

Spending cuts in Britain worst since World War II

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After detailed examination of the UK coalition budget measures, the Institute for Fiscal Studies (IFS) said the country faces the “longest, deepest, sustained period of cuts to public services spending at least since World War II”. It is the first time that a British government has proposed six consecutive years of spending cuts.

The IFS refuted the Conservative-Liberal Democrat government’s rhetoric that the rich would “feel more pain” than the poor, stating, “If you look at reforms due to be introduced in 2013 and 2014, they hit the poorest hardest and indeed keep on hitting them more and more every year”.

Furthermore, IFS states, “looming cuts to public services...are likely to hit poorer households significantly harder than richer households”.

As experts worked through the implications of the fine print contained in the Treasury Red Book that sets out the details of the budget, it became clear that more than one million people face eviction from their homes. Some 900,000 people in private rented accommodation will lose their housing benefit under Chancellor George Osborne’s plan to cut housing allowance by 40 percent. Hundreds of thousands of people who rent homes from local authorities and housing associations will be forced out of family-sized properties under the benefit changes. A total of three million people will be affected by the housing benefit changes.

Conservative estimates suggest that 725,000 jobs will be lost in the public sector over the next five years. Another 200,000 people are likely to lose their jobs as a result of the rise in VAT. The current official jobless total stands at 2.51 million, or 8 percent of the workforce. The government’s measures will add at least another million to that figure.

The real total of unemployed and underemployed is

considerably higher. More than one million are currently in part-time employment because they are unable to find full-time work.

Deputy Prime Minister and Liberal-Democrat leader Nick Clegg told the BBC’s *Today* programme that the government had been forced to take tough decisions because of the international economic situation. “We’ve got this sort of economic fire-storm on our doorstep in Europe, where the markets are putting huge pressure on one country after the next, knocking on the door in Greece, in Spain, in Portugal, and so on. There’s a real worry that if we don’t take action now we will be the next victim, if you like, of that kind of market panic”.

Shadow Chancellor Alistair Darling has criticised the coalition’s budget, warning that it risks pushing the UK into a double-dip recession and claiming Labour would not have made such drastic cuts. The truth is that many of the cuts were already in train when the coalition came to power. Labour planned a 20 percent across-the-board cut. Some 70 percent of the fiscal consolidation measures had already been identified by Labour. Had they been returned to power, Labour would have extended their proposed cuts to satisfy the financial elite.

Markets responded favourably, as the full impact of the coalition’s budget measures were grasped. Moody’s, the rating agency, confirmed the government’s AAA status and declared that the budget was a “key step towards reversing the significant deterioration in the Government’s financial position that occurred over the past two years”.

The bond markets were pleased with the budget. The yield on 10-year gilts fell two basis points to 3.43 percent. The reason for the markets’ confidence is the sheer scale of the cuts. While Osborne spoke of a 25

percent cut for every government department, the real level of cuts is likely to be 33 percent, according to the IFS.

“Margaret Thatcher, famous, or infamous, for her eagerness to take an axe to the big state, never dared to cut so deep”, Philip Stephens commented in the *Financial Times*.

As Martin Wolf points out, also in the *Financial Times*, that means one third from higher education, the home office, justice, transport and housing. It is, he writes, “unlikely to prove politically sustainable.... It is also evident that further cuts to benefits will be needed. According to the IFS, the cuts for the other departments would ‘only’ be 25 percent, in real terms, if the government could identify another £13bn in cuts to benefits”.

These will come in the autumn spending review and in the reviews of public sector pensions and public sector jobs that are under way.

The Bagehot column in the *Economist* sounded a warning note about the cuts still to come and the reaction they will elicit:

“Behind Mr Osborne’s lofty ratio between spending cuts and tax rises, there are human beings. Lots now know they will have to pay up, but many of those who will pay the most—i.e., with their jobs—do not, yet. When, in an authoritarian country, swathes of the population are given up to invaders or sacrificed in battle, there isn’t much the victims can do to trouble the commissars. In Britain, there is: they can vote, of course, but also march through London, cripple the country with strikes, even riot”.



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