

There is an **alternative...**

The case against cuts
in public spending



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Foreword

We are told there is a deficit crisis in the UK. We are told that we are spending beyond our means. We are told that the solution to this deficit crisis is to cut public spending.

Public spending is an investment, not a debt. Public servants – the vast majority of whom are low paid – deliver vital services to our communities. The campaign of vilification against public services is motivated by a desire to cut and privatise these vital services. The reality is that there does not need to be a single penny taken away from any public service, or a single job lost.

The deficit is due to the recession, which has reduced revenues as less people are in work and are therefore spending less. At the same time, government expenditure has increased as more people are without work and are entitled to benefits.

If the government cuts more jobs this will only exacerbate the deficit crisis – more people will be unemployed and there will be less revenue.

The answer to the crisis is therefore to create jobs not cut them. Currently there are less than 500,000 vacancies, while 2.5 million people are unemployed. 'Getting tough' on welfare will not work since there are not the jobs available. It will simply cause more misery – which is the only possible outcome of the coalition government's policies.

This is why we must resist this government's policy of savage cuts, and reject their flawed arguments. We need a new economic strategy based on public investment, job creation, and tax justice.

Over the coming months we need to win the arguments for this alternative and then force government to implement it. Otherwise our members and our communities could face years of misery. This short pamphlet spells out the compelling case against cuts, and for a new vision.

A handwritten signature in black ink, appearing to read 'M. Serwotka'.

Mark Serwotka
General secretary

A handwritten signature in black ink, appearing to read 'Janice Godrich'.

Janice Godrich
President

The government's cuts strategy – and why it's wrong

Firstly, we need to get the 'debt crisis' in perspective. The table opposite shows UK debt relative to other major economies.

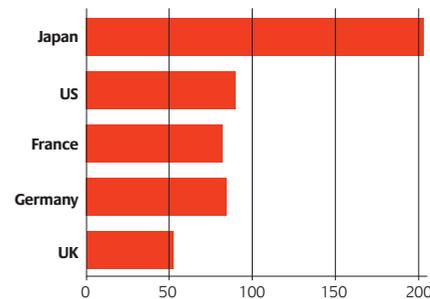
From 1918 to 1961 the UK national debt was over 100% of GDP. During that period the government introduced the welfare state, the NHS, state pensions, comprehensive education, built millions of council houses, and nationalised a range of industries. The public sector grew and there was economic growth.

Today, the coalition government wants to turn back the clock. It is set on dismantling the NHS and comprehensive education, and it is attacking the welfare state. It is not doing this because the country is on the verge of economic collapse, it is doing it because it is ideologically opposed to public services and the welfare state, and committed to handing over more of our public assets to big business.

Cutting public sector jobs will increase unemployment. This would mean increased costs for government in benefit payments and lost tax revenue. If people's incomes are taken away or cut through pay freezes they will spend less. Less consumer spending means cuts in the private sector, and lower VAT revenues.

Internal analysis by HM Treasury proves this to be the case. Leaked documents estimated that over the next

Debt as % of GDP



six years 600,000 public sector jobs would be cut, and 700,000 private sector jobs would also be lost – based on the current government's policies.

Job cuts are therefore counter-productive. Mass job cuts would worsen the economic situation by reducing demand in the economy, and providing less tax revenue.

The government claims it can make cuts of between 25% and 40%, and still "protect frontline public services". This is impossible – not just because 'frontline services' are being cut, but because services rely on 'back office' support staff. For example, cutting support staff like NHS cleaners has meant an increase in healthcare acquired infections, costing the NHS £1 billion. All public services require tax revenues to fund them, yet HM Revenue & Customs has cut 25,000 staff in recent years, which has led to

The experience of Ireland

Ireland shows how cutting public spending can damage the economy. The crisis in Ireland was caused by the collapse of its banking sector. The massive cuts in spending and public sector pay that followed have increased unemployment and sapped demand, causing the economy to shrink further. Because of this, Ireland is now considered more at risk of sovereign default than before it started making cuts. Historical research clearly demonstrates that budget cuts actually provoke increases in the national debt by damaging the economy.

uncollected tax at record levels and a growing tax gap.

The impact is likely to be highly divisive too. There is evidence of this already in the UK. In areas where public sector workers have already been laid off, retail sales have fallen faster than the UK average. In nations and regions where public sector workers make up a high proportion of the workforce, major public sector cuts could destroy local economies. Any attack on the public sector will also

disproportionately affect women, as 68% of the public sector workforce is female. The public sector also has a much better record of employing disabled workers too.

