CRISIS

CIS CDP

SPECIAL REPORT

85p

CUTTING THE WELFARE STATE

(WHO PROFITS)

CUTTING THE WELFARE STATE (WHO PROFITS)

A CIS CDP SPECIAL REPORT

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Counter Information Services,
9 Poland Street,
London W.1
01-439 3764

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1 INTRODUCTION

Understanding the economic crisis facing Great Britain Ltd is never a simple affair. If events run true to course, average exposure to the media in the next few years will render any concerned person helpless. There will be a landslide of facts and figures, exhortations and conflicting expert opinions. It is, however, vital that what is being done in our name and claimed to be in our interest is at least understood. It is in the light of this that we have provided our independent account of the forces behind and the consequences of the proposed cuts in the welfare state.

In mid October 1975 the Treasury let it be known that central government spending in Britain in the first half of the financial year had risen by over 46% as compared with the same period the previous year. Even allowing for 25% inflation, the increase seemed little short of the fantastic. Worse, the government's revenue had only risen 31% over that period.

The figures seemed to confirm what many commentators, from the Governor of the Bank of England down, had been saying: that public spending was far too high, that the public deficit (the excess of public spending over revenue), estimated officially at £9 billion and unofficially at £12b for 1975-76, was becoming unmanageable, and that spending would have to be slashed. It seemed also to confirm what many felt, that a huge bureaucratic machine was rolling forward, gathering momentum of its own accord and out of touch with the general economic situation.

Yet at the same there were widespread reports of cuts in public spending from all over the country. Cuts that were demolishing the housing programme, impoverishing state education and taking the National Health Service to the verge of collapse, to mention just a few of their effects.

What is happening? Are these cuts illusory? Are they just unrepresentative examples, in untypical sectors of public expenditure? Are they perhaps being made up by increases elsewhere in welfare spending?

And if these cuts can happen while public spending is rising dramatically, what will happen when and if the government agrees to demands such as that voiced by the Governor of the Bank of England, that public spending should be drastically cut?

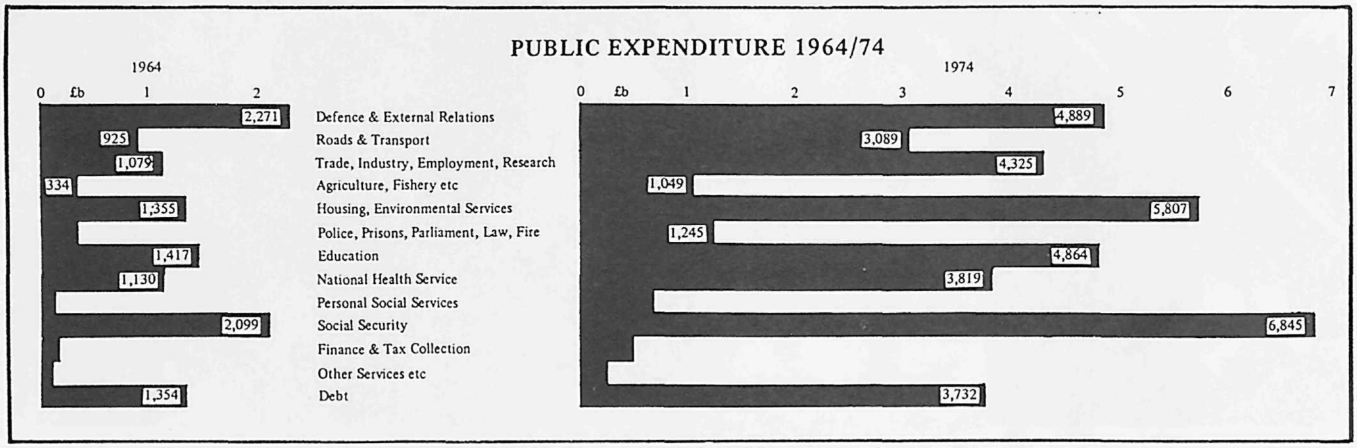
2 THE SOCIAL WAGE PACKET

Britain is apparently in serious economic difficulties. It is not just the recession, with rising unemployment and other hardships that result from it. It is also the high rate of inflation, the fact that imports are more than exports, that the government spends more than it receives in taxes, and that British industry is uncompetitive.

More particularly, the government has let it be known that people are consuming too much; that wages are too high, and that working people have too much money to spend. To tackle the problem, the government, with the support of the TUC and the CBI, introduced the £6 wage limit. Even before this latest move real earnings had begun to drop and by the second quarter of the year they had fallen by 3%, as against prices. This amounts to a real cut in living standards. But it was not enough: while cutting real wages the government also began to draw attention to another area in which consumption is too high. The social wage.

This is a way of looking at public expenditure recently given prominence by Denis Healey. It is arrived at by dividing total public spending by the numbers of the population. So, in 1975-76, government in Britain expects to be spending, on 'our' behalf, the princely sum of £54b, or a bit more if inflation goes faster than predicted or if, for instance, the lame ducks get hungry. That is about £1,000 each for every man, woman and child in the country.

This £1,000 then is the size of the 'social wage': a sum spent by the government on behalf of society as a whole, for the good of all its members whether rich or poor. It is a convenient way of making public spending visible to members of the public, bringing home their personal responsibility for the situation. From there, of course, it is only a short step to showing how this 'social' consumption must also be reduced if inflation is to be fought and British industry restored to health. For as public spending has risen and the government's income failed to keep pace with the cost, it has had to borrow or print money to cover the social wage-rise. So demand has increased and prices have been pulled upwards contributing to an already serious inflation. In the government's view, the size of the budget deficit, almost one fifth of total public expenditure, is the measure of the extent to which the people are consuming too much. Denis Healey put it to the Labour Party Conference: 'Either the government has got to spend less, or it has got to tax more, and I ask every one of you, particularly the trade unionists among us to think very hard in the coming months about which you would prefer.'



So, the logic goes, it is now time to tighten belts, time for a social wage-cut as well as a wage-cut, time for hospitals to close, jobs to disappear and nurseries not to open.

Before accepting such conclusions it is worth looking more closely at this notion of a 'social wage'. £1,000 is a great deal of money even now. If it is 'ours', indeed it is produced by the working population, it is important to know what it is being spent on.

YOUR £1000

The most recent figures available are for 1973. Using the £1000 figure for convenience, the 1973 distribution would mean that, to begin with, £91 of it went to paying interest on money borrowed. That goes to the banks, the insurance companies and all the other, mainly institutional, money-lenders. (This sum has been rising rapidly recently.) Then £126 went on Defence and External Relations. That goes to the Defence contractors, to the soldiers and sailors who keep the Queen's peace and the oil and chemical companies that supply the fuel and explosives. The same support (under external relations) goes to the EEC.

Another £112 of the individual 'social wage' went to Commerce and Industry. Part of this goes to private industry (about £50) by such means as Regional Employment Premiums, industrial innovation (Concorde, nuclear power etc) and export promotion. The other £62 was spent on support for and investment in the nationalised industries.

A further £78 of the sum was spent on Roads and Public Lighting, Transport and Communication (the latter including support for nationalised transport undertakings). £27 went on Justice and Law, £50 on Environmental Services – water supplies, sewerage, 'improvement of the environment' etc. – £5 on Libraries, Museums and the Arts and £24 on other items.

Those items account for £513 of the £1,000 that the government spent on behalf of every man, woman and child in the country. The other £487 was divided between the four major arms of the welfare services: Housing (£69), Education (£129), Health and Personal Social Services (£116) and Social Security (£173).

Of course, not all of that money goes to providing services directly to the public. The aid for industry, the supply contracts, the pay of the upper rungs of the Civil Service (it is fixed by parity with those who control private industry, with a guaranteed inflation-proof pension many times larger than that set for the country's pensioners), MPs pay, the building contracts etc, are all somewhat indirect benefits. Rent on government offices and general accommodation, another instance, cost almost £60m last year; Home Publicity £20m and Civil Superannuation £130m. That, it should be noted, is more than the total annual cost of the general dental service.

HANDS IN THE POCKET

When it comes to cuts in the social wage will all these areas be cut equally? An important part of the government's argument is that the country must use this time of hardship and general belt-tightening to get fit for the boom to come; that money must be diverted to encourage industry to invest in new plant and equipment to be ready for the future upturn in world trade. As the *Observer* argued (August 1975) 'Ultimately, money can really be found for industry only if it is taken from someone else: and since even Chancellor Healey now appears to agree that the British are taxed up to the hilt this can only come from cuts in public spending.'

The sequence of events – the introduction of wage controls preceding social spending cuts – is not without its own significance. It goes some way towards explaining the apparent contradiction between the current rise in public expenditure and the simultaneous news of cuts. It also suggests that there are likely to be much more devastating cuts to come. For the Labour Government has managed to impose an incomes policy far harsher than that which brought down the Heath government in 1974. It has done so on the strength of a socialist rhetoric: by being 'the party of the people' for social equality etc. For that government to be seen to be attacking the Welfare State at the same time as it was winning official union backing for pay cuts probably only previously matched by those of the 30s was clearly impossible. So, the wage cuts came first.

Meanwhile the introduction of the 'social wage' concept encourages people to take personal responsibility for the public spending deficit and prepares them to make personal sacrifices by accepting cuts in the services. The wage is linked to the 'social wage'. As one is cut so must the other be 'for the good of the country'. Yet as we have seen there are diverse beneficiaries of the public spending contained in the social wage. What then are the controls? Where will the cuts fall? and why?

3 CAPITAL CONNECTIONS

1. The City and the State

'I should not conceal, my Lord Mayor, my anxieties about the public borrowing requirement' (Governor of the Bank of England, 16.10.75).

When it comes to assessing public spending, it is the 'Public Sector Borrowing Requirement' that is the centre of attention for the national and international financiers and economists. This basically is the deficit that the government incurs by spending more than its income. The difference is made up by borrowing, both nationally and internationally.

This financial year (April 1975-March 1976), the public authorities planned to spend about £54b in all. That, it was expected, would be £9b more than they had coming in from income tax, rates etc, despite the increases in taxation in the 1975 budget. That £9b would be found through borrowing in the money markets.

It's when you look at one major element of this deficit that the implications of this borrowing begin to sink in. For of that £9b deficit this year, the government expected that no less than £5b would go to paying interest alone on previous and present borrowings. And that interest goes largely to private capital. The irony of this situation is illustrated by the fact that interest is still being paid by taxpayers to private capital for the money borrowed to 'compensate' private capital for the nationalisations of over two decades ago.

How the Clearing Bank Profits Rose 1964-74

Barclays	886%
Lloyds	1,042%
Midland	687%

BUYING MONEY

Apart from borrowing abroad, from the oil rich or the International Monetary Fund, this money is raised mainly in the London 'money market'. It is a complex process obscured by some of the more lunatic trappings of the City's way of life, such as the top-hatted gentlemen who make a lucrative living from matching the lending institutions to the borrowing government. But despite this obscurity **one feature of the money market stands out plainly: in it the two functions of profit from, and control of, government borrowing by capital are combined.**

The lenders are abstract figures: the 'institutional investors', those who control the funds of the insurance companies, pension funds, building societies, banks and investment trusts etc. They exert control by varying the amount, the form and the price of the money they are prepared to lend. The result is a complex, multi-dimensional market from which dealers, brokers and investors squeeze out their own profits by a process of juggling with margins, discounts and redemption dates.

The government borrows in three main ways. The first is short term borrowing through 'Treasury Bills' which are redeemed after three months. The second is longer term borrowing (two to forty years) through 'Gilt Edged Securities'. The third is borrowing from abroad, in which case each loan is individually negotiated, except insofar as overseas investors may purchase Treasury Bills or Gilts. The most recent example of large overseas borrowing is the $2½b loan arranged by a consortium of multinational banks, whereby central monetary institutions purchased Treasury Bills.

HOME PRODUCE: SHORT TERM MONEY

The Treasury Bills are not just sold onto the open market. By a special arrangement between the Bank of England and the Discount Houses, a select party of the City's financial structure, the latter buy up all the Bills put up for sale by the Bank in return for what amounts to guaranteed long-term profits. The Bills, which the Bank buys back for £100 each after three months, are bought by the top hatted men from the Discount Houses every Friday afternoon at a lower price, currently around £97. That means, in effect, that the Bank pays almost 3% interest per quarter, 11½% per annum on the money it raises in this way.

The Discount Houses can raise the money to pay for the Bills through short-term, often 'overnight' borrowing on the money market, largely from the banks, at lower rates of interest. Alternatively they can sell the Bills on again, mainly to the banks. Or they can combine the two, holding the Bills for a while and then selling them on. They make their profits from the very small margins between the interest the Bank of England pays, and the interest they pay, and by the speculation on how those rates will move during the three months life of the Bills. The margin may be very small, but when you consider that £11,000m of Bills were outstanding at the end of September 1975, and that one-tenth of 1% of that is £11m, you can appreciate that even with a tiny margin the opportunity for profit is huge. The irony of the situation is that if the Discount Houses can't raise enough money at the right rate to buy the Bills, they can borrow the money to do so directly from the Bank of England itself.

Lord Beveridge giveth . . .

Margaret Thatcher taketh away

GILT-EDGED SECURITY?

The government also borrows, when conditions allow, over longer terms and at fixed rates of interest by selling 'Gilt Edged Securities'. The most recent issue of Gilts, which raised some £600m, pays interest at 11½% and will be repaid in 1981. These 'stocks' are sold on the stock market, the vast majority being held by 'the public', as the giant institutional investors are euphemistically known. The supply of stock to the market is controlled by the government stockbroker, albeit a private one, the company Mullen & Co. Thomas Gore Brown, senior partner, is an old Etonian in the tradition of government broking. For his services, the company receives some £500,000 each year.

TIT FOR TAT

Again there is the paradoxical situation in which the government buys in its own loans. This is the nub of the situation. The buying and selling of government debt is the means by which the government borrows. It is also the way the government seeks to influence the market, whether by raising interest rates or limiting the money supply. It is also, however, the means by which capital exerts pressure on the government's economic policy, by altering the terms or conditions on which it lends. These pressures do not often coincide.

What is happening now is a classic example of the City's role. If the institutions are unhappy about the level of public borrowing, or the prospects for the economy from their perspective, they can refuse to purchase the long-term 'Gilts', or charge a prohibitive price for doing so. The result is that the money must be raised in the short-term market. This is a totally unstable situation, as the money must be reborrowed, (plus any further borrowings), and the interest paid on it, after only three months.

This in fact is what is going on at the moment. The City is reluctant to buy Gilt Edged Securities, because its members don't think that Chancellor Healey is cutting public expenditure enough. As a result the government has had to rely increasingly on Treasury Bills to finance the deficit. This has meant that whereas at the beginning of the year only about £100m a week had to be raised by this means, by August 1975 the figure had reached £400m a week. By the 30th September some £11b in Treasury Bills was outstanding – about one-fifth of the national debt.

Clearly this can only continue for so long before the amount of short-term debt hanging over the market accumulates dangerously. The government is then forced either to make more cuts to reduce the deficit or to go to the international money lenders – almost certainly the IMF. Their most likely course is a combination of the two.

The Savings Swindle

The 'public' institutions from whom the government borrows receive their interest or profits anyway, at rates well over 11% on longer term loans. But the real public are trapped by government controls on interest rates that prevent them earning more than 9½% interest on short term savings. The aim? Mortgages must, of political necessity, be kept down to 11%, and that means that the Building Societies remain one of the best mediums for the small saver. It also ensures the continued viability of the National Savings Swindle, in which millions of small savers are persuaded to lend money to the government at rates varying from 6% (National Savings Bonds) to 9½% (British Savings Bonds). The government raised £678m in 1974-75 by this means.

2. Industry and the State

Given that the government does plan further cuts in its spending, in order to reduce the deficit, these cuts will not fall evenly over the whole sphere of public expenditure. The reason is that the relationship between the government and finance capital has a counterpart in that between government and private industry.

This is reflected in the government's commitment to the 'regeneration of British industry'. In many ways this is the mirror image of the industrial reorganisation programme of the Labour government of the latter half of the 60s. Then the chosen instrument was the Industrial Reorganisation Corporation, virtually a state-owned merchant bank, which played a major role in the restructuring of industry. It was instrumental, through the manipulation of state funds, in the creation of many major British companies as they stand today, amongst them GEC, Courtaulds, British Leyland, ICI, and the British Aircraft Corporation.

Now the main instrument of the 'regeneration' of industry is to be the National Enterprise Board. Conceived as an instrument to extend the penetration of public ownership into the private sector, the government have been swift to reassure industry that its real role will in fact be an interventionist one such as that of the now defunct IRC. Its funds will be practically unlimited, as the £1,000m for British Leyland illustrates. But they can be justified either in terms of supporting vital but uneconomic industry (which private capital wants anyway but cannot fund) or in terms of a temporary intervention to bring about fundamental restructuring.

It is a vital role for industry. British Leyland was going bankrupt, yet many other companies, from Dunlop through

Plotting the future

City interest

Lucas to ICI depended on it as a profitable outlet for their products. Moreover the government has been playing this role for many years now, particularly through the nationalised industries.

These lie at the other end of the spectrum. For minimal prices they supply industry's vital raw materials, from steel (BSC) to energy (British Gas etc), and services from transport (BR) to telephones (Post Office). These nationalised industries constitute a large part of the economic infrastructure that is absolutely crucial to the private sector. Despite the fact that they are uneconomic, they are still the source of substantial profit to their suppliers, who are presented with a single large and relatively stable market.

In 1974-75, for instance, the Post Office spent £800m on telecommunications equipment, mainly from GEC, Plessey and STC. In that year those companies revealed profits of the order of 14-16% on their mainly telecommunications operations. The Post Office has provided such a lucrative market that the suppliers have, in effect, not bothered to export their equipment, and the result has been a steady decline of telecommunications exports from Britain in recent years.

But private industry benefits in more ways than this from public expenditure. There are the direct grants, the loans. There is the heavy defence expenditure that supports the aircraft and weapons industries, and provides the resources to develop equipment that can be sold worldwide. There are the roads, such as motorways that have had a profound effect in reducing transport costs, and are built under lucrative contracts by the majors of the construction industry such as Costains, Wimpey and McAlpine. The list goes on and on.

It is in a period of recession and inflation that private industry's contracts with the public sector become especially important. The reality of the situation is that the public authorities are prepared to pay on what is effectively a cost-plus basis: that is cost plus profit. As a result the public contracts play an important role in maintaining private corporate profitability during the recession.

The government is committed to the 'regeneration of British industry', principally by private capital but with some help from the state. That commitment dictates that the public spending deficit be cut, to make more funds available for, in theory, industrial development. Yet at the same time that commitment, and the close interrelation of the private sector to government expenditure, means that the areas where public spending can be cut are severely limited.

WHERE CUTS WON'T COME

The government plans, for instance, a very substantial increase in expenditure through the NEB, to pay for not only the maintenance of British Leyland but also the increased programme of intervention in industrial reorganisation. The Department of Industry, and the Ministry of Employment are currently engaged in a major analysis of the private sector, to direct government aid to the most profitable and competitive industries.

Aid in the form of investment grants, loans, employment premiums, regional aid etc to industry from the government totalled around £2b in 1974-75. Given the general emphasis on regeneration and to various schemes that are currently being implemented, from special employment schemes to investment aims, it is very unlikely that this will be cut.

