

ALL PAIN NO GAIN

the case against cuts

“Cuts: there is an alternative!”

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*“this pamphlet
argues that the
cuts will not
actually reduce
the deficit”*

Section one

What cuts are planned?

The Coalition Government has said that reducing the deficit in the public finances is “the most urgent issue facing Britain”. To reduce the deficit, the Government wants to cut the amount it spends by at least £60 billion or around 10 percent of all public spending. Some think the cuts could well be considerably higher than this. There will be some tax rises to help pay off the Government’s debts but the great bulk of the savings are to come from cuts.

The cuts will not come equally from all areas of spending because the Government has said it wants to protect some services. So although there may be around one tenth cut off spending altogether, some areas will have much bigger cuts so that other areas face smaller or no cuts. For example, George Osborne has said that spending on benefits, tax credits and pensions may face cuts closer to 15 percent or even 20 percent while the Ministry of Defence may lose as much as 25 percent.

At the time of writing this pamphlet, the Government had announced just £6 billion worth of cuts. This has already led to spending reductions in areas such as support for unemployed young people, universities, youth services, legal aid and the Child Trust Fund.

The Government argues that the cuts are unavoidable. They also argue that they can be made without damaging services or the wider economy or hurting the most vulnerable – that these will be “fair” and “progressive” cuts. This is fundamentally wrong. This pamphlet draws on the historical experience of cuts and other evidence to show that spending cuts:

- will damage the quality of public services
- will damage the wider economy and jobs
- will hurt the most vulnerable.

Most importantly, this pamphlet argues that the cuts will not actually reduce the deficit. Because spending reductions will hurt the economy and create unemployment, the tax received by the Government will actually decline as companies pay less tax on falling profits and people out of work stop paying income tax and VAT. This actually means the deficit is likely to get worse.

In short, the Coalition Government will impose a great deal of pain on the British people for no gain.

Finally, the pamphlet explains that there is a more effective way to reduce the deficit. There is an alternative.

Section two

Cuts will damage public services

The Conservative Party was very keen during the election campaign to argue that it could introduce cuts without damaging the quality of public services. This could be done, they claimed, because there was so much waste in Government.

The same arguments were made the last time we saw deep and sudden cuts in spending – the early 1980s. But the evidence of this period is not kind to Conservative claims. Services suffered very seriously as a result of those cuts and continued to suffer for many years afterwards. Waiting times of years in the NHS and children being taught in crumbling schools, problems that were common by the 1990s, were a direct result of those cuts. Indeed, this was the main reason why the Conservative Party lost the 1997 election so badly.

One of the reasons why cuts are so damaging to public services is because they make it much harder for staff to deliver a good service. As the Audit Commission (the body that inspects services) recently noted, where jobs are lost so are skills, knowledge and capacity¹ – meaning that services inevitably suffer.

Cuts also have a big impact on staff morale and efficiency. One recent survey found that a majority of managers believed that cuts would lead to heavier workloads, would lower staff morale, would increase stress and damage the quality of service provided to customers². A study of the cuts already imposed by the Labour Government before the election found that service quality and staff morale had already fallen³. Similarly, the Head of the Armed Forces recently commented that those cuts had a “cumulative and corrosive” impact on troops’ morale⁴.

¹ Audit Commission (2010) *Surviving the Crunch: Local Finances in the Recession and Beyond* London: Audit Commission.

² Sweeping Cuts Will Cripple Public Services, Warn Worried Managers, 19th February 2010, Institute of Leadership and Management <http://www.i-l-m.com/research-and-comment/7801.aspx>

³ House of Commons Treasury Committee (2009) *Thirteenth Report: Evaluating the Efficiency Programme* London: The Stationary Office.

⁴ Public Service, Cuts have 'corrosive' effect on morale, Monday March 01, 2010 http://www.publicservice.co.uk/news_story.asp?id=12283.

Unsurprisingly far fewer workers than last year now say they would consider working in the public sector⁵. This makes it much harder for public services to recruit the best people and to consequently improve services.