The global race to cut labour costs is central to the economic collapse we have seen around the world. Squeezed consumers are defaulting on mortgages and personal debts, and are less able to spend in the economy. In the UK, the value of wages has declined from nearly 65% of GDP in the mid-1970s to 55% today. Over the same period, the rate of corporate profit has increased from 13% to 21%. It is no coincidence that in this period trade union rights were severely restricted, large swathes of the economy privatised, markets deregulated and corporation tax slashed.

There is an urgent need to rebalance the economy in the interests of people over big business.

Economic growth and public investment

Investing in public services is the solution to the deficit crisis. Instead of cutting jobs, we should be creating them. Jobs are not created by bullying people on benefits into jobs that don't exist. Instead there are several areas where public sector jobs urgently need to be created.

It has been estimated that over a million 'climate jobs' could be created if the government was serious about tackling both climate change and unemployment – these would include areas like housing, renewable energy and public transport investment including high speed rail, bus networks and electric car manufacture.

Today there are 1.8 million families (representing over 5 million people) on council house waiting lists. There is an urgent need to build affordable housing for these people, which would also help reduce housing benefit payments.

The UK lags behind much of the rest of Europe in the development of a high-speed rail network, which would have the potential to create thousands of jobs and reduce carbon emissions by shifting passengers and freight away from road and air travel. Much of the country outside of London also needs huge investment in bus services – and, just as we should invest in electric car technology,

we should also invest in electric buses and tram networks.

Only 2.2% of UK energy comes from renewable sources compared with 8.9% in Germany, 11% in France, and an impressive 44.4% in Sweden. If we are committed to tackling climate change and ensuring domestic energy security there needs to be investment in renewable energy technology.

All of these industries would generate revenue – people are billed for electricity, buy tickets to travel on public transport, and pay rent for council housing.

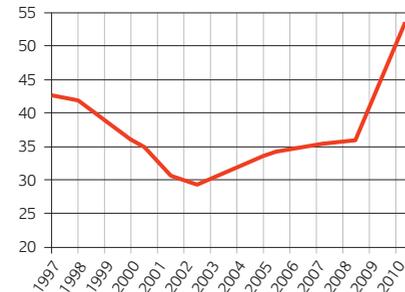
Research by Richard Murphy (of Tax Research) has shown that the state recoups 92% of the cost of creating new public sector jobs – through lower benefit payments and increased tax revenues.

The banks

We should never forget that it was the banking sector that caused the recession, and is ultimately responsible for the huge debts that the UK has amassed. Despite causing the crisis, the banking sector has escaped any significant regulation, and bankers are again awarding themselves huge bonuses.

The table opposite clearly shows how UK debt accelerated after the banking crisis in 2008.

Government debt as % of GDP



As a result of the UK government's £1.3 trillion bailout to the financial sector, the government still owns over £850 billion in bank assets. This figure is roughly equal to the total UK debt.

The UK has an 84% stake in RBS and a 41% stake in Lloyds TSB. In addition, the state also owns Northern Rock and Bradford & Bingley. Under public ownership and control these assets could yield significant annual income to the Government, and could be used to meet social needs and tackle financial exclusion.



The case against privatisation

As a result of the government's agenda to slash the public sector, privatisation, outsourcing and the Private Finance Initiative (PFI) are a fast growing threat to civil and public services despite the many performance failures of past privatisations.

Privatisation is no solution to the national debt. Evidence confirms that after transfer to the private sector the terms and conditions of workers are worse than before, the public sector loses any revenue stream while ultimately keeping the risk, and services to the public decline or cost more:

- In the DWP, welfare is now described as “an annual multi-billion pound market”, and despite the department's own research showing that Jobcentre staff outperform the private sector in helping people back to work, all contracts for welfare

- programmes are now outsourced.
- Qinetiq was a company formed from the privatisation of the Defence Evaluation and Research Agency (DERA). In 2007, the 10 most senior managers gained £107.5m on a total investment of £540,000 in the company's shares. The return of 19,990% on their investment was described as “excessive” by the National Audit Office. In 2009, Qinetiq offered its staff a pay freeze.
- Although the economic downturn has led to a drying up of bank finance for PFI projects, the government has got round this by funnelling public funds – through the Treasury's Infrastructure Finance Unit – to state owned banks who then loan finance to PFI consortia (which then claim inflated returns to government for the next thirty years, greatly exceeding the money given to them). The journalist and anti-privatisation activist George Monbiot observed, “the Private Finance Initiative no longer requires much private finance or initiative”.