Similarly, the government will be very reluctant to cut expenditure on the infrastructure that it provides for industry. It is too important for efficiency, including particularly trunk roads and transport, ports, and investment in the nationalised industries. By its nature this investment is large-scale and indivisible, requiring large sums of risk capital. It is also vital for the modernisation and rationalisation of the infrastructure, a central part of the 'regeneration' programme. Such investment accounts for some £5b of public spending in 1974-75.

Law and Order costs, already totalling £1.2b will undoubtedly be increased. The government has explicitly stated that more funds will be made available as the need arises. The powerful defence lobby, the profitability of the defence contractors, the deliberate attempt to export arms to the Middle East, and the long-term nature of Defence expenditure are all factors that ensure that there will be no significant cuts in the £4½b spent here either.

In addition there is one sector of the welfare state that it would be politically difficult to cut, especially given the rising unemployment. That is social security. The government is already committed to raising benefit rates in line with inflation and intends, instead of cutting back expenditure, to make sure that National Insurance contributions rise in line with these benefits.

SUFFERING ...

The private sector is bound to suffer in one area as the result of cutbacks. This is in its purchases from the nationalised industries, whose charges are rising rapidly as a result of the government's policy of cutting out the £650m price restraint subsidy. Even here, however, the private sector will suffer less than individuals. Major companies have been able to negotiate fixed-price, long-term contracts with the nationalised industries: Unilever with the Post Office for its telephone requirements and ICI with British Gas for its natural gas requirements, for instance. The result is that these companies are now paying far below the market rate for their supplies. ICI, for instance, pays £20m a year for

gas which would cost any other industrial consumer £110m today, and its contract lasts until 1984.

. . . HAS ITS COMPENSATIONS

But the private corporate sector has anyway been well compensated for the effects of the cut in nationalised industry subsidies. In his budget of November 1974, Chancellor Healey made two major concessions to companies. The relaxations in the price code were worth an estimated £800m a year to them, though this further affected public expenditure as prices rose. But the other concession, allowing tax relief on stock profits, reduced companies' tax bills by an estimated £800m a year. The April 1975 budget subsequently increased this to £1.3b.

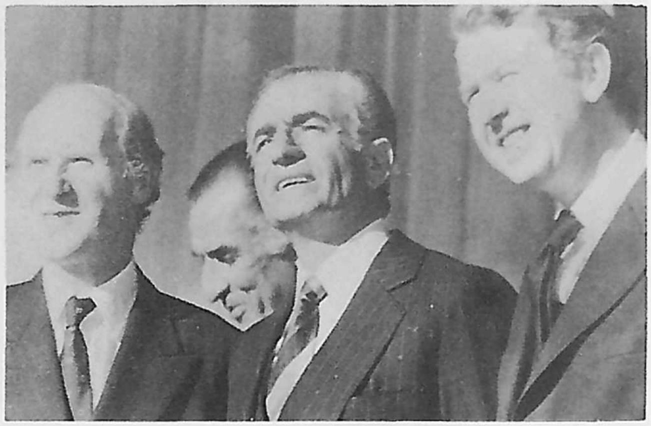
PAYING OUT TO THE PRIVATE SECTOR

As a result, the public spending deficit rose by that amount, though it was offset by increases in personal taxation. Overall it probably made the corporate sector a beneficiary from, rather than a contributor to, public expenditure. This illustrates quite clearly the last major restraint on the ways in which the government can reduce its deficit: the fact that, given the commitment to regenerate British industry, it does not consider it feasible to impose higher taxation on corporate profits.

MEANS WELFARE CUTS

The result of these constraints is that if the government is to reduce the enormous public spending deficit by any significant amount, there could be only one real target for cuts: the welfare services.

It is on this basis that we have to judge the statement by the Chancellor of the Exchequer to the 1975 Labour Party Conference. 'The problems we face today will not be solved by rhetoric and resolution, although rhetoric and resolutions have their part to play. We face many years ahead of hard work, of real sacrifice which must be fairly shared, and of the application of intelligence and experience to the practical problems of our industry and economy.'



1974. Barber, The Shah, Walker. An interest in oil

Construction Industry

The construction industry has been hard hit by the government's cuts in capital expenditure. Indeed the Ninth Report of the Expenditure Committee for 1974-75 specifically singles out the industry as a victim of cuts, calling them 'damaging and unfair'. With public spending accounting for 60% of the work carried out by the construction industry, the cuts in capital expenditure have certainly had a serious effect. Unemployment in the industry reached 170,000, a rise of 75,000 since May 1974. The civil engineering sector of the industry, which depends on public spending for 90% of its work, recently protested that there was a 50% reduction in work levels in real terms since 1973. Further, the number of construction companies going bankrupt was 741 in 1973, increased to 1031 in 1974 and totalled 416 in the first quarter of 1975.

In spite of this gloomy picture, the large companies in the industry have recorded increased profits. Wimpey, for instance, reported a net profit of £7.3m (as compared with £6.6m in 1974) in the first half of this year. The explanation lies in the chairman's statement, 'We cannot forecast what market reduction will take place in the UK, twelve months from now, but our overseas work-load is 76% up on last year and we expect this rise to continue . . . We anticipate a record turnover for 1975.' The pattern is repeated in another large company, John Laing, which reported that 20.5% of its turnover is represented by overseas activity, and 'this is increasing'.

This is precisely what the government hopes for in its attempt to generate an export-led boom. At the same time through the bankruptcies of smaller companies, an intense rationalisation of the industry is being achieved.

Social Security

Social security payments account for about 18% of public spending. It is one area that the government will find particularly hard to cut, and on its own predictions, the proportion spent is due to rise over the next few years.

The government is committed to raising benefits, at least in money terms. This was, after all, one of the major selling points of the £6 wage freeze. 'Are the anti-inflation measures fair? . . . They are fair because there are provisions to help the worse off . . . Pensioners and people on social security will get further increases in November. £70m is to be restored to food subsidies in 1976/77 on top of what was previously planned. This will specially help elderly and low-income groups.' (*Attack on Inflation, A Policy for Survival).*

Unemployment is also going up, and shows not the faintest signs of coming down again. If the government manages to implement its proposed cuts, one major effect will be a further drastic rise in unemployment.

Pensions account for about half of all social security payments. According to the government, they will go up in line with average earnings, or prices, whichever rises faster. Until the last few months, average earnings rose faster than prices. It remains to be seen whether pensions will actually follow prices now. The £10 Christmas bonus, and cheap postage for Christmas cards, are definitely out. Other benefits, such as unemployment, sickness, maternity benefits, and supplementary benefits are supposed to go up in line with the rise in prices.

Although total spending on social security is going up, the individual recipient is by no means getting better off. For a start, increases are worked out on figures for the last six months. It is then another six months before they're given out. So benefits are always a year behind price rises. Then, the government bases its figures for price rises on the Retail Price Index. This does not adequately reflect the effects of inflation on those with low incomes. The prices of food, heating and housing are all rising faster than the average, and take a larger proportion of the income of poor families than rich. '. . . The inflation rate for low paid families is running at a rate of about three or four per cent faster than average, as measured by the Retail Price Index. In reality the situation is probably worse than these estimates suggest.' (Low Pay Unit. The latest round of price controls, with basic products held down to 5%, while others are allowed to soar to maintain overall profits, is an attempts to manipulate the Retail Price Index so that it fails to measure the true rate of inflation. So even if benefits keep up with the Retail Price Index, those forced to live off them get steadily poorer.

Families receiving benefits but earning a low income have an even harder time of it. Thousands of them were worse off after the last budget than before it, despite the much publicised help for the low paid said to be included in it. Family allowance increases were immediately removed in tax, Family Income Supplement taken off rent rebates. A family with two children, and an income of £30 a week, would have been 78p a week worse off after the April budget.

One particularly inhuman bit of corner cutting is the way extra needs payments are being tightened up. These payments, given for items not covered by supplementary benefits, like a new pair of shoes, or a blanket, are now harder to get than ever before. People are being made to save for items that they would previously have been able to get through extra needs payments. The total expenditure on extra needs payments was only £11½m in 1974, so the savings are minimal, the extra burden of hardship for the people involved enormous.

The unemployed, too, have a particularly tough time. Earnings-related benefit stops after 5½ months, and even the miserable flat rate ends after a year. The flat rate is £9.80 a week. Compare this to Holland where the rate is between £11 and £23.50 a day, or Germany where if you are unemployed 'for economic reasons' you get 90% of your previous pay for up to a year. Even pensioners are better off than the unemployed in this country, with a flat rate of £11.60.

The increases in social security payments don't cost the government much anyway. They are almost entirely paid for out of higher National Insurance contributions. Out of an estimated cost increase of £1,060m for 1975/76, £910m will be paid for by the higher contributions. And as costs go up further, so will National Insurance contributions. Of all the areas of welfare spending, however, social security is one that is hardest for the government to cut.

Spending on social security benefits

Expenditure by central government in £million – 1973/4

Unemployment benefits	185
Pensions and other National benefits	3858
Supplementary benefits	730
Family Income Supplement	15
Family Allowances	359
Other benefits	312
Administration	282
Total	5741

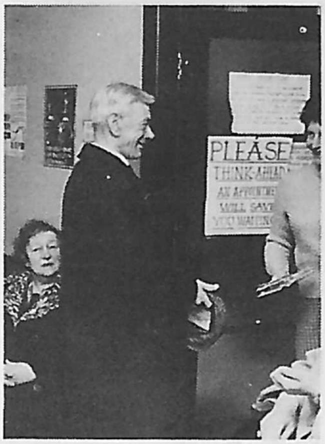
Andrew Wiard Report

4 THE WELFARE STATE

The major state welfare services of Education, Health, Housing and Social Services, all of which face steady erosion, remain fatally linked to the private sector. Both in terms of the allocation of resources and in their need for long-term planning, these sectors ultimately depend on the fluctuations and needs of both finance and industrial capital. In the first instance they continue to provide a market for the goods of large private companies. Also the finance for the development of new homes, hospitals and schools comes from borrowings in the City. In the current situation, and indeed in every downturn of the economy since the war, the price of 'services' from private capital remains extremely high. The soaring costs of the goods of private companies and the high rates of interest, both contribute to the squeeze on resources in these sectors.

The current cuts in capital expenditure really began in November 1973 under the Conservatives. They have been continued by the present government. In 1973 the 'Barber' cuts amounted to some £1,350m. The return of the Labour government in 1974 (without an overall majority), brought a cosmetic operation. This froze rents, released £350m for housing, introduced food subsidies and increased pensions, as their part of the Social Contract. It seemed that things were improving. But, the Conservative cuts were not restored. And after the October election (now with a majority of three) the government produced a White Paper in January 1975 which planned to level off public spending, chopping it by a further £900m. This meant that overall, by 1976/77 public spending would be cut by 1.3%, while the specific sectors of health, social services, public transport and education would be taking cuts of around 10%. In housing, the allocations to local authorities were cut by £115m. In these sectors the drop in expenditure has resulted in the halting of most capital projects. But the number of capital projects is finite. The next stage of the cuts will have to fall on current expenditure. Debt-interest charges are soaring, and costs escalate, further restricting the resources for welfare; the monotonous cry that blames everything from earthquakes to inflation on wages, will be heard again more stridently than ever.

Yet the fundamental conflict between private profit and social need is nowhere more glaring than in the welfare services. In the examination of the main sectors, it is not too difficult to see how that conflict is being resolved.



1. The National Health Service

In November 1973, the Conservative Government cut £111m from the National Health Service budget. The present government subsequently cut £75m from its prospective budget for 1976. Now the total budget is to be limited to a 10% increase next year. With a current inflation rate of 25% this represents a real cut – despite the fact that the NHS needs more money each year to provide the same service to the growing number of old and long-stay patients.

These cuts, however, are not the sole cause of the present crisis within the NHS. Underlying it is the conflict between private profit and public interest – a conflict that was built into the service from its inception.

CONFLICT . . .

At the start the NHS was planned with the central ideal of a 'comprehensive Health Service free to all', in which 'poverty would not be a disability and wealth not an advantage'. But the powerful British Medical Association, claiming to speak for all doctors, was emphatically against the scheme. It saw it as a direct threat to private practice profits.

. . . AND COMPROMISE

The doctors' consent was bought with a compromise. The government agreed to preserve their freelance status, allowing them to be contracted to the service instead of being employed by it. They could practice privately, not only alongside their NHS commitments but also inside NHS hospitals, with full use of the staff and facilities. The private patient would pay the NHS for these, and would also pay the doctor an independent fee. This compromise laid the basis for the whole sorry history of inequality and mismanagement that followed, and which is now heading towards its climax.

Today the 25,000 General Practitioners occupy a uniquely powerful position. They provide the medical treatment and also function as the only access point for the patient to all national health services – hospitals, drugs, specialists etc. Yet they remain independent, to all intents and purposes able to organise their practices where and how they please. The exercise of this personal preference, whether for social or financial reasons, has been responsible for a prime contradiction of NHS aims: free medical care according to need is emphatically not an equally distributed benefit.

As before the days of the NHS, many GPs settle and work in areas where the possibility for private practice is the greatest. That means the South and East of the country, and in the suburbs, away from the working-class areas of industrial cities.

THE PRICE OF PRIVATE PRACTICE

Private practice thus creates a bias that ensures that those in greatest need have to join long queues and suffer the most. A crowded, working-class practice will have twice as many NHS registered patients as a rural or suburban practice. Conveyor-belt treatment brings inevitable inadequacies, and so the deprivation feeds upon itself. Fewer GPs in an area mean that there is less formal pressure on the health authorities to expand and improve the service. As a result old hospitals are patched up, improvements postponed, and restricted resources gravitate to more fortunate areas.

The NHS inherited an unequally distributed structure, locally dependent on charity and drastically underfinanced. Apart from the dependence on charity, little has changed. Three-quarters of all beds are in hospitals built before 1918, and only 41 of Britain's 2,300 hospitals have been built since 1945. There are more than ½m patients on hospital waiting lists. And, most significantly, the South East continues to receive a greater part of NHS expenditure (£48 per person in Surrey, against £32 in Birmingham).

This is a heavy price to pay for the retention of private practice, but, in addition, the NHS effectively provides a direct subsidy to private practice. This was revealed by Dr David Owen in a reply to a question in the House of Commons (1.7.74). Apparently the charge for a private patient in a London teaching hospital included a notional charge of £10.50 a week to cover capital costs. whereas, 'a much higher charge of about £60 a week could be justified' on the basis of the cost of the New Charing Cross Hospital. In other words, private patients are subsidised to the tune of £50 a week at that particular hospital.

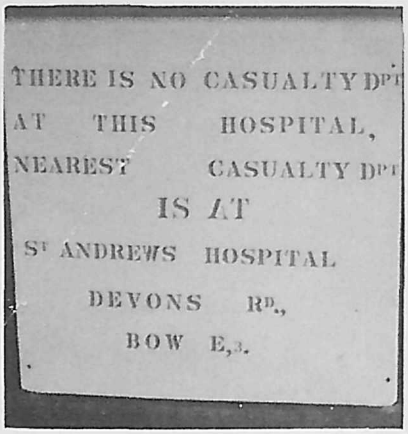
The use of private beds earned the NHS some £12m in 1974. Against this must be contrasted the £9m of NHS funds paid out to consultants in distinction awards in that year. These awards are worth up to £10,689 per annum to consultants, on top of their NHS and private practice income. One in three receive them, 90% going to consultants in the London teaching hospitals, the elite of the medical world.

THE WEAKEST TO THE WALL

The harshest effects of the unequal distribution of doctors and money fall on those least able to voice a complaint – the institutionalised sick, particularly the very old, mentally ill and handicapped. By the 70s, though 40% of all NHS beds were in mental hospitals, they received only 20% of the current hospital expenditure. In addition only 11% of

The price of progress

Peter Harrap Report



Christopher Davies Report

Private service . . .

all consultants are psychiatrists, and only 22% of all full-time nurses worked on psychiatric wards. Deprived of funds and staff the largest, most densely populated mental hospitals can provide no more than a custodial service. Two-thirds of all mental hospitals were built before 1891. In 1971 there were 24 mental hospitals in England and Wales with more than 1,500 beds. In 13 of these there was only one doctor to a hundred beds and one consultant to 300-400 patients. This meant that each patient could receive an average of under half an hour's personal attention each week from a doctor, and only half an hour a month from a consultant. The majority would receive less than this average.

Within this depleted mental health sector, prestige, together with funds for good support staff and research facilities, is sought by ambitious consultants in the 'acute' psychiatric units, attached to general and teaching hospitals. These are the areas where reputation and profitable private consultancies can be built.

The long-stay mental hospitals are 'professionally unattractive' and remain the Cinderellas of the NHS. Horror stories of ill treatment and foul conditions have occasionally hit the headlines. For example, in 1974 two patients died and 48 more became ill from food poisoning, due to inadequate kitchen facilities at the Leytonstone Mental Hospital in East London. The more general reality is of undermanned, overworked staffs struggling against ridiculous odds merely to supervise their patients, let alone treat them. Official policy has often been to run down the number of beds in the big hospitals, while attempting to concentrate on the psychiatric units in general hospitals. All too often, following a pattern that also occurs in general hospital 'rationalisation', the old beds are lost much more easily than they are gained in the new. As planning funds succumb to cuts and new projects halt under the burden of inflationary costs, the gap widens. The bed shortage worsens to the point where mental patients have been prematurely discharged to make room for urgent cases.

JUMPING THE QUEUE

Who are the real beneficiaries of the system? Where has the money really gone? The answer again lies in the conflict between private gain and public need. A large, publicly funded organisation such as the NHS has enormous potential as a source of private profits. This is especially true given the built in weaknesses outlined above, in addition to the inefficiencies of the unwieldy bureaucracy. The potential for profit has not gone unnoticed. As bottlenecks have appeared and waiting lists lengthened, so doctors and consultants have expanded their private practices. When it became apparent that private patients could jump the queues for beds and operations, membership soared in the private health insurance organisations such as BUPA (by far the largest) and Private Patients' Plan. This latter is a self-styled non-profit-making concern. It is sponsored by the BMA, the Royal College of Surgeons, the Royal College of Physicians, and the Royal College of Obstetricians and Gynaecologists. It is, of course, the members of these prestigious organisations who stand to make the highest fees out of private practice.

In two other areas the weaknesses of the NHS have been even more susceptible to exploitation by private interests. These are the chronic shortage of nurses and doctors in many areas, and the constant, growing need for drugs and medicaments.

AGENCY MEDICINE

Doctors' relief agencies and freelance nurses' agencies have been a fast growth area of private enterprise almost entirely dependent on NHS staffing shortages. GPs contracted to a 24 hour service with the NHS can hire stand-ins for night-work, weekends, holidays etc. Many of these stand-ins are junior hospital doctors, already overworked, trying to boost low wages with a job on the side. As the agencies flourish (sometimes diversifying into other profitable sidelines such as nursing homes, private health insurance, medical equipment supplies etc) they contribute directly to the deterioration of the service to NHS patients. An agency doctor without local knowledge, unfamiliar with a patient's medical history, possibly exhausted from a long day on the wards, and working purely for the extra money, is unlikely to fulfil the functions of the family doctor very effectively when making a house call in the middle of the night. And when he returns to the public wards he will be all the more exhausted and inefficient. The agencies are well established now, and the NHS is dependant on them, whilst having no control over the hiring process. It cannot even demand to scrutinise qualifications.