Finally, although it is easy for politicians to argue that cutting ‘backroom’ jobs will not affect services, the reality is that administrative staff and “back office functions” are essential to enable frontline workers to do their jobs. For example, the NHS would not be able to survive without staff to book appointments, analyse blood tests, process X-rays or make sure that wages are paid on time. Cuts in human resources, finance and secretarial staff make life much harder and more stressful for those on the frontline.

Asking workers to do ‘more with less’ might sound like a good idea, but in practice less spending means increased workloads, more stress, low morale and poorer quality services.

The Government argues that they can save money and deliver good services by bringing in private companies to do the work of the public sector. In fact, this is a process that has been going on for decades under Conservative and Labour Governments. But in reality, there is scant evidence that private companies have saved public money or delivered services more efficiently.

By contrast, there is plenty of evidence of outsourced projects going over budget and proving unfit for purpose. For example, there are Transport for London’s expensive experiments with private contractors or the numerous Public Finance Initiative (PFI) funded projects that have been bailed out by the taxpayer⁶. A recent House of Commons Committee study concluded that the costs incurred by introducing private firms and competition into the NHS could be as high as 14 per cent of overall health service budgets⁷. Numerous studies of different services have come to the same conclusions.⁸

Privatisation may seem like a quick way to make initial savings – but the evidence shows that it quickly leads to deteriorating service quality and poor value for money.

⁵ HR Magazine, *The Public Sector Has Lost its Appeal for Private-sector Jobseekers*, 5th March 2010, <http://www.hrmagazine.co.uk/news/988489/public-sector-lost-its-appeal-private-sector-jobseekers>.

⁶ TUC (2010) *Exploding Privatisation Myths* London: TUC.

⁷ House of Commons Health Committee (2010) *Commissioning: Fourth Report of Session 2009–10*, London: The Stationary Office.

⁸ TUC (2009) *Rethinking Public Service Reform: Touchstone #2* London: TUC
Community Care, *Practitioners Lack Confidence in Personalisation*, 17th May 2010, <http://www.communitycare.co.uk/Articles/2010/05/17/114527/Practitioners-lack-confidence-in-personalisation.htm>.

TUC (2010) *Exploding Public Services Myths* London: TUC.

UNISON (2008) *Driven by Dogma: Outsourcing in the Health Services* London: UNISON

Case study: cuts in Canada in the 1990s

The Government has recently held Canada's experience of reducing its deficit in the mid-1990s as a model for the UK to follow. What no politician mentions is that Canada did this by aggressively reducing the budgets of key public services with dramatic cuts in education, health and social service spending.

In Alberta, education was cut by 12.4 per cent, healthcare by 18 per cent and social services by 19.3 per cent. Outside of these areas spending was cut by nearly 30 per cent, with some departments – such as economic development – being essentially eliminated⁹. At least 265,000 jobs were lost in Canada's public services¹⁰.

The worst off were hit hardest – in Ontario the 'Progressive Conservative' Government reduced benefits by 21 per cent in its first year of office.

It is often argued that Canada is a success story because the Government managed to reduce its debt by almost one half. But economists have estimated that around 80 per cent of this decline was due to the expansion of the economy as a result of growth across the world during the 1990s and early 2000s¹¹. One group of economists have since suggested that there is "grave doubt on whether the degree of social spending cuts was ever warranted or needed to balance government budgets"¹².

⁹ Wilson P, *Deficit Reduction as Casual Story: Strategic Politics and Welfare State Retrenchment*, The Social Science Journal, Volume 37, Number 1, pp91-112.

¹⁰ CIPD reference from 10 June 2010

¹¹ CUPE (2004) *Federal Election Briefing, Paul Martin: Canada's CEO* CUPE: Ottawa.

¹² Phillipps L (1997) *The Rise of Balanced Budget Laws In Canada: Legislating Fiscal (ir) Responsibility* 34:4 Osgoode Hall Law Journal pp 681-740.

Section three

Cuts will damage jobs and the economy

The cuts planned by the Government will not only damage the quality of public services, they will also weaken the economy and lead to job losses in both the public and private sector.

