afloat by the increase in public and para-state sector employment, or by invalidity benefits, as there have been few new private sector jobs. In Northern Ireland, the public sector is the main employer.

Thus, despite the longest boom in the post war period, there has been little genuine private sector job creation. Most of what has been created has been dependent upon increased public expenditure channelled in the direction of business, masking the emasculation of the British economy. Despite decades of successive governments' business friendly policies, British business has only survived at all because it has been propped up by the government.

Unemployment, as reflected in the number of people claiming Job Seeker's Allowance, was 1.59 million in February, a fall of 33,000, although the wider Labour Force Survey (LFS), which includes people who are out of work but not claiming benefits, recorded 2.45 million unemployed between November and January, an unemployment rate of 7.8 percent. The number of long term unemployed—out of work for more than 12 months—rose by 61,000 to 687,000, the highest since 1997. The number of people in work also fell by 54,000 over the quarter to 28.86 million, the lowest rate since late 1996.

The demands of the financial institutions for 20 percent cuts in government expenditure will therefore have a devastating impact on jobs and household income. A 20 percent headcount reduction implies at least 1.5 million job losses. This would be a post-war record, greater than the level of unemployment reached under Margaret Thatcher in the mid-1980s, under conditions in which benefit levels are already set at a fraction of the rate they were two decades ago and household debts are massively higher.

This can only be achieved by across the board sackings, including "core" professional workers such as teachers and nurses, who form the largest proportion of the public sector workers. As well as plunging millions into poverty and the certain loss of their homes as families default on their mortgages, such cuts mean the wholesale closures of hospitals, schools, colleges, universities, colleges, care homes and other vital services.