The same is true of the nursing agencies. They have become an essential fact of life in the NHS. Staffing levels, and attempts to control the numbers employed have failed. In 1965 the government instructed regional hospital boards to reduce the dependance on agency staff. The number of agency nurses to be employed in the NHS was frozen at the current level of 1,475. But already the hospitals were helpless to comply. The ruling was simply ignored and by 1971 there were 2,720 agency nurses in the NHS in London alone. COHSE, the main nurses' union, has estimated that there is a shortage of 70,000 nurses in the NHS. Amongst other staff, physiotherapists, specialist lab. technicians and radiologists, are said to be only at half strength. Since the NHS began in 1948 nurses and ancillary workers have paid the price for private profits in terms of their own wages and conditions. Any improvements that have been made

Hospital set to turn into office block

ISLINGTON'S former maternity hospital in Liverpool Road will be used in part as offices for the next two years.

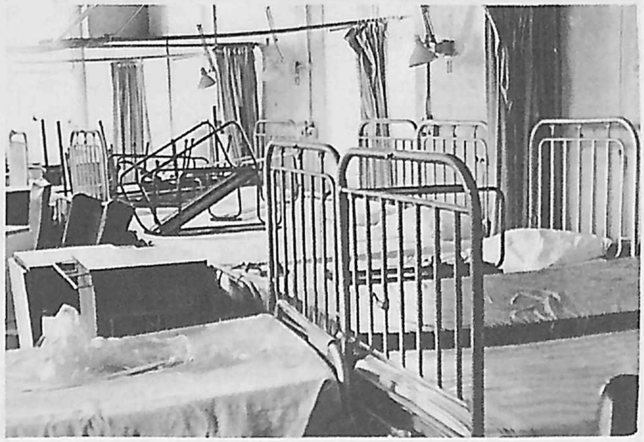
This is despite strong protests from Islington's health service watchdogs — the Community Health Council — and others interested in taking over the building temporarily.

The go-ahead for 50 per cent office use was given this week by the Area Health Authority at its monthly meeting.

The green light was also given to the CHC to discuss what uses the rest of the hospital could be put.

But the AHA said that the Islington groups would have to come up with their own ideas of how short term projects were to be paid for. The AHA had no spare cash, and was faced with massive cuts in spending.

The AHA was willing to look at any project connected with community health, especially those connected with using the hospital for the mentally handicapped and the elderly.



Christopher Davies Report

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Public service . . .

in the service have also been achieved at the expense of these same overworked and underpaid staff. One result is that women with nursing qualifications often prefer to work for agencies, where they can get flexible hours and holidays, a range of jobs to choose from, and freedom from the near military discipline imposed on NHS nurses. Until recently agency nurses could earn considerably more than their NHS counterparts without any of the major disadvantages.

The disadvantages to the NHS are real enough. Like the agency doctors, the hired nurses impose on the understaffed structure the added problems of their own unfamiliarity with particular routines and individual case histories.

However, reactionary hospital managements have extracted a double usefulness from the agency nurses in return for the 10 or 12½% commission taken by the agencies. As NHS nurses and other hospital workers have begun to organise to improve wages and conditions, the non-union agency staffs have been used as a scab force to weaken and sometimes defeat this organisation. The irony is that if NHS workers achieved reasonable gains in pay and conditions the agencies' stranglehold on the NHS would be reduced and eventually broken. And yet, despite a chronic shortage of nurses in many city hospitals, NHS student nurses are being made redundant as soon as they qualify, due to current cutbacks. At Portsmouth, for instance, the management board of the city's 20 hospitals has put a total ban on recruitment and replacement of nursing staff and a cutback on student intakes due to £¼m 'overspending'. As a result 60 newly-trained student nurses have been forced to look for factory and office jobs (*Morning Star* 10.10.75).

INDUSTRIAL ADDICTION

By far the biggest and most insidious cuckoo in the NHS nest is the private drug industry. The drug companies have fostered a dependance upon their products that is often a true addiction. They have taken the NHS by storm in one of the biggest, most protracted, most sophisticated – and most profitable – propaganda and hard-sell campaigns known to the business world. The focus of their attention has been the GP, for the multinational drug companies correctly recognised that the GP, due to that original compromise made when the NHS was first set up, is the pivot of the system and the direct route to profits.

Doctors are deluged with brochures, publicity material, apparently objective research papers, and free samples of the latest, would-be miracle drugs to try out on their patients. Millions are spent on advertising in the medical journals. In addition there are 3,000 odd drug industry representatives who, at the cost of £10m a year, make the rounds of UK surgeries, hospitals and medical schools. The companies spend some £32m a year on advertising in the UK – £300 for every doctor in the country. Further millions go into intensive research. The major goal of this research, far beyond the means of the NHS, is the multi-purpose drug which can be patented so as to create a monopoly for the company. In the name of unavoidable costs, profit margins are sometimes measured in hundreds of percent. And from the day of patenting the company has 20 years' grace to come up with an even more spectacular product to take the place of the lapsed item and create a new monopoly.

> 'Part of rising expectation about health is that we have been sold a chimera, a piece of cloud nine. On top of our basic assumption that there is indeed a state of perfect health, we believe we can achieve it only by taking the appropriate treatment – the sooner the better. The emphasis in this notion is on some form of drug treatment.'
>
> 'In the United Kingdom (1971) prescriptions for barbiturates reached 20m per year; for phenylthiazine tranquillizers, six million; for amphetamines, five million; for non-barbiturate hypnotics, five million. Such amounts in the use of any class of drugs might be expected to show evidence of solid gain in public health. What is indeed evident is the vast increase in drug dependency, in adverse drug effects, in hospitalisation for overdosage and in accidental and suicidal deaths.'
>
> (*There's Gold in Them Thar Pills,* Alan Klass, Penguin, 1975.)

THE TRANQUILISER STORY

The business success story of the century must have been Roche's monopoly of the tranquilliser market with their brand products Valium and Librium. Produced for as little as £20 per kilo, Valium was sold for years to the NHS for £1,962 per kilo. The success of tranquillisers was founded in the stresses and pressures of modern industrial society combined with the problem of waiting-room queues in surgery hours. Valium could be prescribed for a variety of vague aches, problems and worries. The numbed patient became oblivious of the worry. Doctors found that they could clear surgery bottlenecks in record time by the generous distribution of Roche tranquillisers, and patients began to simplify procedures by coming in for the tranquillisers rather than for an objective diagnosis.

In 1970 UK doctors wrote almost 5½m prescriptions for Valium. The drain on NHS funds was huge – up to £10,000 per day just for Roche tranquillisers. For years the firm bought off NHS complaints with ever increasing handouts as 'compensation' for excess profits, an amazing admission of guilt. When pressed for unit costs, Roche clammed up,

Women and Drugs

Women outnumber men 15 to 1 in tranquilliser and anti-depressant advertisements.

'The "harassed housewife" in the Limbitrol advertisement is at the sink, crammed between a washing machine, a table cluttered with kitchen objects, and with a nagging daughter by her side . . . an advertisement for Prothiaden, an anti-depressant, features a sad-looking woman standing in the supermarket, with shelves of pet-food on one side, and shelves of toilet rolls on the other . . . One advertisement for a combined tranquilliser and anti-depressant shows a working class woman with five children living in one over-crowded room. The written message says: "Lack of space, lack of privacy, spawn unhappy people". The solution is to prescribe a drug to remove the unhappiness.' (G. Stimson *Women in a Doctored World*, New Society, 1.5.75.)

The message is repeated loud and clear in the media and in advertisements: the woman's place is in the home; with living standards under siege it is the woman's proud role to be the bastion of the family, the rock firm in a sea of despondency. Drug advertisements echo this rhetoric and add a new dimension: the mother-wife-rock must be helped to fulfil her role and overcome the stresses it engenders; feed her our product and she will triumph, whatever the adversity. Sales figures bear witness to the success of this campaign. Women consume almost twice as many tranquillisers and anti-depressants as men, not only in Britain, but on an international scale.

International use of anti-anxiety sedative medicines in 1971

% in each sex-group using medicines	*Men*	*Women*
Belgium	12.0	20.9
Denmark	10.2	19.9
France	11.9	21.4
Germany	8.4	19.2
Italy	9.8	12.6
Netherlands	8.5	16.3
Spain	7.0	12.5
Sweden	9.9	21.5
UK	8.9	19.1
USA	8.0	20.0

(Balter, Levine, Manheimer, *New England Journal of Medicine* 1974)

claiming the immunity of Swiss registration. The buck was passed to the Monopolies Commission which calculated that Roche had taken the NHS to the cleaners to the tune of £12m in excess charges over the years. After 18 months in the courts Roche's prices were forced down, but they retained their monopoly. In 1973 Roche accounted for almost 70% of NHS prescriptions in this drug area with Valium and Librium.

The top drug firms such as Roche, Cyanamid, Ciba-Geigy, Beechams, Glaxo, Boots, Wellcome, etc are powerful international corporations with worldwide markets. The UK market, and the number of NHS prescriptions, has been a constant growth area. In 1971 the overall UK market, which includes over the counter sales and animal pharmaceuticals, was worth £280m. NHS prescriptions have risen as follows: £178m in 1971, £210m in 1972, £232m in 1973, and £275 in 1974. (*DHSS Annual Report* 1974) The overall UK market is expected to reach £538.7m in 1975 (*Financial Times* 13.10.75).

Roche is not the only firm to make enormous profits out of the NHS. Fisons for instance pay £2,300 per ton for the raw material needed to make their anti-asthma drug Intal, which is then sold to the NHS for £2.8m per ton. Drug companies generally enjoy profit margins many times higher than general industrial averages. 40% and 50% margins are not uncommon while many firms achieve 20% and over. UK firms have approximately 1/3 of the UK market, and make the largest section of their profits overseas in export markets.

CUT AND CRUMBLE

Hospital Waiting Lists, Private and Public

Condition	*Length of waiting as private patient*	*Length of waiting under NHS*
Hysterectomy	2 weeks	4 months
Vasectomy	2 weeks	2 years
Gynaecological operations	1 week	12 months
Cataract operation	2 weeks	Over 1 month
Tonsillectomy	2 weeks	18 months

Source: Expenditure Committee

The NHS is crumbling from within, fatally flawed in its original constitution, and is now under attack from the 'rationing' policies of the government. Inequalities which have never been resolved grow in scale as available funds are syphoned off into the profits of the private interests which have effectively taken control. The figures given in

Christopher Davies Report

this year's budget mean that capital spending will have been cut 28% in real terms between 1972 and 1977. New hospitals, health centres, new medical equipment – all these suffer from cuts in public expenditure. In Newcastle only £125,000 has been alloted in 1975 for capital expenditure on existing buildings, yet the hospitals involved made requests for £750,000. North Tyneside's new General Hospital has been 'postponed' for at least three years. The West Midlands Regional Health Authority expect their capital budget to be slashed from £30m in 1975 to £17m in 1976, even though, as elsewhere, there is a desperate need for increased expenditure. What is being cut is an already sadly under-financed service. The government makes much of the fact that in 1975 the NHS receives a higher proportion of GNP than ever before at 5.7%. But this is less than is spent in practically all other Common Market countries, and actually represents a pattern of decline in NHS expenditure as a proportion of overall government expenditure from: 15.1% in 1964, 13.75% in 1973 and 11.58% in 1974.

The structural reorganisation of the NHS in 1974 exchanged one ponderous system for another. The stated aim was to decentralise administration and decision-making, but measures now being taken to 'ration' the service are being imposed, as before, from above. Most important of all, capital cuts are finite, while the government's strategy is for a long-term programme of cuts, with the stated aim of encouraging and bolstering the private sector. The proposed Royal Commission enquiry is a transparent delaying tactic. The logic of this strategy is that as the possibilities for capital cuts are exhausted, the burden will fall increasingly on current expenditure. 70% of NHS current expenditure is on wages and salaries. Cuts in this mean that nurses, hospital workers, junior doctors, health visitors etc will be forced out of work, either by a cutback in jobs, or by the reduction of real wages and conditions of work to insupportably low levels.

BACK TO THE BEGINNING

It is possible to project a return to a pre-NHS situation. Already private practice is a boom industry. More than 60 new private nursing homes are currently being planned or developed in Britain. Staff agencies and the private health insurance schemes all stand to flourish. The drug companies have already won their major offensives, and the British firms, with their export emphasis, are to receive encouragement, not restriction, from a government placing all hopes for economic upturn in the private sector.

Those who depend on the NHS, whether as patients or workers, will have their wages cut and the quality of their lives destroyed as the myth of the welfare state disintegrates around them.

Oldham's Health Service

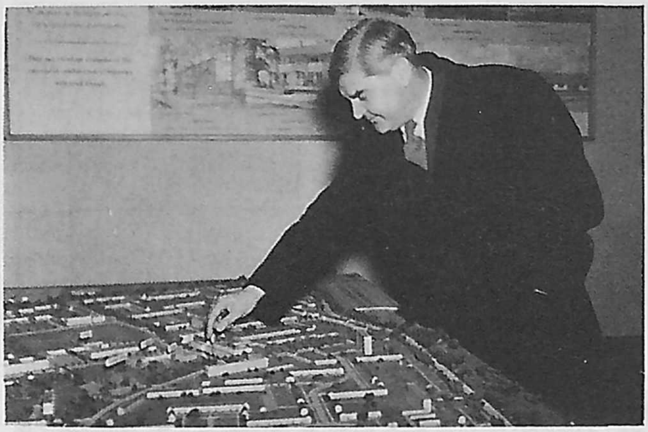
Oldham's General Hospital is more than 100 years old – and part of it is a converted workhouse. Patients have been known to bet on the number of cockroaches they can find. The X-ray Department has no waiting-room – people must wait in a dark corridor. One local councillor says, 'Hospital staff should not be condemned to work under these appalling conditions.' A fellow councillor, himself a doctor, goes further: 'The only way of dealing with Oldham's existing hospitals is to put a bulldozer at each corner and have them meet in the centre.' Indeed, so bad are conditions that a newly appointed consultant changed his mind about working there after seeing the facilities available.

Will Oldham get a new General Hospital – needed and promised for years? Probably not. Certainly not in the next five years as was once hoped. But the crisis in Oldham is only part of the crisis in the whole North West Health Authority. Their capital budget was cut by £3m this year, despite inflation. They receive less per head than any other part of the country, and have suffered this way for years – indeed the chairman of the Authority claims they have been deprived of over £36m since the National Health Service was created. The effect is apparent in statistics: Oldham's infant mortality rate is 29 per 1,000, against the national average of 16.

A year ago West Oldham's MP, Michael Meacher, was told by the Health Minister that the town's new hospital would survive the cuts already taking place.

But each time the axe fell, replacement of existing services – even those as inadequate as a century-old hospital – was increasingly seen as a luxury. This year the Regional Medical Officer told the North West Regional Health Authority that £150m would be needed just to bring the present service up to par – without any replacement of existing hospitals. Beds, day places, diagnostic and therapeutic services – there were gaps everywhere. Yet the Authority's capital budget is just £11.6m this year.

So Oldham's residents must continue to wait three years for operations, and sit in gloomy corridors instead of waiting rooms.



Bevan 1949

From this, 1947

2. Housing

There are currently 170,000 construction workers unemployed, yet 100,000 people are homeless. Government spending on housing is rising at a colossal rate, yet the number of houses provided by the public sector has fallen sharply. The government deficit on housing is increasing by leaps and bounds, yet council rents have risen more rapidly over the past seven years than prices generally.

Central to the problems of local authority housing is the enormous increase it has had to bear in interest payments. In order to build a house or flat the council has to borrow money to buy the land and pay the builder. On the money it borrows it has to pay interest to the lender. Over recent years not only has the cost of providing each home risen enormously, meaning that more money has to be borrowed, but the interest rate has also risen. The effect is that whereas in 1968 it might cost £6,000 to provide a house, the same home today would cost £14,000. Then it was possible to borrow the money at an interest rate of 7%, now it is 14%. The total effect of this is that the interest charge on the house built in 1968 is 7% of £6,000 each year or £420, whereas that on the house built now is 14% of £14,000 or £1,960.

In some areas things are much worse. Camden council, for example estimates that it costs £28,000 to provide a two bedroom flat, the interest charge on this amounts to £76 per week. You can see why local authorities paid out £449m in loan interest in 1968-69 and almost three times as much, £1126m in 1974-75. Making the problem worse is the fact that many years ago councils were able to borrow money at very low rates of interest but some of these borrowings have had to be repaid and the money reborrowed at much higher rates.

Another fast rising area of council spending is repairs and maintenance. Because many council homes are either very old or built to a very low standard they have to be frequently repaired, and expenditure here has risen three times over since 1968-69. What all this means is that more and more council spending on housing is either going to moneylenders in interest or to patching up the results of cost cutting. Less and less is being spent on building new houses. In 1968-69, 89% of council money was spent on new homes but by 1974-75 this had fallen to 50%. So, despite the fact that housing is the fastest growing area of public expenditure, council home building over the past five years was a quarter less than in the previous five.

Another important factor has been a rise in the amount going to the private sector in various ways. Between 1968-69 and 1974-75, local council mortgages to private house buyers went up from £188 million to £463m, and option mortgage relief from £9m to £77m. At the same time the 1970 Conservative government boosted improvement grants to the private house owner from £32m to £152½m. Much of this last figure went to property companies and other landlords, particularly in London: in 1971-72 for example, 70% of grants went to landlords and developers in Kensington and Chelsea, 67% in Hammersmith and 64% in Westminster. The *Sunday Times* (19.10.72) commented 'far from helping the needy, the scheme has drastically reduced the amount of accommodation available for rent, and provided in its place much more expensive accommodation for sale'.

At the same time councils have to compete with private developers for their basic housing resource. The property speculation boom of the early 1970's meant that land prices everywhere rose enormously, in some places multiplying many times over, which contributed very heavily to the increasing cost of providing council houses. Ironically enough the end of the property speculation boom has not meant much of a fall in the price of building land. Originally the property speculators bought the land at inflated prices on money borrowed mainly from the banks. When they were unable to meet their interest payments, the banks moved in and took over the land, but being unwilling to accept a loss, would not sell it for less than the speculator originally paid.

The Labour government has made many statements indicating that it regards housing as an important area which must be protected. Since it has been in power it has managed to bring new council building back to 1970 levels. The result has been an explosion in the amount of money going to housing. Unless the government is prepared to allow this to continue, obviously one or more areas are going to have to be cut. The building programme going on at the moment means that loan interest will continue to grow at a phenomenal rate. As a start the cuts are falling on areas which are either out of the public eye or where political resistance is weakest.

In particular, clearance and improvement schemes in working-class areas are being held back or entirely removed. Maintenance and repairs are grinding to a halt. The cuts already made this year have hit the older areas of working class housing worst. Policy seems to imply not only that older houses are capable of improvement but also that many are adequate as they stand for several years. Indeed in many cities, Birmingham in particular, a substantial percentage of pre-1919 houses are no longer eligible for Improvement Grants because of the new £175 Rateable Value limits. At the same time redevelopment schemes are being halted and attempts made to limit improvement resources and transfer

. . . *to this, Moss-side 1974*

. . . *and this, Liverpool 1975*

them from terraced areas and older Council estates to the areas previously designated for clearance. What has been the impact of these cuts?