This is a particularly self-defeating aspect of the cuts programme - as businesses lose profits and as people lose jobs, they pay less tax. This means that the Government has less money to pay off the debt and so the deficit actually gets worse. This is precisely what happened in the 1930s and 1980s when governments tried to solve deficits by cutting.

Job losses

Public sector pay accounts for about thirty percent of all government expenditure¹³ so it is inevitable that cuts would lead to jobs being lost.

There have been a number of attempts to calculate just how many jobs would be lost in the public sector for a given level of cuts. One method used by the TUC¹⁴ suggests that the planned level of cuts could lead to job losses of between 200 and 250,000 public servants¹⁵. A study by the Chartered Institute of Personnel and Development, which has no party political allegiance, suggested job losses in the public sector could reach 750,000¹⁶. While a report for the Conservative supporting think-tank, Reform, suggested that a million public sector jobs would need to be lost to reduce the deficit¹⁷.

Cuts mean job losses in the private sector as well as the public. Official data shows that, in recent years, public spending on the private sector is higher and has risen faster than pay for public service staff. The data suggests that a ten

¹³ *Green Budget*, IFS, 2010, p. 213, <http://www.ifs.org.uk/budgets/gb2010/10chap9.pdf>

¹⁴ *An Analysis of Public Sector Spending and Jobs*, TUC, 2009, <http://www.tuc.org.uk/extras/publicspendinganalysis.pdf>

¹⁵ *An Analysis of Public Sector Spending and Jobs*, TUC, 2009, <http://www.tuc.org.uk/extras/publicspendinganalysis.pdf> p. 10; *Public Expenditure Statistical Analysis 2010*, HMT, table 4.1, http://www.hm-treasury.gov.uk/pesa2010_section2.htm ; Public Sector Employment Statistics, ONS, <http://www.statistics.gov.uk/statbase/tsdtables1.asp?vlnk=pse>

¹⁶ CIPD reference

¹⁷ *The Front Line*, Andrew Haldenby, Patrick Nolan, Lucy Parsons & Greg Rosen, Reform, 2009, p. 36, <http://www.reform.co.uk/portals/0/Documents/Front%20line%20FINAL.pdf>

per cent cut in spending would mean that £18 billion less was spent on the private sector.

One analysis looked at the effect on jobs of measures to cut the UK deficit¹⁸. Its calculations suggest that cuts of £60 billion would cost three-quarters of a million jobs across both private and public sectors¹⁹.

And, of course, this only means extra pressure on public spending. In 1999 the Department for Social Security estimated that every 100,000 increase in unemployment raises benefit spending by £500 million - a figure that is almost certainly higher now²⁰. So any attempt to reduce the deficit that causes job losses ends up costing the Government vast sums which only threatens an even higher deficit.

The wider economy

The demand for public sector cuts is often based on the assumption that private sector businesses create the wealth which public services then spend. These services may be nice to have, but during an emergency, they have to be sacrificed because they hold back the businesses that pay for everything else. This is mistaken. On the contrary, all businesses depend on public services to function efficiently.

Business organisations would complain loudly, for example, if deficit reduction meant cuts in spending on transport or training. A glance across the Atlantic reminds us that one of the reasons that President Obama has fought so hard to improve state healthcare is because businesses rely upon healthy workers. High rates of absenteeism due to sickness is a serious drain on an economy.

Businesses also rely on well-educated workers. The Commission on Employment and Skills has argued that skills shortages delayed recovery in previous recessions²¹. This time, Britain's economic recovery depends on more public investment in apprenticeships and other training measures not less.

The view that services can be ditched during a recession is particularly short-sighted because it is, in fact, just at this time that decent services are needed more than ever to keep the economy afloat. Unemployed people need more investment in employment programmes like the Future Jobs Fund which the

¹⁸ *The Impact of job Measures to Cut the UK Fiscal Deficit*, Progressive Economics Panel, April 2010, <http://www.progecon.org.uk/wp-content/uploads/2010/04/PEP-paper-Deficit-and-jobs.pdf>

¹⁹ Reached by applying the findings to a £1.4 trillion economy, [GDP at market prices, seasonally adjusted www.statistics.gov.uk/statbase/] with 28.8 million people in employment [Labour Market Statistics, ONS, 12 May 2010, <http://www.statistics.gov.uk/pdfdir/lmsuk0510.pdf>].