Public services were won by trade union struggles in an effort to establish the basis of a civilised society. Driven by the desire for maximum profits, the private sector fails to provide effective and efficient public services.



Tax justice

Addressing the ‘tax gap’ is a vital part of tackling the deficit. Figures produced for PCS by the Tax Justice Network show that £25 billion is lost annually in tax avoidance and a further £70 billion in tax evasion by large companies and wealthy individuals.

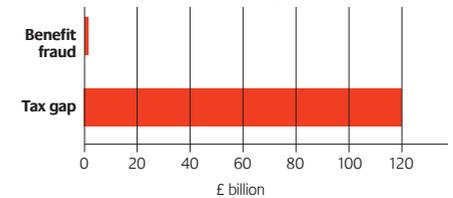
An additional £26 billion is going uncollected. Therefore PCS estimates the total annual tax gap at over £120 billion (more than three-quarters of the annual deficit!). It is not just PCS calculating this; leaked Treasury documents in 2006 estimated the tax gap at between £97 and £150 billion.

If we compare the PCS estimate of the tax gap with the DWP estimate of benefit fraud, we can see that benefit fraud is less than 1% of the total lost in the tax gap (see diagram opposite).

Employing more staff at HM Revenue & Customs would enable more tax to be collected, more investigations to take place and evasion reduced. Compliance officers in HMRC bring in over £658,000 in revenue per employee.

If the modest Robin Hood tax – a 0.05% tax on global financial transactions – was applied to UK financial institutions it would raise an estimated £20–30bn per year. This alone would reduce the annual deficit by between 12.5% and 20%.

A comparison between levels of benefit fraud and the tax gap



Closing the tax gap, as part of overall economic strategy, would negate the need for devastating cuts – before even considering tax rises.

Our personal tax system is currently highly regressive. The poorest fifth of the population pay 39.9% of their income in tax, while the wealthiest fifth pays only 35.1%. We need tax justice in personal taxation – which would mean higher income tax rates for the richest and cutting regressive taxes like VAT and council tax.



Cut the real waste

While it is not necessary to cut a penny in public expenditure due to the 'deficit crisis', there are of course areas of public spending which could be redirected to meet social needs.

In the civil and public services, we know there are massive areas of waste – like the £1.8 billion the government spent on private sector consultants last year. The government could get better advice and ideas by engaging with its own staff and their trade unions.

There is also the waste of the government having 230 separate pay bargaining units, when we could have just one national pay bargaining structure.

There are also two other large areas where government costs could be cut.

Trident

The current Trident system costs the UK around £1.5 billion every year.

A private paper prepared for Nick Clegg (in 2009, when in opposition) estimated the total costs of Trident renewal amounting to between £94.7bn and £104.2bn over the lifetime of the system, estimated at 30 years. This equates to £3.3bn per year.

At the time Nick Clegg (now Deputy Prime Minister) said: "Given that we need to ask ourselves big questions about what our priorities are, we

have arrived at the view that a like-for-like Trident replacement is not the right thing to do."

The 2010 Liberal Democrat manifesto committed the Party to: "Saying no to the like-for-like replacement of the Trident nuclear weapons system, which could cost £100 billion."

PCS policy is to oppose the renewal of Trident and invest the money saved in public services, whilst safeguarding Ministry of Defence staff jobs.

War in Afghanistan

The war in Afghanistan is currently costing £2.6 billion per year. The war is both unwinnable and is making the world less safe. More important than the financial cost are the countless Afghan and British lives that are being lost in this conflict.



The PCS alternative...

- There is no need for cuts to public services or further privatisations
- Creating jobs will boost the economy and cut the deficit. Cutting jobs will damage the economy and increase the deficit
- We should invest in areas such as housing, renewable energy and public transport
- The UK debt is lower than other major economies
- There is a £120 billion tax gap of evaded, avoided and uncollected tax
- The UK holds £850 billion in banking assets from the bailout – this is more than the national debt
- We could free up billions by not renewing Trident
- End the use of consultants



What **you** can do

- Spread the word! Download this pamphlet from the PCS website and send it to your friends, or share it using social networking sites
- Get involved in campaigns and events, and keep informed at pcs.org.uk
- Unite with other local trade unions and community groups
- Recruit your colleagues to the union – there's never been a more important time to join PCS
- Lobby your local politicians against public service cuts and against the attack on our jobs and conditions