COUNCIL HOUSE IMPROVEMENTS

One of the first targets, predictably, was council house repairs and improvements. In December 1974 local authorities were instructed to plan for nil growth in repairs and maintenance during 1975-76. Subsequently councils were criticised (as they had been by the Tories) for carrying out 'gold plated' improvements to inter-war houses. Yet these houses have been neglected for years – because of previous cut-backs – and often have Victorian standards of amenities. For example, 20,000 houses in Birmingham have outside toilets.

In March the government announced that the budgeted expenditure of £572m for 1975-76 was to be cut to £271m. In subsequent years up to 1979 expenditure would be reduced by stages to £230m. This cut prevented the improvement of many older houses bought up only last year; as in Newham where the budget for improvements to acquired houses was reduced from £1.25m to only £0.25m. The most widespread effect, however, was to defer – sometimes until the distant future – schemes of improvement to old council estates. Long series of meetings between tenants and officials and carefully negotiated promises about programme dates were nullified overnight by the government.

In Oldham, besides postponements, standards in work already started have been cut in order to spread the council's allocation more widely. Standards have also been reduced in Kirklees – from £3,500 to £2,000 per house; 7,500 houses in Huddersfield and Dewsbury will be affected.

PRIVATE TENANTS

In 1974 local authorities suddenly found their acquisition budgets expanded dramatically. This was in order to carry out government policies of municipalisation of private accommodation. A cherished Labour Party dream seemed to be coming true. But it turned out to be a freak year, aimed more at rescuing private builders with empty *new* houses (following the Tory created mortgage famine) than at helping tenants living in *old* houses without bathrooms and hot water. After February 1975 the government began to refuse loan sanctions for municipalisation. In June it sent out circular 64/75 directing that only purchases in declared Housing Action Areas and General Improvement Areas were to be considered. This dramatically limits the scope of local authorities as few existing GIAs have large numbers of tenants (because of Department of Environment advice) and new GIA and HAA declarations will be closely controlled by the government. Many private tenants will therefore have to put up with their poor conditions for a lot longer. In Newham alone about 800 families will be affected because the Council has been forced to slash its programme by £1.7m this year.

LOCAL AUTHORITY MORTGAGES

The sale of pre-1919, unimproved and leasehold houses has been increasing in recent years – usually (outside London) to working class families unable to wait any longer for their turn on the Council's waiting list. But because of their 'high risk', these older houses do not attract building society loans. Prospective buyers have to rely on the local authority, or, if ill-advised, the high interest finance companies.

This June the Government decided to halve local authority mortgage lending. Most councils had to stop lending immediately leaving a complete sector of working class housing to be freely exploited by finance companies for nine months. But even worse were the promises, made simultaneously, that building societies would 'fill the gap' After four months they have not done so and show every sign of resisting government persuasion. In Saltley, Birmingham, there is a growing number of houses for sale; they remain empty and eventually become vandalised. Owners of lease-

hold houses have also had their hopes dashed. They were depending on council loans to pay off the property companies that own their freeholds. Now they will have to wait until next year when the purchase price will have increased.

GENERAL IMPROVEMENT AREAS (GIAs)

Expenditure on environmental works in GIAs — never a favourite with local councils – has been an early target in recent rounds of cuts. Acquisitions and improvements in Newham's five GIAs were slashed this year from £1.12m to £0.22m and in North Tyneside from £0.6m to £0.1m. Budgets for future years are also cut so that effectively the GIA is no more than a label. In Oldham and Birmingham cuts are being made by slowing down the GIA declarations and in the same authorities there is evidence of staff cuts and calls for voluntary redundancy.

REDEVELOPMENT

While the pace of municipalisation and improvement slows down, economies are also being made in the redevelopment programmes. To some extent, as in Birmingham where clearance can take up to ten years to complete, and in North Tyneside, this is a natural result of the collapse in house building programmes during previous years. In Oldham, too, it seems that the deferment of further Compulsory Purchase Orders in the Glodwick district is the result of rehousing difficulties. But in Newham, in a more sinister move, the government has recently refused to confirm a CPO in Drews Road, although residents were backing the clearance proposals. This means that 29 houses, and potentially thousands more in Newham and elsewhere, are going to be forced back into an improvement programme already starved of adequate resources.

The money already saved by changing from redevelopment to improvements has not been transferred to the improvements programme. Instead, both local authority and private improvement budgets have been – and will continue to be – cut. More and more people will find themselves trapped in slum property which can neither be improved nor demolished. And if resources are found to patch up these houses, the global nature of government budgeting means that it can only come from further cuts in council house improvements and GIAs. One of the frustrating problems which the councils have had to face during 1975 is the government's insistence on limiting the money given to local authorities for the improvement of their own dwellings. If councils are to be prevented from carrying out clearance programmes which have hitherto been accepted as a vital part of their housing policy, and instead are being directed to undertake comparable rehabilitation, then it cannot be too strongly stressed that this work will be impossible within the financial limits now being imposed.

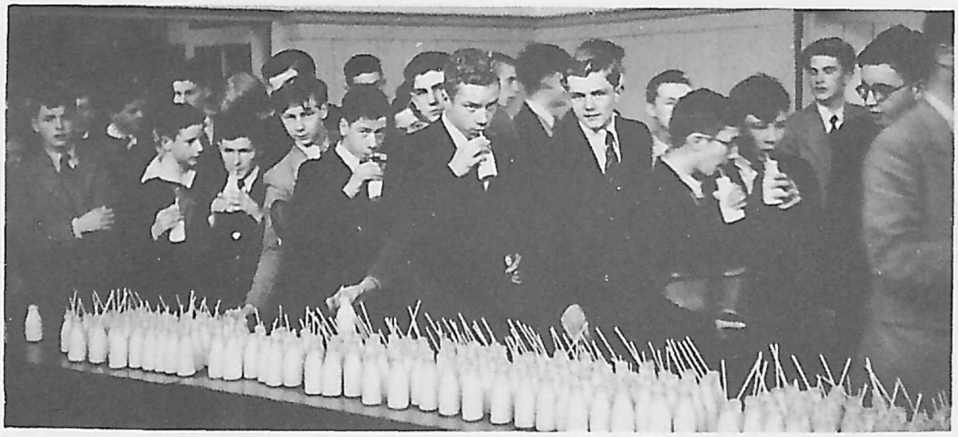
NEW COUNCIL HOUSES

The success of any redevelopment programme of course lies in the construction of new council houses to rehouse those displaced by clearance. The Labour government, having reversed the downward trend in council house building initiated by the Tories, has consistently claimed that it would maintain its commitment to an increased building programme. But in practice local authorities are finding that the present subsidy arrangements (including cuts in the April budget) and the current high rates of interest mean that big programmes have to be paid for out of substantially increased rents or rates. It is a subtle form of financial control, though in the background is the government's clear intention to see that rents are raised: Crosland has even suggested – or threatened – rises of 25% next year. Some Labour councillors are already claiming that they were better off under the 1972 'Fair Rents' legislation.

Many local authorities, rather than totally alienate their tenants and/or their ratepayers, are now cutting back below allowable expenditure. In Kirklees the new authority's programme is 40% behind and intentions are to keep it there. Newham has snipped £0.5m from this year's estimates while in North Tyneside the cut-back from the 1974 plan has been £3.6m. These cuts will all work their way back into the clearance proposals for 1976-78.

While local authority budgets are being revised downwards, the government has also been looking for economies through lower standards. Garages for new estates no longer qualify for subsidy as from this year (Circular 24/75). Parker Morris standards (government accommodation standards) are constantly referred to by government ministers and apologists as 'more than the nation can afford', yet studies in Southwark have shown that recently built flats have less space and amenities than council houses built in the 1920s. In Birmingham the construction of sub Parker Morris houses is being encouraged and applauded. Paradoxically these council houses will be sold – but the argument will almost certainly follow that if such standards are 'attractive' to owner-occupiers, then why should tenants expect more.

So far then the emphasis has been on cutting corners. But the amount that can be saved by this sort of means is trifling in comparison to the massive rise in debt interest. By 1980 it will be costing around £3b a year unless interest rates fall. That is three-quarters of the entire budget spent last year. Inevitably capital programmes will be squeezed, meaning fewer houses and worse ones. Equally there will be massive efforts to raise council rents, to put more of the burden on working class tenants. There is no reason to believe that the trends outlined at the beginning of this section will not become far worse.



Great Expectations

4. Education

The post-war expansion of the British economy found its reflection in the growth of education. The series of reports on education – Plowden, Crowther, Newsome and Robbins – all drew up the blueprints for the expansion. Underlying their assumptions were the needs of the technological age, which were closely related to the cyclical demand for skilled labour in industry. It was this demand that lead to the end of the wasteful two-tier system of secondary education, and the general expansion of the service.

The rapid growth of colleges of further education, and advanced technology, was again related to the needs of industry. This expansion was accompanied by rationalisation. Smaller schools were closed and pupils were herded into larger and larger institutions. The number of secondary schools in the 100-600 pupil range declined in favour of the growth of the 600-1000 range. Similarly in primary education the schools with the 25-200 pupil range declined in favour of the 200-800 range.

The system, however, continued to reflect the class inequalities of society. Government retained the crucial control on building programmes. Money was allocated to areas of increasing population, of new housing developments and where local authorities had high expectations of growth in demand for education. In the older working class areas, where children were taught in old and inadequate buildings, the authorities projected a low estimate of demand.

The variations in the provision between the schools of higher income suburbs and those of the inner cities or council housing estates are largely confirmed by the official reports of the Department of Education and Science. While some authorities in the Greater London area are sending up to 30% of young people to higher education, others may only be sending 4%. And this is in the prosperous south-east.

While the school population grew by 20% between 1961-73, the number of University places grew by 50%, and advanced courses in further education doubled. However, it was a tiny proportion of the population (3%) who were given the opportunity and they formed the 'technocracy' of the educational boom. Although the number of University places doubled, the route is still through independent and assisted schools. Not surprisingly, independent and grammar schools are still dominated by the children of the professional, managerial and non-manual classes.

The attacks on the education system through budget cuts have their ideological back-up too. Throughout the 50s and 60s everyone supported progressive education. Now the campaign for a return to traditional methods is building up. This is both an attempt to find a scapegoat for the lowering in standards that is bound to occur as class sizes grow and conditions deteriorate, and a weapon to undermine teachers' organisation.

Despite the built-in inequalities of the education system, it has been a major growth area. Of all the sectors of public expenditure it has grown fastest. In 1954, spending on education represented 3% of the Gross National Product, by 1974 it had grown to 6%. But a Schools Council Report published in 1970 showed that although the number in sixth forms had increased by 50% in the preceding ten years, the social class composition had hardly changed at all.

Who benefitted most from the growth in education spending? Obviously those who already had the greatest access to the system. Local authorities in poorer areas tended to spend less per capita on education than others. Areas of declining population have suffered particularly badly.

In 1974/5, £4¼b was spent on education in the UK. This paid for new buildings and the running of 29,000 schools and colleges, the 500,000 teachers and as many back up staff, catering for 8½m pupils and students. The allocation accounted for about 17% of total public expenditure.

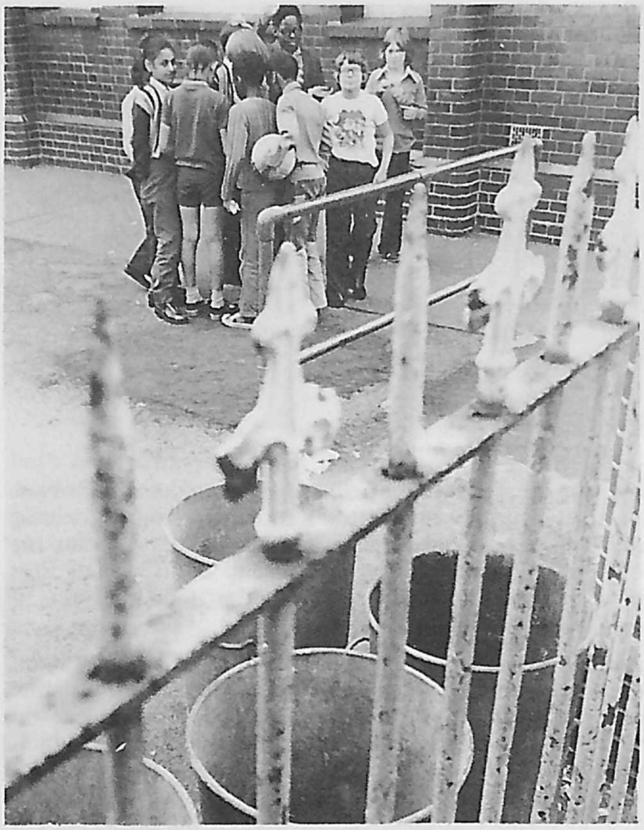
Education spending is of two sorts, the basic investment – capital expenditure, and the running costs – current expenditure. In 1974 basic investment on new buildings, extensions and equipment cost £629m, while the running costs, wages, services, grants etc. took £3879m. The table below traces the different kind of expenditure over the last six years. As can be seen much of the total budget is channelled through the local authorities.

Total Educational Expenditure 1969/70 to 1974/75 (1974 prices) £m

	1969/70	*1972/73*	*1974/75*
CAPITAL Spending	682	930	629
of which: Local Authority	409	615	350
CURRENT Spending	2,991	3,497	3,879
of which Local Authority	2,575	2,988	3,325

(Source: Public Expenditure CMND 5879)

Capital spending provides the infrastructure of the education service, the buildings and furnishings most of which will be expected to last for many years. There is, as a result, an inbuilt commitment in capital spending. When the buildings are completed, bringing them into service



Newham School

Christopher Davies Report

His ideas . . . are now being put into practice

involves drawing on current expenditure: teachers, wages, heating etc.

Beginning with the 'Barber' cuts of 1972/3, and continuing under the Labour Government, capital spending in education decreased. In two years it fell by a third. This is significant in two ways. In political terms capital expenditure is fairly easy to cut because it is not immediately visible. But the long-term effect is considerable, nothing can be done at a later date when new buildings are needed.

Over the same period capital spending fell from £610m to £365m in primary and secondary education. In higher and further education it fell from £207m to £152m. In bricks and mortar terms, in 1974/5 funds for building teacher training colleges were cut by four fifths, colleges of further and higher education by three quarters, and primary and secondary schools by a third. Simply speaking, educational building is not growing, and, more significantly, neither is the much needed replacement of older schools.

At a national and a local level these cuts occur against the growth plans of the early 70s-plans which not only reflected the growth in demand for education, but an effort to come to terms with the heritage of the Victorian period – inadequate facilities and deteriorating schools. One of these growth areas is further education, where demand continues to grow. But in Sheffield, for example the principal of the local Polytechnic tells a familiar story: 'On December 18th 1973 we had a building plan involving proposals totalling over £6½million. On December 19th all that was left of that plan was £1m worth of building currently under construction. So much for the planning we had been actively encouraged to develop.'

NIL GROWTH IN CAPITAL SPENDING

Nor is this reduction in capital spending temporary. At the end of 1974, local authorities were directed to keep their spending for 1975/6 level with that of the previous year. So capital spending, already at its lowest level since the war, was to stay unchanged. Future educational provision would have to suffer the consequences.

The implications are alarming. The capital spending of the early 70s which preceded these cuts, is only now coming on stream. New buildings and extensions, recreational facilities commissioned then are now complete. These projects, if they are to be brought into use, will involve a huge increase in running costs – staff must be paid and materials bought. Even if they are replacements, they cannot be expected to cost any less than the buildings they replace. But the no growth directive applies equally to current expenditure. Government restrictions either mean that these new buildings remain unused or that the money required will have to come from cuts somewhere else. The £100m needed just to make good the buildings constructed with high alumina cement, following the collapse of the John Cass school roof, must come from the restricted local authority funds.

CURRENT EXPENDITURE

Everyday running costs, – including teachers' and non-teachers' pay, heating, lighting and transport, direct grants, the nursery and youth service, and general administration – are far and away the greatest cost in education. In 1975 current expenditure was £3.9b of the total £4½b educational budget. Teachers' and lecturers' pay takes about half of current expenditure on education, with non-teaching staff getting another £74m.

The recent increase in running costs, – an average 5% per annum in real terms over the past five years, – is a logical consequence of the earlier increases in capital spending, particularly in higher and further education. It also reflects the wage rises throughout the public sector, which followed a long period of restraint. There was also an increase in the school population, largely as a result of the raising of the school leaving age. Given the high proportion of current expenditure that goes on wages, any restriction will certainly fall on those who work in this sector.

THE CUTS

'Next year will be much more austere, but the education service has to take it share of the cuts like everyone else.' (Crosland, TES 23.5.75)

Most of the cuts announced for education since the beginning of 1974 applied to *future* expenditure. None were immediate. They were to fall between 1976 and 1979. But they did have an immediate effect on the plans of the local authorities, who, anticipating the contraction ahead, began pruning. So most of the cuts to date have been of a

Christopher Davies Report

But teachers protest

preparatory nature.

'Nursery building programme cancelled . . . reduction of overtime' Croydon; '10% cut in supplies and services' Bromley; '36 teachers below quota', Mid Glamorgan; 'economies in adult education and ancillary staff' Salop; 'mobile classrooms for 80 primary school-children', St. Helens; 'only one replacement school instead of the usual 8 or 9' Somerset. In nearly every case the provision of Youth and Nursery education was cut. The pincer-hold that local authorities found themselves in was typified in a letter from the director of education in Leicester.

From a letter from Mr. A.N. Fairbairn, MC, MA Director of Education to the Council for Educational Advance.

"In Leicestershire, we have been severely restricted by the decision of the local Resources Committee to stick to a rate increase of no more than 25% which in a fast growing county has been unusually restrictive. Moreover the Committees were allowed only 90% of the cost of inflation during the year which meant that cuts outside salaries and supplies would have to be made if standards were to be maintained in staffing without redundancies. The restrictions therefore meant a cut in estimates for Education for 1975/76 of £3,980,000 and on a gross proposed expenditure of £70,850,000 has meant that whole areas of expenditure such as for new nurseries, swimming etc. had to be considered for exclusion. Staffing, maintenance of buildings, supplies and services must take the brunt of the cuts. Clearly it would be unthinkable to dismiss existing staff and any savings achieved would have to be by natural wastage and deterioration of standards in maintenance of buildings and supplies.

It is perhaps ironical that the County Council at its budget meeting fixed a rate precept which was in fact an increase of 22.9%. A move to raise the rate to reflect an increase of 25% which would have reinstated £1,280,000 of expenditure to the spending committees was defeated. This would have enabled most of the controversial items on teachers staffing, swimming, supplies etc. in Primary and Secondary Schools to have been put back".

In July 1975 education's share of the total £3b cuts to 1978/79 was announced as £500m. Zero growth indeed! The graph below shows how future educational spending was planned and how it looked after Healey's budget.

When Fred Mulley, secretary of state for Education, presented this zero growth policy to the Conference of Local Education Authorities in July, they told him that an annual increase of between 3% and 4% was essential merely to avoid cut-backs. Any policy of 'nil growth' or a smaller increase, must mean cut-backs because all local authorities had ongoing commitments to meet. This meeting was followed in September, by Circular 10/75 'the first government circular since 1959 to tell local authorities where they should and should not make cuts' (TES 12.9.75.)

Starting off 'There will thus be no scope for improvement of standards for the education service at any level and only by strict economy and careful planning will it be possible to obviate the need for reduction of standards,' the circular made it clear what this meant.