²⁰ Quoted in *Britain's Fiscal Squeeze: the choices ahead*, IFS briefing note 87, Robert Chote, Rowena Crawford, Carl Emerson and Gemma Tetlow, IFS, 2009, p. 7, <http://www.ifs.org.uk/bns/bn87.pdf>

²¹ "The role of Skills in Recession - and Recovery", speech by Chris Humphries, CEO of the UKCES to CIPD/ACAS conference, <http://www.slideshare.net/acascomms/chris-humphries>

Government has just cut. The NHS, social services and the police all face higher demand, not less, during a recession.

Case study: the cuts in Ireland

Ireland entered recession in September 2008, the first Eurozone country to do so²². Since then unemployment has nearly doubled and the economy has shrunk by 10 percent. Like all countries facing this situation, Ireland was left with a big public deficit. The Irish Government's response was to start cutting in 2008 – earlier than other European nations. Since then there have been major cuts to child benefit, unemployment benefit, education and transport. There have also been very big cuts to public sector pay and pensions and a ban on recruitment and promotions.

Ireland's approach won some influential friends in the UK. Daniel Hannan MEP – who is popular on the right of the Conservative Party – recommended that “Alistair Darling should learn from Ireland”²³. And Andrew Haldenby - Director of the Conservative supporting think tank Reform - congratulated Ireland for cutting benefits, public sector jobs and pay²⁴.

However, the cuts have not produced the results expected. The Irish Government predicted that growth and employment would recover as a result of the cuts just as the UK Government is now predicting. In fact the Irish economy shrank and unemployment grew in 2009. As a result tax revenues are falling and the deficit has not improved.

The cuts have also had a serious impact on the quality of public services. For example, plans to reduce class sizes have been dropped and bus and train fares have risen faster than inflation.

²² Data shows economy is officially in recession”, David Labanyi and Barry O'Halloran, *Irish Times*, September 25, 2008, <http://www.irishtimes.com/newspaper/breaking/2008/0925/breaking36.html>

²³ *Daily Telegraph* Blogs, 9 December, <http://blogs.telegraph.co.uk/news/danielhannan/100019380/pre-budget-report-alistair-darling-should-learn-from-ireland/>

²⁴ Alistair Darling needs to tell us that public sector services will be affected by cuts”, Andrew Hadenby, *Coffee House*, 23-3-2010, <http://www.spectator.co.uk/coffeehouse/5860433/alistair-darling-needs-to-tell-us-that-frontline-services-will-be-affected-by-cuts.thtml>

Section four

Cuts will hurt the most vulnerable

The Government has been keen to claim that the cuts will be “fair” and even “progressive”. It has promised that it “will introduce arrangements that will protect those on low incomes from the effect of ... spending constraints²⁵.” The problem with this claim is that it is people in poverty who are much more likely to be users of the services that will be cut or downgraded.

For example, many services only exist because they help people cope with the effects of poverty and deprivation. And many services are used much more by the less well-off – public transport, for instance, is used by lower income groups as they are less likely to have a car²⁶.

Politicians do not like to admit it but it is important to remember that Britain has an unusually large number of people living in poverty or on very low wages for an advanced European economy. It has also become a very unequal economy over the last thirty years. Because of this, according to TUC analysis of official data, the amount of money spent by the Government on individuals and their families through benefits and public services accounts for the majority of the income of the less well-off half of the population, if those services are treated in cash terms. This means anyone earning around £20,000 or below is likely to face a significant blow to their incomes and to the services they use as a result of the cuts.

The cuts will also hit some regions much harder than others and these will tend to be regions with concentrations of less well-off people. This is because these areas tend to rely on public services more heavily but also rely on the public sector more for jobs. Areas such as the North East, Wales and Northern Ireland will be particularly badly hit.

