

# A government of the financial elite for the financial elite

## British coalition government announces attack on public sector

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Conservative Chancellor of Exchequer George Osborne and Liberal Democrat David Laws, chief secretary to the Treasury stood side by side to announce a £6 billion package of cuts on Monday. Laws said that the announcement was intended to send a “shockwave” through every department of government.

The announcement represents only the first stage in a planned attack on jobs, services and benefits. In June the government will unveil an emergency budget, followed by a comprehensive spending review in the autumn.

The City of London welcomed the cuts package, but demanded more. Jonathan Loynes, chief European economist at Capital Economics said, “The planned efficiency savings detailed by the new government today are just the tip of the iceberg. Much bigger cuts, alongside hefty tax increases, will be needed to bring the budget deficit down”.

During the election, Liberal Democrats and Conservatives disagreed over the need to begin cutting public spending immediately. George Osborne and David Laws have now made it clear that any differences that existed between their parties with regards to timing have dissipated in the wake of developments in Greece.

“The fiscal crisis in Greece has shown the price that governments pay when they lose credibility in the markets”, the *Economist* pointed out. “The Lib Dems now agree with the Tories on the need to demonstrate that the new government means business...”.

The package of cuts reflects the priorities set out last week in the coalition’s Programme for Government. Conservative Prime Minister David Cameron and his Liberal Democrat deputy Nick Clegg unveiled the programme amid some nervousness from the Tory right, which feared that their visceral class instincts might be toned down by the presence of Liberal Democrats in the

government. But, as the *Daily Telegraph* immediately recognised, “behind some obvious Lib Dem language, the hard-line Tory policies have survived almost precisely intact”.

Cameron and Clegg insisted that the most urgent task facing the coalition is reduction of the public sector in order to tackle the £145 billion deficit, which amounts to over 10 percent of gross domestic product. The *Financial Times* noted with some satisfaction, the “tough line on pay, overtime and protection from dismissal go well beyond the Conservative or Liberal Democrat manifestos”.

While the action of the markets against Greece and the euro has galvanised the coalition into action, its members already shared a common class position. It is estimated that 23 out of the 29 new cabinet members are sterling millionaires. The proportion of wealthy among the Liberal Democrats is just as high as the Tories. In short, this is a government of the financial elite for the financial elite.

David Laws is a former investment banker. He was vice president of JP Morgan from 1987 to 1992, and then managing director and head of US Dollar and Sterling Treasuries at Barclays de Zoete Wedd. He retired from the City of London at the age of 28 with a personal fortune.

Initially there was some concern about the inclusion of Liberal Democrat Vince Cable in the government as business secretary. The *Daily Telegraph* wrote of the “horror” in the City at Cable’s appointment. The reason for this concern is that Cable has suggested the tax threshold might be raised for the poorest, spoken out about bankers’ bonuses and called for financial reform.

In the event, however, any anxiety about Cable’s presence in the government or hope that he might prove to be a moderating influence, have proved to be ill-founded.

His department will take the largest cut in spending. It will lose £836 million from its budget, the biggest single item in the entire package.

When asked how Cable had reacted to this, David Laws replied that Cable was “very pleased indeed” to play his part in making the cuts. Cable, he said, “is the deficit hawk’s pin up”.

The implications of the cuts in the Department of Business go far beyond the inner conflicts of the coalition. Regional budgets and universities come under the remit of this department. Eighty-two million pounds will come out of the universities budget and a further £74 million from regional development.

A likely casualty is the Forgemasters plant in Sheffield, which was anticipating a regional development loan to help it construct components for the nuclear industry. The project was expected to create hundreds of new jobs.

Another heavily hit department is Transport, which has to find £683 million in savings. This will inevitably mean that road maintenance and construction have to be scaled back, threatening many thousands of jobs.

Stephanie Flanders of the BBC estimates that 27 percent of the cuts will fall on private contractors who work for central and local government. Osborne and Laws refused to say how many public sector jobs would go this year. Some estimates suggest the figure will be at least 300,000, and as high as 700,000 when the National Health Service (NHS) and wider public sector are taken into account.

Osborne and Laws claimed that spending on education and health would be protected. But the coalition intends to cut £1.165 billion from the grant that central government gives to local authorities. The Department for Communities and Local Government faces a 7.4 percent reduction in its budget. This will hit schools, libraries, museums, social services, and a whole range of vital public services, such as refuse collection. In addition, councils will be given greater discretion in the allocation of their budgets so that no areas of spending will be ring fenced.

The Department of Education will have to make £670 million in cuts despite the pretence that education spending is to be protected. Laws said that this reduction would be achieved through the elimination of waste. He further claimed that funding for schools and Sure Start, the government scheme for children under five, would not be affected. But key areas of school funding, such as computing, are on the government’s hit list. Schools will find themselves increasingly relying on the fund-raising efforts of parent-teachers associations to find the money

for technology that is essential to modern education.

As far as the National Health Service is concerned, the coalition’s pledge to protect frontline services is a fraud. There is already a £20 million shortfall in funding as a result of the actions of the Labour government, which froze health spending. Under existing plans as many as 100,000 NHS workers face losing their jobs. In some regions 10 percent of NHS staff may be sacked.

Cost-saving measures include the closure of wards, shuttering of emergency facilities during the event, restriction of access to surgeries, denial of operations such as joint replacements, and shifting the responsibility for some areas of health care to social service departments. London alone faces £5 billion in NHS cuts.

The Royal College of Nurses has warned that the cuts already planned under Labour would result in a return to the days of patients waiting years for operations and being treated on trolleys in corridors.

What Osborne and Laws made clear, as Cameron and Clegg had done at the launch of the coalition’s programme for government, is that this is just the beginning. Laws told the *Financial Times* that his plans to bring down the budget deficit, the biggest since World War Two, would need “aggressive” cuts and that the choice lay between “the unpalatable and the disastrous.”

“We are moving from an age of plenty to an age of austerity in the public finances,” he said. “There will be many more tough decisions.”



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