1. In large urban areas with falling populations teaching staff was to be reduced (no matter what the pupil/teacher ratio was before).
2. In higher education steps were to be taken 'to tighten staffing ratios'.
3. In primary education 'those local authorities which have recently allowed children to be admitted full-time to ordinary infant classes on reaching the age of four should review this policy in the interests of economy. Rising fives should not be admitted unless they make no additional call on educational resources and do not prevent the redeployment of these resources for more essential purposes.
4. Maintenance was to be neglected. 'Standards of material provision and up-keep of premises must remain below the level generally accepted as desirable in the recent past.'

Moreover 'There will be no scope for increased expenditure in real terms on the rest of the education service – including the youth, recreation and community services . . . or in the library and museum services.'

Nursery Education

In 1973/4 only £9m was spent on nursery education by all the local authorities. Of 4m children under school age, only 40,000 managed to get places in nursery schools. And 75% of these were the children of middle-class and professional parents.

In 1974/75 a £15m building programme was introduced to extend nursery provision, with a commitment to spend £25m and £30m in the following two years. There was to be a related increase in current spending as the schools were completed.

This was the first sector to be hit as local authorities trimmed their budgets. For example, in March 1975, Clwyd had several completed nursery units, but no staff, and some of the buildings were being used by the infant school. In Croydon the whole programme was cancelled.

16 WILLESDEN & BRENT CHRONICLE 24·10·75

Scrapped school site costs Brent Council £345 a day

by JOHN CLOHESY

BRENT COUNCIL is paying £345 a day on the three-acre site at Church End, Neasden, which was going to be a new comprehensive school.

The council scrapped plans for the £1 million school beacuse of the economic situation. But now it has been accused by deputy leader of the Tories, Richard Buckley of wasting money.

·AY, NOVEMBER 3, 1975

TEACHERS CHECK STAFFING

FEARS OF PART-TIME SCHOOLING

THE EFFECTS SO FAR

The directive to cut contained in the circular refers to future expenditure, 1976/77 onwards. Below we summarise the cuts in public spending that have received publicity so far. They are significant in themselves. They are also significant in the sense that their full effect has not yet been felt. Clearly local authorities are pruning now to make things easier later on.

'The reports we have been getting show local education authorities all over the country making contingency plans which will mean more crowded classrooms, fewer teachers, skimpier resources, deteriorating conditions, and a harder time all round for the children in our schools.' (Council for Educational Advance *Guardian* 14.10.75)

Increase in the price of school meals and a decrease in the quality – prices to be increased annually. Some schools unable to meet present needs.

Plans to replace old school buildings shelved, total stoppage of slum school clearance.

School terms to be shortened to reduce overheads.

Local authorities employing less than their quota of teachers. Size of classes increased. Staff not replaced to fill existing vacancies.

Remedial education frozen.

In Further Education

Discretionary awards slashed.
An increase in fees.

A reduction in the College building programme: £41m in 1966/7 and £20m in 1977/8. Further restrictions imminent.

In Teacher Training Colleges

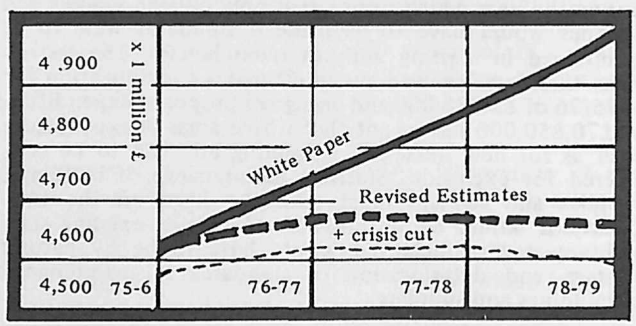
Thirteen Colleges of Education closed, another sixteen to be closed.
The intake of Colleges of Education (29,000 in 1975) will be cut to 20,000 in 1976.

Teachers on the Dole

"Next year will be much more austere. There may not be full employment for all new teachers in 1976/77, there may be a higher school meal charges there may be cuts in non-teaching jobs. It is a very painful choice, painful for me and painful for local authorities, but the education service has got to face up to the country's economic situation like everyone else" (Reg Prentice TES 23.5.75).

Given the high proportion of education spending on teachers pay, it is unlikely that they will be spared. Already teacher unemployment in 1975 has reached 5,192, and estimates for this winter are around 7,000. In anticipation of the reduction in the service, teacher-training places have been cut from 30,000 in 1975 to 20,000 in 1976, and they will fall to 12,000 in 1978. For those already employed, it is unlikely that 'natural wastage' will provide the savings that the government require. "And if the teachers do not like it they must come up with alternative suggestions for cutting education spending" (Prentice ditto).

What Next?



Effect on planned education spending of proposed long-term cuts and of possible autumn crisis cuts.

The cuts so far in education have been savage enough. Apart from capital spending, they have taken place within an average annual growth of five per cent. The prospect of zero growth in this sector, and the directive to cut £500 million off anticipated expenditure, clearly means that the extent of the contraction in the industry has not yet been seen. The logic of the cuts mean that the government must put increasing pressure on current expenditure, which is comprised largely of wage costs, and that at a time when past planning decisions and the continuing injustices of the present inequalities demand a *growth* in current expenditure.

4. On the Edge

The cuts in major welfare sectors are invariably preceded by the steady run-down of the so-called 'peripheral areas' of the welfare state. In the current situation expenditure on what can only be considered 'patching-up' operations, is looked upon as a luxury.

SOCIAL SERVICES

Social services have been expending rapidly over the last twenty years, but from a very low base. Only in 1972 were the Social Service Departments in local authorities created and put on an equal footing with other services. In May local authorities were told by the Government that revenue spending, which had risen by 82% in real terms between 1969 and 1974, was to rise by only 13% in the next four years. But again, capital expenditure is to be the main casualty. It rose by 143% between 1969 and 1974. Between 1974 and 1977 it is to be *reduced* by 38%. (Figures taken from *Labour Research,* July 1975).

What does this mean in practice? Since many authorities are already committed to some capital projects, it will usually mean *no* new projects now or in the foreseeable future. In Northumberland, for example, every planned service except one has been abandoned. A hostel for the mentally handicapped, a day nursery, an adult training centre and an old people's home have all been sacrificed. North Tyneside Council are postponing similar projects for several years, and after two capital reviews already this year, expenditure in 1976/77 has been halved.

In Kirklees the reviews began earlier. Last November their five year capital plan for social services was almost halved. Then in May three of this year's projects were axed – a Community Home, an old peoples home and a centre for the physically handicapped.

In practice the cuts in social services will mean much of the burden of care for children and the sick will fall back onto 'the community'. One local authority is reported to be considering canvassing relatives of elderly people with council homes for a donation (*Observer* 24.8.75). In practice returning care to 'the community' means a growing burden of work for women. Cuts in day nurseries and old peoples homes can only mean increasing their isolation in the home. It also serves to disguise the full scale of unemployment by preventing women from going out to work.

Revenue savings are being made by the simple expedient of cancelling any new jobs, and leaving vacancies unfilled. Newcastle intended providing 240 extra home helps this year. Now sixty of these jobs have been cut. The home help and meals on wheels services in Birmingham are also being 'restricted in growth because of financial constraints.' The waiting list is rising. 42 social workers are on training courses this year from Birmingham Social Services Department, but replacements have only been agreed for ten.

Money is also being saved on cutting back overtime payments. In Haringey residential social workers have been told that they will no longer be paid for overtime, but the workers cannot see how children's homes can be kept open if they do not work extra hours. It is very difficult not to see this as a wage cut.

The postponement of legislation is a further means of achieving "invisible economies." Some sections of the new Children's Bill will not be implemented for the present, since they require finance. The Health and Safety Commission has offered to delay introduction of parts of the Health & Safety at Work Act for the same reason.

But perhaps the ultimate irony is that social workers – faced with increased work as more people become unemployed, or fall into debt, and finding also that their numbers are being reduced – are now asked by Barbara Castle to act as Public Relations Officers, explaining the need for this financial stringency.

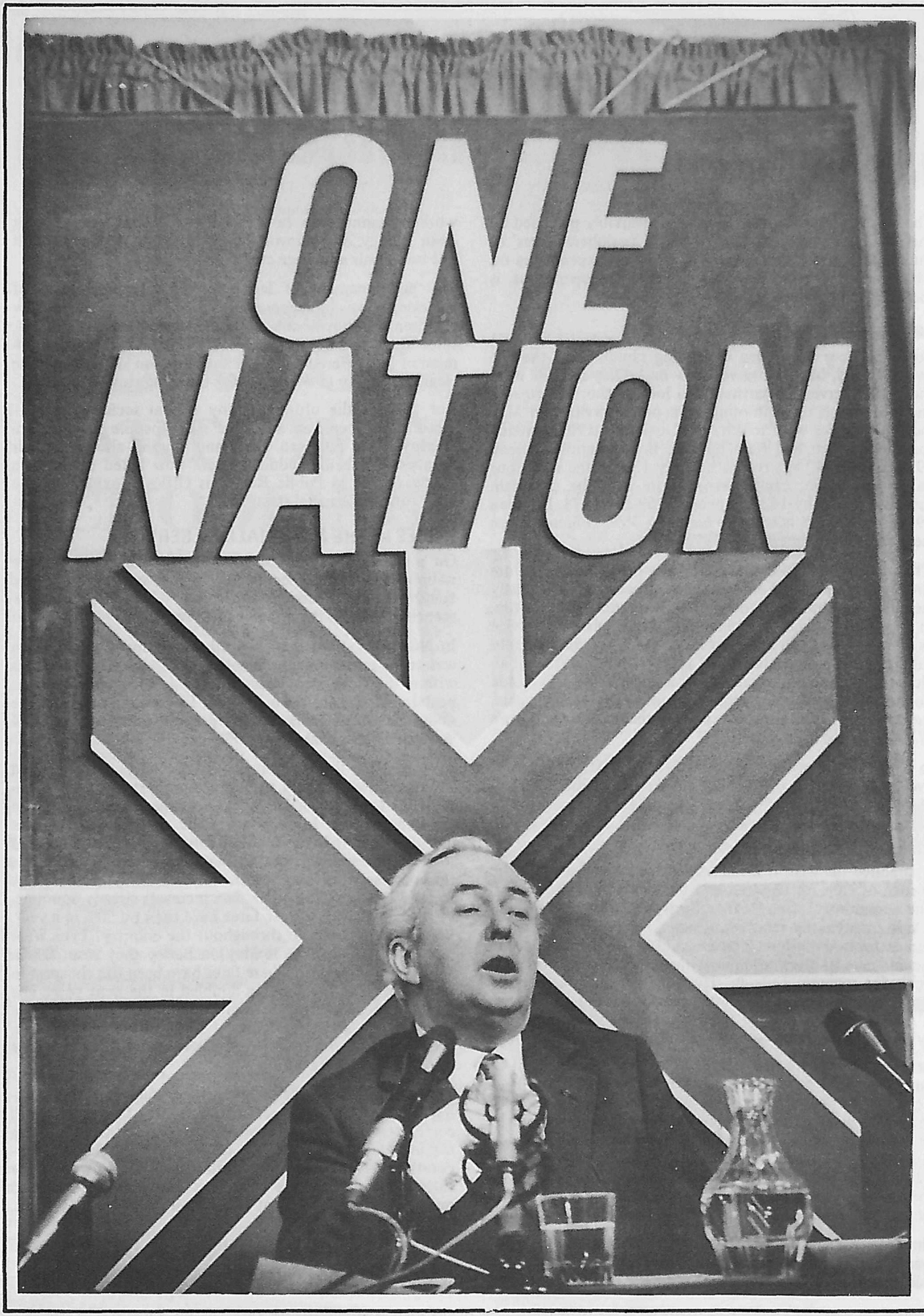
PRICES IN THE NATIONALISED SERVICES

On a much more general level, the attempt to make the nationalised service sector pay – gas, electricity, public transport, postal services and so on – has led to a phenomenal increase in the price of these services.

In November 1974 the Chancellor announced that £654m was to be cut from subsidies to the nationalised industries within the next two years. In the last eighteen months postal charges have risen by 86%. Electricity charges to the domestic consumer have risen by 100%, gas charges by 25% and British Rail charges by 50%.

In April 1975 the government announced that they intend to reduce their subsidy to public transport from £123m in 1974/75 to £50m in 1978/79. A further £10m was cut in the same month. In accouncing the cuts, the government made it clear that the reduced subsidy would not be used to keep fares down, but to maintain a 'minimum public transport service.' As a result, bus and tube fares continue to rise. This is on top of the fare increases already announced. British Rail passenger fares have risen by 50% in a year. Bus fares are going up throughout the country. Tyne Wear bus fares rose by 15% in May, in Batley they rose 20% in July. In Birmingham, where fares have been the cheapest in the country, they are being doubled in the next year. The GLC has been obliged to increase bus fares by 53% since March 1975, and tube fares by 73%, putting off indefinitely any hope for a service which would cut down the use of private cars in London.

This barrage of attacks on the living standards of the working class will bite deeper in the future. The attacks will come from a bewildering variety of sources; from housing departments, from health clinics, from transport corporations, from education authorities etc. However, the cutting of the welfare state is a remarkably centralised operation, and the line of responsibility is clearly defined.


ONE
NATION

5 LINE OF COMMAND

The whole myth behind local government is that it should be based on local democracy. In practice central government has a very firm grip on how it operates.

Two thirds of all local authority spending on wage and running costs comes from central government in the form of what is called the Rate Support Grant. The rest comes either from the rates (about a fifth) or from charges the local authority makes for its services. The capital spending of local authorities on buildings and other major projects is also controlled by the centre. Although the local authority raises its own loans the project must first be approved by government. In 1972-73 local authorities were allowed to spend £508m on building new colleges and schools in England and Wales. By 1974 this figure had fallen to £281m. Further substantial constraints are proposed by Acts of Parliament, and more importantly those interpretations of legislation sent from the government to the Chief Executive of each local authority which are known as Government Circulars. Circular 10/75 issued on the 3 September 1975 stated 'there is no scope for increased expenditure in total real terms'. It is the way central government forces local government to implement its policy of cutbacks in public expenditure that reveals the power of the central government executive.

Recently a new social services 'inner cabinet' has been created within the government. Behind this inner cabinet is the 'Think Tank' (Central Policy Review Staff) a group of civil servants who have stated: 'There is no effective mechanism for determining coherent and consistent policies in the field of social policy . . . This is necessary not only for reasons of social justice, but also in the light of the current prospective economic situation.'

Apart from being an apparently radical departure from the way government has operated until now, it reveals the crude economics behind welfare provision: 'Public expenditure has been growing faster than production as a whole and expenditure on social programmes has been growing faster than the rest of public expenditure. This cannot go on. The economic situation over the next few years imposes new restraints on public spending.' The emergence of greater coordination of the welfare services of itself is no bad thing. But when this coordination is organised from the secretive recesses of the Cabinet Office, with aims such as these and during a period of recession and cutbacks, it can equally well be used as a highly efficient instrument to coordinate the slashing of the welfare services.

Local government spending has been growing twice as fast as the economy as a whole and much faster than overall public spending. During the sixties, while the Gross National Product increased by 80%, local government expenditure shot up by 170%. Now the government wishes to see public spending 'constrained' it has to find a mechanism for controlling the spending of local authorities. In September 1975 it imposed 'cash limits' through Circular 88/75. This circular states that the government will support local authorities as before through the Rate Support Grant, but if the local authorities over-spend for any reason, they will have to find all the extra from the rates. An allowance for inflation will be made, but if inflation rises faster than predicted there will be no compensation for over-spending. Thus if a local authority overspends by 10% it will have to add 30% to the rates to compensate for the extra two-thirds it will not receive from government. 'The party is over' indeed.

But it is not only government policy which dictates how local authorities should spent their money. Overall capital spending by local authorities in the past has left them with a massive £22b debt. This year the interest alone on this debt will cost £1.9b. Interest payments go up every year, as the debt increases and as the (relatively) cheap loans acquired in the past are replaced by higher-interest loans. In 1972 interest was £1,170m, in 1973 £1,440m and in 1974 £1,878m.

While the interest on loans raised for building council houses comes from the government, all other interest payments have to come out of money for running services and paying wages. About half the money a council needs to borrow will come from the government. This is generally the cheapest money to be found in this country. Another tenth will be raised through the stock market by 'floating a stock issue' at up to 14% interest. In October 1975 Islington Council raised £7½m this way. The stocks, which are really a ten-year loan to Islington Council, are mainly bought by banks, pension funds, and insurance companies. Once the interest has been paid and the stocks redeemed, it will have cost Islington Council over £11m just to borrow £7½m. Taking Coventry as another example, in recent years about 20% of the City Council's overall spending has gone on debt repayments and interest charges. Its current total loan debt is about £179m and the average rate of interest 9.9% in 1974-75 compared with 6.4% in 1972-73.

Since 1973 local authorities have also been borrowing 'cheaper' money from abroad, but when the county authorities joined the queue in April 1974 it became much harder to borrow eurocurrency. Furthermore since this money was borrowed before the devaluation of sterling it will cost even more to pay back and may prove to have been less of a bargain than was imagined.

The remainder of the money comes from short-term borrowing on the money market – 'a good living for the

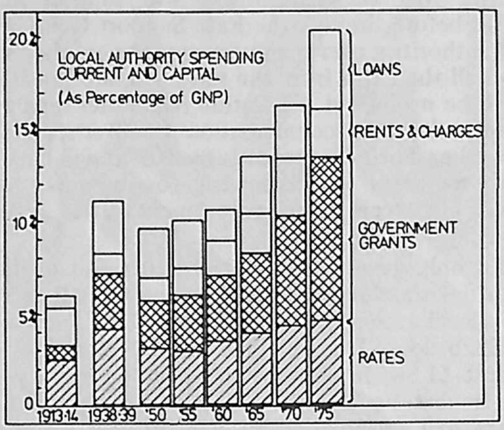
£900,000 loss on council's £4m loan

A £900,000 loss is being shown by Birmingham City Council on a £4 million foreign loan negotiated in Swiss francs two years ago.

payers. No such guarantee exists for the Swiss loan.

Mr. Page said: "The fundamental point is that the Swiss loan does not fall due until 1978 or 1979" The pound might well improve

WHERE THE MONEY COMES FROM



brokers' (*Investors Chronicle*). The only broker which publishes accounts – R.P. Martin – attributed its £150,000 increases in pre-tax profits to the 'continued growth of the local authority business'.

There is some choice left to local authorities. Not the choice of whether to cut, but what to cut. They can juggle the possibilities: from the number of times a week children can have sausages, to who will have to continue to live in a slum for the next twenty years instead of being given a council house.

The Chief Executive (the chief, paid, non-elected administrator) and the appropriate department of a council have the job of interpreting government acts and drawing up detailed proposals. These are then accepted or rejected by the relevant elected committees (e.g., the Housing Committee, the Education Committee) and the decision is ratified by the full council. Decisions about capital and current expenditure are usually made separately. Long-term, overall capital plans are drawn up every five years and substantially modified in the annual capital programme. This usually takes the form of 'postponements' at the moment, but as public spending is further constrained a 'postponement' will come to mean a 'cut' over the next year or two. In a similar way current expenditure is reconsidered annually by the various departments and submitted for approval to the elected committee of the full council. While councillors can and frequently do make objections, the sheer amount of paper makes it very difficult for them to suggest alternatives or raise fundamental objections.