Conservative politicians have argued that these areas have become over-reliant on the public sector for support and jobs and must be weaned off. This overlooks the fact that the reason these areas are now so reliant on the public sector is because the thriving manufacturing companies that once dominated their economies were destroyed by the 1980s recession and cuts and have never

²⁵ *The Coalition: our programme for government*, HMG, 2010, p 15
http://www.direct.gov.uk/prod_consum_dg/groups/dg_digitalassets/@dg/@en/documents/digitalasset/dg_187876.pdf

²⁶ Around half of households in the poorest fifth of the income distribution do not have a car, compared to roughly one in ten in the richest half. *Monitoring poverty and social exclusion 2009*, JRF, 2009, p 102 <http://www.jrf.org.uk/sites/files/jrf/monitoring-poverty-social-exclusion-2009-full.pdf>

been replaced by any other business activity or investment of a similar scale. The idea that massive cuts in the public sector will magically lead to new jobs being created in the private sector is absurd at any time but is particularly absurd at a time of recession or very low growth.

Many charities rely on public money to function. Funding from central and local government now accounts for 36 per cent of charities' income. As a result public sector cuts could hurt thousands of good causes that are household names. This would have tremendous implications for people who use these organisations' services, as there is already evidence that demand for these services has been growing very fast during the recession. Last year a survey of charities found that 36 per cent expected to see higher demand for their services even while 20 per cent expected to have to cut their services²⁷.

So even though the Government is very keen to present its cuts as fair, it is inevitable that the planned cuts will impact on the poorest and most vulnerable the hardest.

Case study: cuts in the UK in the 1980s

The idea that spending cuts will hit the most vulnerable is not just guess-work. We know this will happen because it is precisely what happened in the 1980s. The deep cuts introduced by Margaret Thatcher made the British economy far less equal and forced millions into poverty.

During the 1980s the number of children living in poverty rose from one and a half million to three million²⁸ and 100,000 more families were homeless at the end of the 1980s than at the beginning²⁹. And in 1976 death from adult diseases was 80 per cent higher for men in the lowest social class than those in the highest social class but this rose to a 128 per cent difference by 1989.

²⁷ *Government Policy, Recession and the Voluntary Sector*, Steve Davies for UNISON, Nov. 2009, p. 15, <http://www.unison.org.uk/acrobat/18938.pdf>

²⁸ Becker (ed) (1991) *Windows of Opportunity: Public Policy and the Poor* London: Child Poverty Action Group p27.

²⁹ Walker and Walker (eds) (1997) *Britain Divided: The Growth of Social Exclusion in the 1980s and 1990s* London: Child Poverty Action Group p141.

Section five

Cuts: there is an alternative

The Government argues that there is no alternative to the very painful cuts they are planning. If spending is not slashed, they claim, the people who lend money to the Government will worry that they will not be repaid: the result of this could be that the lenders charge higher interest rates which will hurt the public finances and the wider economy or, worse, they may decide to stop lending altogether. Greece experienced this sort of crisis in Spring 2010.

There are two problems with this argument though. Firstly, the UK situation is not at all like Greece. The Greek Government faces two big problems we do not face here: it has always been very difficult to collect taxes in Greece and the Greek debt has to be repaid quickly because of the type of agreements with lenders. The great majority of people in the UK pay their taxes properly and much of the UK debt does not have to be repaid for years or even decades. This may explain why the UK Government is not actually facing any problems borrowing money despite claims of impending panic.

Secondly, not all lenders are convinced that deep and sudden cuts are the best way to reduce the deficit. Many agree with the analysis in this pamphlet that cutting too soon and too deeply will damage the economy and reduce tax revenues which will make it harder, not easier, for the Government to pay back its debts. Much of the worry amongst lenders over Greece and more recently over Spain has been as a result of these fears³⁰.