WHERE THE MONEY GOES TO

In 1973-74 the main areas of local authority spending were as follows:

	capital	*current*	*total*
Housing	1808	350	2158
Roads	507	398	905
Environment	408	617	1025
Law and Order	64	694	758
Education	531	3062	3593
Health	113	460	573

Researching the Cuts

The local newspaper is clearly the first source of information. Don't just look at the news items, council notices about public inquiries or reports of council meetings are also very useful.

Many council meetings are open to the public. You may not learn much from them, however, as reports from the administration (the officers) to the elected members (councillors) are often passed without discussion. After this they are no longer confidential and you have a right to see them.

Decisions about spending are first made in the individual sub-committees of the council (Education, Housing Recreation and Amenities). So reports should be obtained from the clerk of the relevant committee (who will be found in the Chief Executive Department of the Town Hall).

In November 1975 (whilst this report was being prepared) many Councils will have produced their estimates for 1976/77. They will also have made final adjustments to this year's spending. As it is in the capital programmes that the first major cuts will be shown, it is essential to locate the reports on which these decisions are based.

If you have difficulties in obtaining information the public sector unions (NALGO, NUPE and NUT) may be able to help you. They will certainly be able to provide information about the effects of cuts on jobs and services. Your local councillor may be prepared to help, especially if you are prepared to persist. The local trades council also sometimes obtains access to reports and policy outlines from council committees for comment, and these could be useful.

Decisions about health services, the nationalised industries and higher education are not the province of the local authority. To find out about cuts in the Health Service contact the local Community Health Council, whose secretary should receive reports from the Area Health Authority. You can obtain the address from your local hospital or doctor. NUPE, COHSE and the other medical unions may also have information.

Information about nationalised industries is quite hard to come by. Try local users' consultative committees, like the London Transport Passengers Committee or relevant unions. For higher education it will probably be necessary to go directly to the Department of Education and Science or to the ATTI.

Tenants associations and residents groups should have information about the effects of the cuts in housing and environmental services. Parent Teachers Associations will know about what's happening in schools.

6 THE ATTACK

As central policy reaches the local area it finds itself once again locked to the workings of finance and industrial capital. This is not just in terms of current local authority borrowing, interest payments, debt; the whole shape of the local situation is involved.

Cuts in public expenditure do not fall evenly nor on even ground. The history of industrial development; the process of capital investment in an area, of the extraction of profit and of capital withdrawal to another area when profitability declines; the larger pattern of past booms and previous recessions; all these have created a geography of class across the country. It is a geography of inequality, not only from one region to another, but from area to area within a region, district to district within the cities. For those who live in the casualty areas the everyday implications of this history, and of the latest public spending cuts, are devastating.

The welfare services are presented as modifying or mitigating the effects of this development at ground level. But the hardest hit areas are also those where it is most difficult for these services to make any real impression. In times of 'boom' (or election) promises are given and money made available. The slack in the building trade can be taken up by demolishing old houses and building new ones. More schools can be built, more teachers employed. In recession, no matter how hard-hit the area, the money is withdrawn and the services, depended upon more in these places than anywhere else, cut back. Public spending is reduced to release funds for 'more important' things. Among these are increased funds for industry, to encourage new investment, new production – and in their wake the creation of more areas like the ones documented here.

NORTH TYNESIDE:

The South Meadowell Estate

Local struggles to reform services have always been difficult and protracted. As public spending is cut, improvements on the verge of being implemented are being swept away overnight by central government edict. The story of the tenants on the South Meadowell estate is a typical example.

About 2,000 people live on the South Meadowell Estate, North Shields. This part of the larger Meadowell Estate consists of 600 flats in two-storey buildings. They have always been overcrowded. About half the flats have rising damp and many still have outside toilets. They all remain largely as they were when built in the 1930s. The back gardens were abolished when the council decided that it could not afford to maintain the fences. So now the buildings stand in a sea of mud and rubbish. Improvement is a burning issue on the South Meadowell; fences have become the symbol of its progress.

In the 50s and 60s, the local council, under Conservative control, did not make any substantial improvements in the estate, partly because it suited them to claim that council tenants did not look after their homes. When the 1969 Housing Act offered the council the opportunity to make major improvements it argued that South Meadowell did not qualify. Recent rewiring and repairs were said to constitute 'improvement'.

In 1974, with the establishment of the new North Tyneside Authority under Labour control, promises were made that something would be done. The tenants set up a working party and demanded that the houses be improved; to begin with the fences should be replaced immediately. The Housing department agreed to include the estate in their improvement programme, saying that there was therefore no need for separate action on the fences. The cost of the improvement programme for 1974-5 alone was estimated at £4.6m. In response to scares about rate levels the council themselves cut this figure back to £3.6m and submitted a request for this amount to the Department of the Environment. The answer came back: only £2m could be spent.

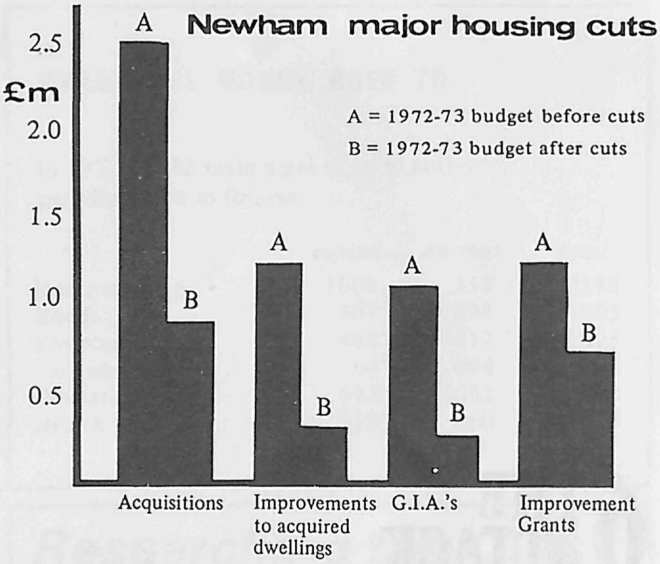
Then fence replacement reappeared in the Annual Report of the Chief Housing Officer. The tenants asked for a meeting, and found that their estate had indeed been dropped from the improvement programme. Any action had been postponed until 1980. The Labour councillors had accepted the government's decision.

Conditions in the South Meadowell have not merely been made worse by the latest cuts. The flats were hit by cuts even before they were built. Whereas council houses in North Tyneside had cost £1,000 to build in the late 1920s, in the 30s the Meadowell houses were built for £250 each. They in turn were built to rehouse people moved from earlier 'slums'. Moved from the cheap housing solutions of the 19th century to 30s housing on the cheap, the people of the South Meadowell now find a new recession destroying any hopes of change.

LONDON: Newham

Unlike North Tyneside in the long-declining North East, Newham is in the heart of the prosperous South. London is the last place to feel the bite of recession. Unemployed workers from all over the country come South in search of work. Yet in Newham over half the workers in the area have been made redundant in the past ten years. This has not been because companies were going bankrupt, but because, although they were quite profitable, higher profits

Ronan point



could be realised by moving elsewhere. The companies responsible for job losses were mainly the giant multinationals – just 16 firms control three-quarters of all the jobs in Newham's main industrial belt. The history of Newham is the history of the effects of capital withdrawal, and the failure of local and central government to intervene either to stop this or effectively compensate for it.

Indeed, central government policy has encouraged the withdrawal of industry rather than prevented it. The plan for Newham put forward at the end of the war proposed a halving of the population by migration to the new towns, to supply the needs of industries newly set up there. Newham itself, with half the number of inhabitants would then be redesigned as a garden city, with the extra space turned over to leisure and green spaces. The population has indeed been halved: from almost ½m people in 1939 only 230,000 remain now. But the rest of the plan did not materialise. The government emphasis on encouraging industry to reinvest in new plant and production means, in practise, not the renewed prosperity of areas like Newham, but their further decline. Old, outdated industries close down in Newham. New, government supported industry opens up elsewhere.

Major Job losses in Newham since 1966

P & O	4000
Tate and Lyle	2400
Unilever	2000
Harland and Wolfe	1500
Furness Withy	1410
Vesteys	1200

The Newham local authority has never been able to afford the kind of social investment which would change their situation. Forty-one per cent of homes in Newham either have no bathroom or no inside toilet. In many others the roofs leak, the foundations are poor and there is rising damp. Repairs do not get done because they are no longer profitable for private landlords. Meanwhile, the death rate in Newham is substantially higher for people of all age groups than in the Area Health Authority as a whole. For men aged 45-64 there are 1½ times the average deaths from pneumonia and twice the average number for bronchitis.

As in North Tyneside, the recent cuts do not come as any particular surprise. After the widespread destruction of London's East End during the war, there were great promises of decent municipal housing for all, proper zoning of industry and a better planned environment. A start was made. The Keir Hardie Estate, built in 1947, was full of open spaces. The houses were spacious and had their own gardens. But since then, as interest rates have risen and local authorities have been forced to borrow in the private sector, the resources have not been made available to fulfil the dream.

By the 50s it was felt that there was a need to build flats although they were unpopular. By 1964 the decision to concentrate on 'high quality' high-rise flats had been taken, and among others Ronan Point went up and fell down. Now there are 110 high-rise blocks in Newham and eight out of ten council-owned homes are flats or maisonettes.

The latest cuts – especially those in the capital programme – mean that, far from pulling out of its predicament, the area will be thrust even deeper into the spiral of decline. £1.7m has been cut from the municipalisation programme. Now thousands of private tenants who had expected Newham council to buy their homes have no hope of any improvement in their conditions. Landlords stopped doing repairs and maintenance years ago, and cannot legally be made to do so while the only threat is compulsory purchase. In fact they are eager to be bought out, but the council can't afford to oblige.

Not that things would necessarily have improved for these tenants even if the council had bought their homes: there is no more money left for improving acquired homes this year. Recently-built council houses will be affected too: in a recent decision the council cut £1500 set aside for the improvement of lifts in high-rise blocks.

Thousands of people in Newham have been waiting years for their houses to be pulled down and replaced as the council has always promised. Now, as a result of government decisions, unfit houses may stand up, on the assumption

From playground . . .

. . . to dole queue?

that they can somehow, sometime, be made habitable or improved, even if that is at the expense of other houses awaiting improvement.

Realising their impossible position, the council recently sent a delegation to the Department of the Environment to protest against the cuts in the housing programme. The protest fell on deaf ears. Meanwhile, the council changed the points system by which residents in the borough rise to the top of the housing waiting list and get a council house. By abolishing the 5-year limit on extra points, they have given more points to longer term residents. In itself this does not at first appear remarkable until it is realised that the ruling specifically discriminates against new immigrants to the area. And in depressed areas like these, the immigrants are more than likely to be black. The Chairman of the Housing Committee made the point clear: 'one of the reasons for the rethink is the influx of Asians. In five years we would have been doing nothing but giving homes to Asians.' Thus, even within the most hard hit sectors of the population, the cuts open the way to further discrimination, further divisions within the working class.

'Compensation' was another of the promises held out to declining areas in times of national prosperity. Now, in Newham as elsewhere, there is no longer any hope of a compensatory increase in educational resources, to take just one area. As a borough, Newham spends least and has the lowest levels of educational attainment in London. West Ham, the poorer half of the Borough is particularly badly hit. Two nursery units have been axed and planned improvements at eight old primary schools are not to go ahead. 16-19 year olds are doubly hit: not only are there no jobs for them when they leave school, but there is now no hope for the kind of educational expansion other, less affected, boroughs obtained years ago. There is to be no more expansion at two Colleges of Education, and there is no provision for any increase in the number of places for sixth formers until 1977. Even then the planned increase is only a derisory 100 places, while already 33% of school leavers are unemployed in Newham. Provision in the area is still based on a plan drawn up in 1947 on the assumption that all children would leave school at 15. It means that Newham has even fewer than average sixth-form places and is now frozen at that level.

It has decided not to build its new library and is hard-pressed enough to find just £750, its 25% contribution under the Urban Aid Scheme to a local advice centre proposed by the Addington Road Tenants Association. Without this £750, the scheme has had to be abandoned as have all the other schemes put forward by voluntary groups in the borough under the Urban Aid Programme.

The closure of the casualty departments at Poplar, East Ham and Albert Dock hospitals does not ease the chronic health service situation in Newham. Six months after the closure of Poplar Hospital Casualty Department the effects are already known: – the number of casualties in the area has mysteriously dropped by 3,000. By the time this report is published the last patients will have been moved out of the hospital and the service totally suspended. Recently, Newham's Medical Officer of Health concluded 'primary care' services in Newham are inadequate and uncoordinated. Health Centres will be needed to improve the service to patients and stimulate the recruitment of 'staff'. A plan once existed for a network of health centres across the borough, but though scheduled years ago, the centres have not been built. Now there are plans for a new district hospital; it remains to be seen where in Newham the cuts will fall next.

BIRMINGHAM:

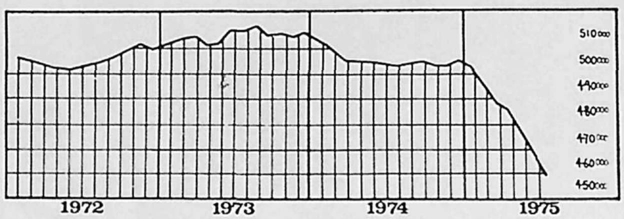
Like the South East the Midlands has had more than its share of the post-war boom and slump. Its prosperity was built around the motor industry, and the recent drop in motor car production has taken its toll in redundancies and short-time working.

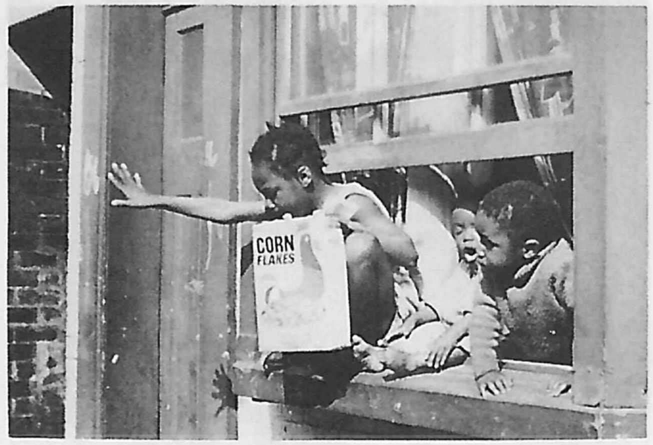
In October 1975, an unprecedented 6.5% were unemployed in Birmingham, and civic, trade union and industrial leaders have been queueing up in Whitehall to present either petitions of protest or begging bowls. There are signs that the government intends to fill some of the larger begging bowls, provided that it can get value for money by forcing rationalisations and increased production.

Workers in Birmingham already know the cost of such policies. In the last ten years, 10,000 jobs in East Birmingham alone have been lost in a process of rationalisation and redevelopment. A process that has closed factories in the inner areas, while transferring production to more suburban locations and industrial estates along the M6. In the wake of this industrial decline, the city council has run their bulldozers through the nineteenth century houses which clustered round the old factories. The city centre is now ringed with tower blocks and modern public buildings. Beyond, lies a circle of working class terraced houses and nineteenth century schools and hospitals. Here live the workers whose jobs are being rationalised, as well as the many who are employed in the service industries, such as the Post Office, public transport and the construction industry.

The local authority had always intended to sweep away this Victorian past as well, but in 1973, succumbing to national pressure to reduce the cost of redevelopment, it announced

BIRMINGHAM: EMPLOYMENT IN MOTOR VEHICLE MANUFACTURE





a dramatic reversal of policy. Instead of clearance, the remaining 75,000 old houses were to be divided up into about 100 areas, to be dealt with in a rolling programme of improvements.

But to give this circle of working-class communities the standards of living to be found in modern council estates involves a lot more than paper plans and improvement grants. Programmes of investment in all services from health clinics to water supply are urgently needed. Thirty years of anticipating the bulldozer has produced vast problems of neglect.

The government's cut-back policy hits Birmingham at a time when, logically, an increased proportion of its resources should be transferred into the 'improvement areas'. Since March 1975 restricted levels of council house improvement funds are supposed to be diverted into the older areas, but this is only possible if the council actually owns houses there. Yet municipalisation of rented property has been limited to declared General Improvement Areas and Housing Action Areas. This leaves many tenants without bathrooms and hot water to wait their turn in a queue which stretched to 1980. It will be longer still if cuts begin to affect the start of GIA schemes.

Local authority services, like street cleaning, pavement maintenance, refuse collection and the clearance of derelict sites will all be reduced. Though many residents already regard them as inadequate, the leader of the council has recently promised that 'staff will not be replaced in the refuse removal section. Dustbins will stand full and uncollected for some days longer.' The water authority recently announced that it would be impossible to renew the 100 year old water mains in the improvement area. Where industry is no longer actually demanding infrastructural developments of this kind, the local authorrity clearly feels less urgency about providing them.

Many public sector workers live in the 'improvement areas'. The cuts mean their jobs are at risk. The local authority and the NHS are talking about redundancies amongst their manual staff. The Post Office and British Rail expect to lay off workers soon. Even part-time jobs are affected as the council reduces the hours worked by home helps and the Post officer sacks women part timers.

Cuts in spending do not affect everyone equally. When new buildings are scrapped it means that those who have not got adequate facilities will have to wait even longer for them. When staff and teachers are not replaced, it means that children in schools with the highest staff turnover – already at a greater disadvantage than other children – are affected first.

Now, local increases in the child population coupled with reductions in teaching and ancillary staff mean that remedial teaching groups must share space with PT classes; that children in some schools are kept down a year to avoid overcrowding in the classes they should be in; that the school meals service is in danger of collapsing. Headmasters have started to send children home early to save heating costs and instructions have gone out not to take 'rising fives' into primary schools this year. An ambitious nursery school programme is also threatened, not only keeping children from school but further confining women to their homes to look after them. In a time of falling employment, this has of course the effect of reducing the demand for jobs, so masking the seriousness of the unemployment situation. The mirage of equal opportunity recedes further into the future.

The last place many parents want their children is out of school. There are not enough youth centres, clubs and adventure playgrounds and no new ones can be planned at present. The parks in the inner areas are small and few. New public open spaces stand derelict for want of sufficient money for grass seed and soil.

The new Bardesley Education and Leisure Centre is, in the words of local residents, being chopped in half. This is surprising in view of the fact that the council is to increase its spending on recreation and amenities by 1000% between 1974 and 1980. It turns out however that this is a result of the cost of a new sports complex being built in a bid to house the Commonwealth Games, which will allegedly attract new business to the city. Charges for sports and recreation facilities are to rise by 45% and many childrens' swimming clubs will have to close. Yet delegates to conferences at the new £20m National Exhibition Centre, mainly businessmen of course, will get free access to all municipal swimming pools, golf courses and sports facilities, as well as civic hospitality and free souvenirs.

Far from trying to ease the plight of those people most in need it would seem to be easiest to make cuts where they will be least resisted. Social Service cuts include reductions in the quality of home help and meals on wheels services as well as a smaller building programme of new homes for the elderly.

The Health Service in Birmingham is in even worse trouble. Standards of community care are already very low. The death rate for children under one year old is already 34 per thousand in some inner areas, compared with the national average of 16 per thousand. Money was at least being spent to build up the hospital service and get rid of the long waiting lists for beds and operations. In September 1975 however, all hospital planning after 1978 was postponed. There seems little chance, given the scale of government cuts, that this money can be retrieved for local clinics and the improvement of the family doctor service.

Library to close down in new economy cuts

SWIMMING BATHS WILL ALSO BE AFFECTED

Swim fee rise 'will kill clubs'

MIDLAND RED ALL ROUND RISES ON WAY

'ADULT FARES' BLOW TO CHILDREN

Cuts to save rates

Silent protest, but committee say day-nurseries must close

'WE'LL FIGHT CUTS': UNION LEADER

OLD FOLK MAY PAY MORE

SCHOOLCHILDREN will have to pay adult fares for long trips at peak times on Midland Red buses under a fresh fares rise package.

No urban aid schemes

Not only is there no longer any hope of things getting better, but the actual standards of current services are rapidly declining. The number of jobs for public sector workers and those, like the building workers, dependent on the public sector, is decreasing.

Birmingham is not an atypical authority, nor is it suffering particularly badly. The leader of Birmingham City Council has made a public statement that 'measures to beat inflation mean that City Council services will deteriorate in the coming months. There won't be the people to carry out the work'. What he has not said is that this is going to affect mostly those who have always had to put up with inadequate housing, workhouse hospitals, board schools, infrequent cleansing and maintenance services and overcrowded doctors' waiting rooms.

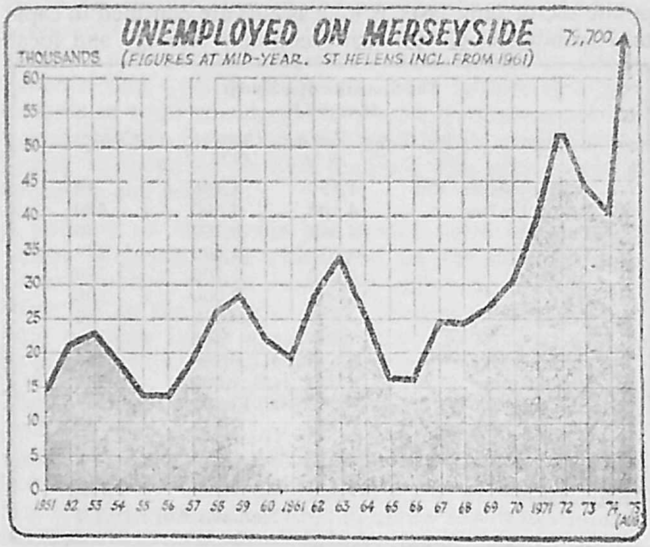
LIVERPOOL

Like the other areas we have reported on Merseyside in general, and Liverpool in particular, show advanced symptoms of the disease attacking declining working class areas all over Britain. Twenty thousand residents leave Merseyside every year, desperate for jobs and housing. Unemployment, at one in eight, is twice the national average while the redundancy rate has tripled in twelve months. More than 30,000 workers have been laid off or put on short-time working this year.

These unemployment figures are swelled as school-leavers go virtually direct from the classroom to the dole queue. Only 520 out of 4000 applicants for craft apprenticeships found places in the member firms of the Merseyside Training Centre in the summer of 1975. Research in the Vauxhall area into the problems of inner-city teenagers found that 80% of interviewees would like to be able to serve some sort of apprenticeship. But those who manage to get jobs at all usually end up in semi-skilled or unskilled jobs with no training and few prospects of improvement.

Youth unemployment is over 20% in several areas of Liverpool, and 6000 out of work school-leavers are registered at the exchanges. Queueing with them are likely to be the newly qualified teachers they could have done with while they were at school. Up to 35% of the teachers qualifying this year from some teacher training colleges are unable to get teaching jobs. Total unemployment on Mersyside is a depressing 80,000. Merseyside gains 120 industrial jobs a month through the assiduous efforts of the civil servants whose job it is to attract industry, and 50 companies have been settled on Liverpool industrial estates in the last 18 months. But such a level of new employment is only an almost meaningless drop in the ocean. In August and September 1975 alone 20,000 Merseyside workers lost their jobs.

The statistics of gloom, spotlighted by the current crisis, are both spectacular and deceptive. Local government cut-backs and deficits are today's news, but as elsewhere the decline has been under way for years. Liverpool and its surrounding boroughs were once the front door of the Lancashire textile industry: a flourishing port, with attendant ship-building and engineering industries. It was saved from slump and recession almost forty years ago by the outbreak (and manpower demands) of the 2nd World War. But since the war Merseyside has lost 2/3 of its ship building and a quarter of its electrical engineering. The docks have died the death of docks everywhere. Even the container industry which helped kill the docks is only operating at 50% capacity. The 235 acres of the Southern Docks were fianlly closed down in 1972. A number of



John Sturrock Report

Liverpool: 1971, walls of compressed straw, floors of reinforced chipboard . . .

ambitious (private) development schemes have hit local headlines for a few weeks, only to slide into limbo as inflation wrecks forward estimates. Fifty acres set aside for the Inner Motorway scheme have been virtually abandoned, although millions had been spent on buying the land.

Development plans have fallen through all over. The car and related industries, together with the new industrial estates, were the main hope for a rejuvenated Merseyside economy. They have soaked up millions of public money in the form of investment and development grants and expenditure on facilities, and are now throwing employees out of work as fast as they can go. The motor industry is responsible for 30% of all notified redundancies in the area. Over 20% come from the mechanical and electrical engineering sectors; 15% from the firms which support the construction industry (bricks, glass, cement etc).

The decline of the port and the older industries has meant a net outward flow of people and jobs. In turn this has left an increasing quantity of derelict, dilapidated, underused land. The financial and social problems of workers and their families have become concentrated on the inner city areas and the older housing and industrial estates.

A real irony is the fact that local government, through which the cuts that worsen unemployment are channelled, is operating at full strength. The City of Liverpool is by far the largest employer on Merseyside, with 34,000 staff, and a 1975 wage bill of £85m. Almost half of Liverpool's employees are manual workers – a category that includes skilled craftsmen. There are also 10,000 teachers and 8,000 administrative staff. But security of employment in the public sector only lasts as long as cuts are confined to capital expenditure. Government economic strategy and local

The Statistics of a Slump
Merseyside

Company	*Workforce: March 1974*	*October 1975*	*Change*
Bowater Mersey Mill	1,530	1,486	– 44
British Leyland	4,100	4,500	+ 400
Dunlop	4,380	4,300	– 80
Ford	13,651	13,402	– 249
GEC	4,000	3,700	– 300
ICI	6,900	7,000	+ 100
Kodak	650	610	– 40
Lucas	576	582	+ 6
Mersey Docks	9,646	9,398	– 248
Ocean Group	1,000	1,000	----
Pilkington	15,082	12,881	– 2,201
Plessey	9,500	7,650	– 1,850
Rockware	1,650	1,400	– 250
Unilever	12,200	12,000	– 200
Vauxhall	10,900	7,800	– 3,100

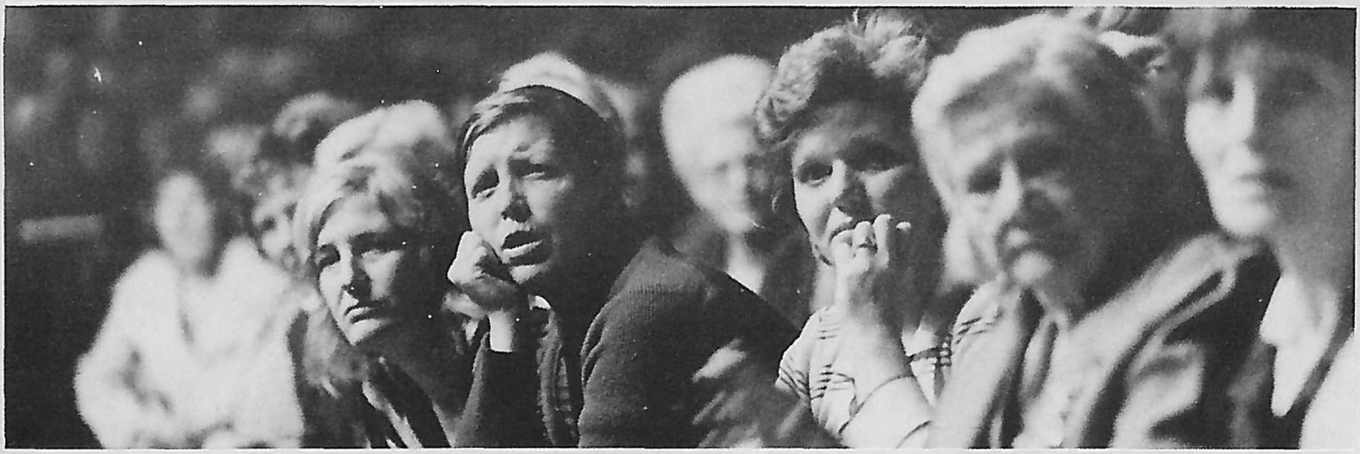
(Business Post 8.10.75)

deficits are bound to cut into local government staff eventually as current spending is hit. The safest job is probably in the Employment office. Merseyside Employment offices pay out over £1m unemployment benefit per week. With 10% more Merseysiders out of work now than at the same time last year, the offices have had to take on more staff, who do many hours of overtime in crowded offices. Old offices are being extended and new ones built. In the inner city areas the numbers of registered unemployed are up a third on the year.

Merseyside is chronically short of land committed to housing. There are 1,200 unused acres in central Liverpool, of which half are owned by local authorities, but the money has run out and house completions are low. Across the river in the Wirral district, only 40 new homes were built or undertaken in the first quarter of 1975, though Wirral is the 8th largest local authority in the country. The list for council housing is 9,000 names long, yet the Wirral Borough Council has decided to demolish two tower blocks of flats which, when they went up 17 years ago, were among the most up to date in the country. Demolition will cost £1m, but renovation has been estimated at £4m. The blocks which once housed 1,000 people have been evacuated. This though many tenants wanted to stay, are unhappy in the new reallocation areas (many of them right outside the town), and are disappointed that their communities have been split up.

Wirral has 32 other such multi-storey blocks. Many of them, like the ones to be demolished, are run-down and face the same 'social problems' thrown up by poverty and insecurity. Demolishing the two blocks could quieten demands for new housing coming from tenants in the other 32 blocks – and also establishes the cheaper alternative as the precedent. But no amount of rational explanation is going to cool the anger of council tenants living in the shadow of the two blocks in rat-infested, substandard homes with no indoor toilets and no hot water. Though 68,000 new council homes have been built on Merseyside since the war, and though 37,000 families in slum areas have been rehoused since 1966, rats and outside toilets are no rarity in council housing. At Everton a family with children was moved out of a flat infested with rats and cockroaches. They were told by the Chairman of the Liverpool Housing Commission that they are unlikely to be rehoused just because the flat is infested: rodent infestation 'is not a matter to be solved by the Housing Department' (*Liverpool Echo* 29.10.75).

The poor of Merseyside suffer in all areas of supposed public provision. There is always a stronger lobby for available funds, a louder, or more authoritative claim. Work goes ahead on Liverpool's £15m new Court building while old



Tenants protest against rent rises

people's clubs are closed for want of a few hundred pounds. Public money will subsidise a 50 acre development being undertaken by Vauxhall near their Ellesmere Port factory. It will not be there to pay for the vital improvement to the accident centre at Broadgreen Hospital, approved by the district, but blocked by those who hold the purse-string at regional level.

It is an easy and obvious list to recite, for the pattern is well known on Merseyside. Night school classes collapse because fees are doubled; childrens' swimming lessons are phased out to save money; Liverpool CC is attempting to save £50,000 pa by 'rationalising' school meals and meals on wheels; family planning clinics are cut to pay for a scheme whereby doctors receive personal fees for giving advice and performing sterilisation operations; telephones for the disabled are priced out of existence by increased GPO charges; a new home for the elderly must lie idle as there is no money for staffing it. And every year more public money is spent, and every year workers, in or out of a job, and their dependants, see less of it.

The Merseyside worker has a reputation for fighting aggressively for his rights. Some firms have even given that as their reason for quitting the area. But beyond a certain point the will can weaken. Communities are fragmented, social intercourse almost ceases to exist, isolation sets in like winter. Dole queues, social security forms and doctors' waiting rooms sap the will. Tensions and frustrations build up, marriages begin to crumble, all personal relationships are under assault. Merseyside has the highest crime rate in the country. The last eight months has seen an 11% increase. The majority are robberies of one sort or another. Burglary is up 16%. There is an increasing use of firearms. Kirkby's crime rate doubled between 1973 and 1974, and 52% of all indictable criminal arrests involved children under 16. Gangs of ten year-olds vandalise already crumbling flats. Children the same age steal cars for joy rides. Even younger children in swarms smash windows in schools, mental institutes, old peoples' homes. The police can no longer control it. Broken-down estates are bleak fortresses under siege by child and bailiff alike.

Every Merseyside borough has increasing arrears of rent and rates outstanding. In Knowsley, as in Liverpool, the rent arrears alone total more than £1½m. Councils are taking hard lines, issuing court orders, evicting those in greatest debt. Nearly half of Liverpool's 75,000 council tenants get some form of rent rebate, and 10,000 of them get further government aid in the form of social security payments. But the councils are creating arrears every time they announce a cut in expenditure, every time a vital house-repair, nursery facility or family planning clinic falls under the axe.

In fact they have been creating the arrears for years. A secret DoE report on that 10% of Liverpool's population living in the depressed area bordered by Ullet Road, Kingsley Road, Gown Street, Kensington and the Edge Hill railway lines, itemised the facilities as: one old swimming pool; no cinemas; 82 acres of park (against a national standard of 200 acres); and no public conveniences. This 10% of the city's population got 6.4% of the city's leisure and library budget. Out of a total secondary school population of 4,362 only 12 children achieved an 'A' level, and only 10% an 'O' level. Despite 'enormous under-achievement' only 7.2% of the total education budget was spent on this area in the same period.

There are 25,600 patients waiting for NHS treatment on Merseyside. Of the 5,859 waiting for general surgery, 1,359 have waited more than six months (and under a year), 813 have waited more than a year (and less than two), and 363 have waited more than two years. Heart treatment waits are up 139 at 616 this year, with two Liverpool patients into their third year of waiting, 82 into their second year, and 214 with over six months wait behind them. Seventy-four eye cases are still waiting for treatment after two years. Gynaecology figures were 3,443 last June, 4,416 this June (with 184 in their third year of waiting).

Liverpool has more hospital beds per head of population (and thereby a larger government health award) than most cities, and has become one of Barbara Castle's targets in the 'Rob Peter to pay Paul' redistribution scheme recently announced. Liverpool and various South Eastern areas will have money cut back in order to subsidise areas which have had a far smaller slice of the cake in the past. And yet Liverpool's hospitals, like those in other industrial cities are short of nurses and other staff, have no lifts for elderly patients, and doctors frequently have to interview out-patients in open corridors. The waiting lists above are sufficient evidence in any case. Liverpool needs more, not less money to spend on its NHS facilities. The same is true in education and housing.

If you live on Merseyside you have a better than average chance of being made redundant, on the dole, of being evicted, robbed, and of dying of boredom apart from anything else in the hospital queue. Chances are also good of your marriage falling apart and your kids running wild to be picked up by the law.

Thousands leave Merseyside every year on the sound principle that practically any alternative will be an improvement. For those who remain, the call to tighten belts and give a year for Britain must confirm the strong suspicion that the government is neither in contact with nor interested in the bleak realities of their situation.

EVENING MAIL, FRIDAY, SEP

COUNCIL STAFF IN 'NO CUTS' DEMO

Evening Mail Reporter

A BANNER-WAVING crowd of 200 school cooks, caretakers, cleaners and other council workers demonstrated outside Birmingham Council House today chanting "No cuts!"

E London workers fight back

ACTION STARTS TO HIT HARROW

HARROW is not a Borou... associated with militant ... ever, when cuts of up to ... the Social Services D... budget were proposed by ... the staff decided upon ... of opposition.

A general meeting wa... a steering committee ... the campaign.

Government defied on rent rises

Spending cuts not necessary —walk-out councillor

THE deputy leader of the maj... Wilfred Clover, walked out of ... they were bolstering up a capita... out on ideological grounds ...

Increase sparks rent threat

Rent strike! 'They won't pay more'

A MASSIVE rent strike is on the cards for Islington if the council puts up the rent for its 23,000 tenants. The warning was made by Harry Weston chairman of the Isli... ton Council and ... Tenants ...

By JOHN DAVISON

"A pound a week extra, which is what we ... threatened with, ...

... se, lung disease, infant mortality and road accidents are way above the average for the rest of London. Health visitors, district nurses and midwives are 50 per cent understaffed.

A Rank and File Cuts Action Committee spanning the whole East End has also been set up. With delegates from four NALGO branches, COHSE, NUPE, ATTI, NUT and ASTMS, the Action Committee is producing a newspaper detailing all the Public Sector cuts in the area, as a start to a campaign to get commitment from industrial workers and shop stewards to take action against the attacks on living standards in the area. At least two trades councils have also been pushed into calling delegate conferences on the issue.

Wendy Plimley,
City and East London Area Branch.

Busmen threaten labour action

"I was brought up to believe the capitalist system should be replaced; I cannot take part in moves to bolster such a system."

'Dockers could have saved our hospital'

We'll fight tooth and nail—teachers

IMMEDIATE reaction from local teachers to news of possible expenditure cuts was both swift and decisive.

In a month, which will go as black September in the ... of Oldham education history will be fighting tooth and na... their pupils, their professio... the future of both.

Mr. James Chapman, of the strong Oldham branch ... National Union of Teachers, "We shall fight the cuts ... shall we have been fighting ... It is a black, sad, morale-s... day."

ISLINGTON GAZETTE FRIDAY JULY 18 1975—THIRTEEN

Angry tenants will picket town hall

By CHRIS GOODALL

MILITANT tenants declared war this week on plans by Islington councillors to impose a double rent increase on thousands of families.

The council's finance sub-committee is recommending an all-round increase of 50p a week in October and a further selective increase in January ...

X-ray teams to act

Social workers strike over cut

By our own Reporter

Social workers in Newham have called a one-day token strike today to protest because their employers are ...

Southwark and Tower Hamlets strike against the cuts

STAFF CUTS PLAN IS DEFEATED

Morning Star Reporter

LOCAL authorities in the West Midlands are beating retreat in their moves to cut staff after council workers nipped their first plans in the bud.

The council workers, members of the National Union of Public Employees, have resolved they will refuse to cover where council jobs ...

MASS PROTEST AT £200m CUTS AT INFIRMARY

By Marian Townshend, NUPE shop steward, Withington Hospital.

MANCHESTER:-One hundred trade unionists joined a demonstration outside the Royal Infirmary called by supporters of the rank and file paper Hospital Worker.

The protest was called against the shelving of a £200 million rebuilding programme at the Infirmary. Conditions in some parts of the hospital are so bad that the corridors flood when it rains.

Manchester Trades Council joined five hospital trade union branches and shop stewards' committees, branches of the town halls union NALGO and the National Teachers union on the demonstration.

Vic Scott, a shop steward in the Health Service Employees union COHSE, said: "It's important that everyone supports action like this throughout the Health Service - one hospital should back the next one."

Other actions are being taken against the cuts in the Manchester area. Canteens were boycotted last week in hospitals throughout the area. We now intend to call a meeting to set up a Fight the Cuts Committee of delegates from trade union branches and shop stewards' committees.