The Government also argues that cuts are necessary because the Labour Party overspent when they were in power. It is true there were concerns that spending was getting too high because the previous Government had not received as much tax as expected. This was the main reason why Labour introduced £15 billion worth of efficiency savings and held public sector pay rises down. But it is absurd to pretend that the serious problems with the public finances are anything other than the result of the worst banking crash and recession in decades. This has massively reduced tax revenues while increasing the amount spent on unemployment benefit and attempts to keep the economy afloat. If the current deficit were really the fault of Gordon

³⁰ See Paul Mason's comment that "Greece spooks the markets because it reminds them that, despite the soaring profits and bonuses at the investment banks, we could go into a global double-dip recession - and if we do, there are no bullets left in the clip in terms of saving the banks." *Idle Scrawl*, Paul Mason's blog, for 5 May 2010, <http://www.bbc.co.uk/blogs/newsnight/paulmason/2010/05/>

Brown alone, it is difficult to explain why so many governments across the world have faced a deficit crisis in the wake of the crash and recession.

The truth is cuts are the very worst way to reduce a deficit. The Government's plans will cause enormous hardship to millions of people and set the economy back years while failing to achieve the very thing all this pain is supposed to achieve – reducing the deficit.

Instead, the Government should focus on a three-pronged attack on the deficit.

Firstly, it must accept that economic growth is the only sustainable way to reduce the deficit. This means working closely with the European Union and countries outside Europe to take co-ordinated action. Public spending must be maintained across the world to prevent the risk of another global recession. And inflation needs to be allowed to rise in a limited way because attempts to keep inflation very low stifle growth.

Unfortunately, European governments and the European Central Bank are now doing precisely the opposite of these things as a result of the fears generated by the Greek crisis. The UK Government should be arguing against this self-defeating panic but it is actually acting as the chief cheerleader.

Secondly, taxes must bear a heavier burden. At the moment, the Government plans to use cuts far more than taxes to reduce the deficit. Higher taxes are, of course, not popular and they can have their own damaging effects on the economy if raised too high. But taxes raised when the economy is healthy again are a much more efficient and fair way of reducing the deficit. While cuts will impact on those on middle and low incomes, taxes can be raised in a way that means those most able to contribute do so. A tax on big financial transactions by banks, for example, could raise more than £3 billion a year³¹.

Taxes also have the benefit that they can be raised or lowered relatively quickly and easily depending on how the economy is doing. Changing levels of public spending is a far slower process that can have very long term effects on an economy which are difficult to eradicate.

Far more taxes could also be collected now without actually changing any tax rates. The TUC has estimated that £25 billion is lost to tax avoidance by wealthy individuals and companies each year and that a further £8 billion is used up in tax allowances and reliefs used by the well-off³². It has also been shown that recruiting an extra 20,000 staff to work on tax collection could bring in an extra £20 billion a year³³.

³¹ Robin Hood Tax Campaign website, FAQ, <http://robinhoodtax.org.uk/debate/don%E2%80%99t-all-countries-have-to-implement-a-robin-hood-tax-at-once-for-it-to-work/2/>

³² *The Missing Billions*, TUC, 2008, <http://www.tuc.org.uk/touchstone/Missingbillions/1missingbillions.pdf>

³³ *The Great Tax Parachute*, Green New Deal Group, 2010, http://www.neweconomics.org/sites/neweconomics.org/files/The_Great_Tax_Parachute.pdf

Cuts: there is an alternative

Finally, the Government needs to reject the timetable currently in place for deficit reduction. The plan is to reduce the deficit by half or more by 2014. But there is no logic to this very tight timetable. It was introduced by the Labour Government simply as a way to show how tough it planned to be on the deficit. If the economy remains unhealthy for some time (as David Cameron himself recently admitted) then deep and speedy cuts will only make a bad situation much worse and do nothing to help the public finances. It would make far more sense to decide on deficit reduction on a year-by-year basis as we know exactly how the economy is performing.

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The Government claims to have conventional wisdom on its side when it argues for deep cuts. This is questionable, especially since over sixty economists wrote to the *Financial Times* in February 2010 urging the Conservatives to ditch their plans for early cuts.

It was also conventional wisdom for many years that very light regulation of the banking sector was the best way to ensure economic growth. Only a few lone voices, including the TUC, warned against the risks that were being created. It is vital on this occasion, as well, that the Government listens seriously to those expressing doubts if we are not to rush headlong into yet another economic and social calamity that will, once again, hit ordinary working people the hardest.



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