'Unite to save education' calls

CUTS ANGER COMES TO WHITEHALL

Morning Star Reporter

MASSIVE demonstration ... students, teachers and ... service workers yesterday protested against the Government's cuts in education.

The South-East regional council of the TUC estimated that ...,000 people took part in the demonstration, which took early an hour to leave London's Hyde Park after a rally.

OCCUPATION AGAINST THE CUTS

25.7.75

NALGO aid for pensioners

A CALL to support Islington pensioners in their protest against local cuts in social services went out to town hall workers this week.

Union officials of the Islington branch of NALGO urged all members to demonstrate in support of the pensioners as they set off to lobby the House of Commons.

TENANTS GROUP'S VICTORY

MANCHESTER: Counter The Kiss of Death

SLOWLY, but surely, the wide ranging effects of the cuts in public expenditure are being felt here in Manchester. They include cuts in the Fire Service, the chopping of a £20 million extension project at Manchester Royal Infirmary and large areas of land remaining derelict because the money for landscaping has been severely curtailed.

The local trade union movement is beginning to organise. The Manchester Trades Council has set up a Public Services Sub-Committee to gather information and recommend courses of action, including lobbying of MPs and Councillors and a local conference involving trade unionists, community groups and pressure groups.

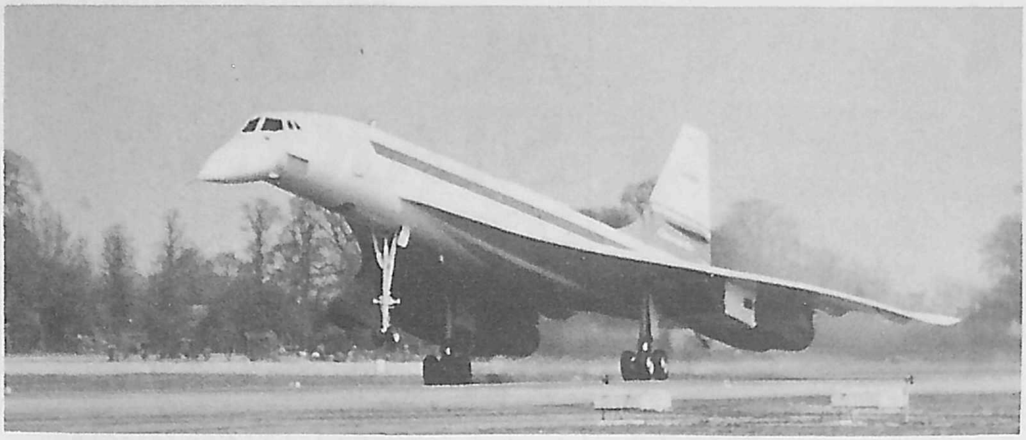
The success of the fight will fully depend on the extent to which the rank and file of all unions and the working ...

BADLY

...eachers and their messages.

FIERCE ATTACK ON PLANS TO CUT HOSPITALS IN HACKNEY

MORE than 500 people who crammed into Hackney town hall on Monday night heard Hackney councillor Ivy Foster bitterly attack plans to close local hospitals and describe members of the Regional Health Authority as "bureaucratic juggernauts."



John Sturrock Report

7 CALCULATING THE CRISIS

As a result of woldwide attempts to stem spiralling inflation most economies in the West are now experiencing their worst slump since the 30s. The implications can be measured in terms of industrial production. By the middle of 1975, this had dropped to one-fifth below its long term trend across the seven main industrialised Western countries – USA, Canada, Japan, Germany, France, Italy and Britain. Within this group, certain countries were particularly badly hit: Italy's production, for instance, dropped 22%.

More realistically, the scale of the slump can be measured in terms of unemployment. By May 1975 this had already risen to around 14m in the OECD countries as a whole. Now there are almost 8m people out of work in the USA, and over 1m each in Britain and Germany. Yet that does not take any account of costs other than unemployment. There are millions more people on short-time working, who have been laid off, or who have suffered substantial cuts in real wages by one means or another. And no figures can convey what this recession is costing those already on the poverty line: the school leavers who have never had a job, the migrant workers sent home from Germany and other countries, the urban blacks in America or in Britain, where black unemployment has risen by two and a half times the national average.

The origins of the recession, and the spiralling inflation that preceded it, can be traced to a crisis of profitability faced by capital, which is receiving a decreasing return on investment. The situation was made worse by the increasing convergence in the movement of national economic cycles; it was further compounded by the accompanying upsurge in raw material prices, which culminated with the oil price increases of late 1973.

A recent study by the American economist Gardiner C. Means examined the pricing policies of US companies over twelve months of economic decline beginning in September 1973. Those with a high degree of market power – basically the monopolies and multi-nationals – increased their wholesale prices by 27%, despite the recession. The prices of firms in competitive industries, on the other hand, rose by only 5%.

The governments of the major industrialised countries are ignoring such factors however. Instead they claim to be dealing with inflation 'at its roots' by enforcing real wage cuts. In previous recessions governments have usually sought to arrest the decline in economic activity by urgent reflationary measures. This time, though, the governments of the main industrialised countries have concentrated on reducing inflation, primarily by strictly limiting reflationary policies and supporting the process of real wage cuts and disemployment.

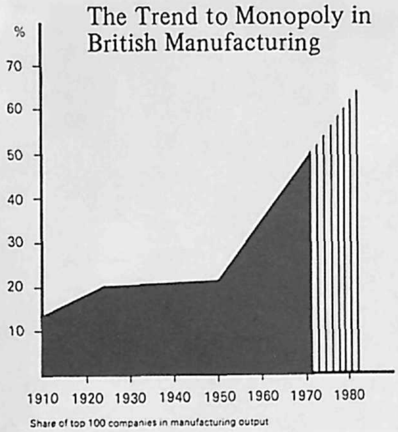
Yet these very policies are bound to increase the dominance of the big monopolies, because they are best placed to survive in and exploit the opportunities of a recessionary jungle. It is they that end up strengthened by the slump, either through increased shares of the market, through takeover or through addition to their ranks as smaller companies merge or otherwise grow off one anothers' backs. At the same time, it is also the stronger companies which are best able to exploit the opportunities for rationalisation, lay-offs and reorganisation provided by a period of below capacity working. This, coupled with real wage cuts, means that they will be prepared to reap greatly increased profits if economic recovery does occur.

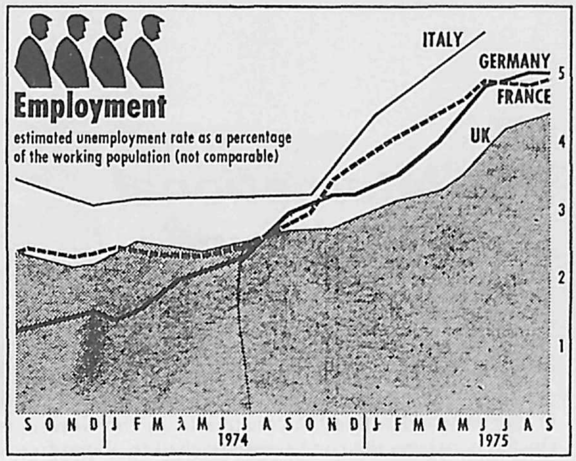
In Britain, for example, the top 100 manufacturing firms control about one-half of net manufacturing output, whereas in 1950 they only controlled one-fifth. By 1985 they are likely to control over two-thirds. A study by Newbold and Jackson forecasts that as few as 21 giant companies could eventually control three-quarters of the entire non-nationalised sector. The recession is likely to accelerate this trend.

The whole process, basically one of transfer of resources to the corporate sector, has hardly begun in Britain as yet, largely because of the particular political and economic circumstances of the country. Most important among these is the fact that Britain is now the weakest of the major industrialised countries of the West. Second is the historical decline of British industrial capital. Not surprisingly, the two are closely linked.

The central problem of the British economy over the past decades can be traced to a lack of investment in manufacturing, as typified by the well documented case of BSA. Too high profits extracted from industry, too little investment (far less than in the major competing countries) used ineffectually has been a sure recipe for disaster. The process has been aided by the international role of the City, and the very importance and power of the financial institutions. As a result of the heavy profits extracted, the concommitant lack of investment and the profits crisis, British industry is now heavily dependent on these institutions for investment funds.

Yet they in turn are more concerned with shorter-terms profits than with the complex, long-term investment requirements of industry. As a result, they lead the flight of international capital to whichever investment medium is currently in vogue, whether it be property, secondary banking, Far Eastern, South African or Brazilian stocks, or anything else.





It is hardly surprising then that despite Britain's strong position after the last war, with Europe's industry lying in tatters around it, and despite repeated devaluations of the pound (29% since 1971) the decades since the war have seen a substantial weakening of the economy. Over the last ten years alone Britain's share in world trade in manufactures has dropped by over one-third. Yet this is in a country that is exceptionally dependent on international trade.

The crisis of industrial profitability was, if anything, worse in Britain before the recession than elsewhere, largely because of this industrial weakness. And yet in 1974,whilst other economies were slumping, Britain's held up relatively strongly. The reason lies partly in the after effects of the Heath government's three day week, but also in surging public expenditure which rose by 8% in real terms in that year. Since this already accounted for over half of GNP, its further growth had a powerfully supportive effect on the economy as a whole.

That soaring public expenditure was justified by the government on 'social' grounds (it was after all an election year). Nevertheless the government played an absolutely crucial role in propping up the country's financial institutions as they adjusted to changing economic circumstances in a period when they were on the verge of collapse. 1974 marked the real collapse of the property market and the secondary banking sector. Industry, weak anyway, was reeling from the effects of the three day week. Overhanging all sectors of the economy was the prospect of a severe worldwide recession. In this situation the whole structure of the City, an edifice built solely on confidence and interlinking credit, was dangerously exposed. Any significantly lower level of public expenditure then could so easily have toppled it over the edge. Yet at the same time wage demands, both in the public and private sectors, were increasing in an attempt to keep up with inflation.

Essentially the economic and political situation was too weak to undertake immediately the radical transfer of resources from the public sector to the private sector. It was impossible for any government to attack the working class too drastically in the aftermath of the Tory Government's defeat at the hands of the miners, hence the rapidly rising deficit. Hence, too, the slow start in the fight to cut real wages, and the heavy government support for companies in trouble, rather than risk leaving them to be ripped apart in the jungle of competition.

What this has meant is that the British government has not been able to induce a severe deflationary situation to fight inflation. This was already running at a higher rate in Britain than in most other major countries even before the onset of the worldwide recession, reflecting the greater severity of the crisis of profitability in Britain. Since the beginning of 1974, though inflation has slowed markedly in most other countries, it has continued to rise in Britain, reaching a peak of over 30% in mid 1975 (although the peak figures were largely the result of the April 1975 budget measures).

But now the economic and financial situations have relatively stabilised. The political reality is that there has been a continual erosion of working class militancy since the miners' victory against Heath. The campaign over the Social Contract and the £6 wage freeze, the Common Market referendum and the successful imposition of high unemployment reveal the extent to which this has occurred. The hold of the bureaucracy in the Trade Union movement has been consolidated. Working people are now more inured than for many years, to the possibility that they may suffer unemployment, real wage cuts and cuts in the 'social wage': the cost, in other words, of the massive transfer of resources to the private sector.

It has to be massive simply because of the very weakness of British industrial capital: it has to compensate for the years of industrial decline and decay. The balancing act that the government is attempting to perform is to make the transfer in such a way as to avoid too great economic or political stresses. On the one hand the process must be slow enough to be politically acceptable (not a total dismantling of the welfare state for example). On the other hand it must be fast enough to meet the basic demands of capital.

The government's perspective is that over the coming years industrial activity in Britain will be stimulated by an export-led boom and favourable investment conditions (e.g. low, controlled wages). The chances of the former seem doubtful, it would depend on the rapid recovery elsewhere in the West, and on Britain maintaining its share of the rising world trade that would result. Both are unlikely, given Britain's export performance in the past and the fact that most other countries are also looking to exports to boost their activity.

Nevertheless, given this perspective, public spending is to be cut to encourage and make resources available for this 'regeneration' of industry. The social costs will, in theory, be relieved by the increased private sector activity that will result.

It does depend, of course, on the cuts being politically acceptable. It also assumes the maintenance and extension of the present wage controls. Not surprisingly the two are closely linked. The likely scenario is that the government will again be 'forced' to go to the International Monetary Fund to meet its borrowing needs, perhaps after a further run on the pound (with all the hysteria that surrounds it).

The International Monetary Fund

The size of the Governments deficit and the expectation of a continuing trade gap have driven the Government to borrow money from the International Monetary Fund. But it would be a grave mistake to believe that this solution will in any way ameliorate the constraints on the Government. On the contrary, the conditions attached to a loan from the International Monetary Fund will drive home the need to cut public spending.

The I.M.F was set up at the Bretton Woods conference in 1944 to provide credit to countries faced with short term balance of payments problems, and thus prevent the rounds of currency devaluations and exchange and import controls which developed in the depression of the 1930's. The Fund is in fact there to promote world trade, and has developed an ideology concerning the "correct" method of controlling economies based on this prime directive of maintaining stable exchange rates and the free flow of goods and capital.

To gain some idea of the severity of the strings which will be attached to an I.M.F. loan a brief look at the Italian economy may be instructive. In 1974 the Italian Government was faced with a situation of a rapidly widening trade deficit and soaring inflation; their cost of living index rose 19% between 1973 and 1974. The public expenditure deficit was also rising, though not as fast as the U.K.'s at the moment. Also the Government was committed to maintaining employment and social expenditure, particularly in the depressed south as a result of an agreement with the unions.

In the spring of 1974 a loan of $1.2b was negotiated with the I.M.F. on the condition that there was a reduction in the creation of credit and that total money supply was reduced. The Bank of Italy set a limit of 15% on the growth of credit facilities, with a physical limit to large borrowers. In a period of 25% inflation this meant a sharp reduction in the availability of credit and bank prime rates rose to 20% for those lucky enough to find funds. Also new direct and indirect taxation was imposed which led to the reduction of the money supply by £1.8b a year.

As a result of these measures the index of industrial production fell from an average of 119.4 for 1974 to a figure of 107.5 for March 1975 and dropped even further for the second quarter. Short time working increased 39% by the end of 1974. More important however is that public expenditure was reduced by 13.3% in real terms from 1973 levels, despite the fact that it was not primarily a budget deficit which led to the loan. Conditions for the Italian working class have deteriorated even further over the last year.

The point to be made of course is that the U.K. government in negotiating a loan from the I.M.F. because of the drying up of other sources of finance, will only receive it on the basis of a drastic reduction in public expenditure. There is no benefit to the Government in an I.M.F. loan unless it is that it will make it politically that much easier to impose the sort of cuts which it knows sooner or later, will inevitably be demanded by the economic system.

The IMF: springing the trap

The IMF will impose stringent conditions on the loan that will mean, in effect, that the government will be 'forced' to cut public spending and be committed to bringing inflation under control.

That will establish a political excuse for the cuts. It will enable the government to cut spending further. It will place the public sector workforce in a position where the government can say 'We can't spend any more'. 'Either you take further cuts in real wages or we will have to cut more jobs'. And it means the private sector workers will be told 'You must accept and extend the Social Contract'. 'We must get inflation under control, we are already having to cut welfare services because of it'. 'If you don't accept further real wage cuts we will be forced to cut your welfare services further'.

But even if it does achieve this, the government's strategy still cannot succeed because of two underlying weaknesses. The first is its dependence on a rapid resurgence of the Western world economy, and with it international trade. But the continuing fear that there may be a return to the inflationary spiral will continue to deter governments from reflating rapidly. Even if the projected upturn in trade should occur despite this, the 'regeneration of industry' is ultimately dependent on the channelling of finance capital into industry. That, given the experiences of the past, would seem unlikely.

The government's aim is to cut the public spending deficit over the coming years of 'hardship'. That, however, means more than just cutting expenditure back by £12b over the period of a few years, because the government's position is far worse than it is currently saying.

There are two reasons for this. Firstly the massive rise in debt interest, and secondly the effects of the capital spending programme as it comes on stream. Over recent years the government has been spending more than its receipts from taxation etc. To cover this deficit it has to borrow money. The longer it does this, the more interest builds up on borrowed money, thus increasing the deficit further. Eventually it reaches a situation where these payments are increasing at an ever accelerating rate, and taking a larger and larger share of public expenditure.

This is the situation the government has now reached. In its financial year 1974/75, it had to borrow £7.6b – for the current year this is estimated to reach £12b. The interest payments on £12b at current interest rates amount to about £1½b in a full year – so even if public expenditure remains the same the government has to borrow an extra £1½b just to pay the interest.

The factor of committed capital spending, however, means

1959. Gaitskell, Castle, Bevan. One planned, one died, one cuts . . .

that public expenditure must continue to rise in some areas. As each school or hospital is finished, the government has to pay the interest on the money it borrowed to build it, and also start paying the wages of the teachers, nurses and ancillary staff necessary to run it.

Both of these factors operating together mean that the cuts when they come will be far more massive than anything the government has so far outlined. Just to keep the amount it needs to borrow steady at £12b each year, it has been calculated that welfare spending would have to be cut by £5½b in real terms by 1977/78, compared to cuts proposed by Healey of £3b by 1978/79. And this would in no way solve the problem, since within a further two years, the same amount of cuts would have to be made on top of those which had already taken place.

On the other hand, if the government only undertakes the cuts it proposes, its deficit will rise even faster. By 1978/79 debt interest would be running at a rate of £11b or more which would mean that the government was borrowing around £20b a year!

What then are the government's possibilities for action? Basically it can attempt savage cuts in spending, raise taxes or postpone action by borrowing. From the government's point of view, given its commitment to making British capital profitable, it will probably be a combination of all three.

But the emphasis will fall on cutting spending. As has been shown by examining the various welfare services, the situation is already tightly stretched. The massive cuts that result from the rise in debt interest could mean the virtual dismantling of the welfare state.

Of course, the government will aim to win part of the cuts by reducing public sector wage-rates in real terms, as part of the 'fight against inflation'. A 10% cut here would save an estimated £1.5b. That, from the government's perspective, would be a start. But only a small one. It would mean pushing the nurses, teachers and street-sweepers back towards the breadline. But it would not be enough.

The next step would be a reduction in the number of public service workers. By direct redundancy and loading more work on to existing staff by not replacing those who leave through natural wastage, further savings in the wage bill would accrue. This, however, would be partially self defeating, since with no increase in employment in the private sector the government's bill for social security would rise rapidly.

In both education and health the aim would inevitably be further 'rationalisation'; one hospital or school serving where there were two or three before. Some of the capital expenditure now coming on stream could well be wasted. Old peoples' homes half built, school buildings left unoccupied while the nurses and teachers who could be staffing them are instead collecting their dole. The interest on the money borrowed to build them will, of course, continue to be paid.

As the services get worse, the remaining staff overwhelmed by the sheer volume of work and lack of facilities, the private sector would swoop on the decaying body of the welfare state. Private medical services, their insurance brokers, the landlords and landowners would be the major beneficiaries. In health, in particular, they would be in a position to attract the cream of staff as public-sector wages are held down, giving a further twist to the spiral. Geographically the monied areas, able to raise larger rates, would continue to act as a magnet for available resources. Areas of deprivation, where services are already terrible, would suffer most in real terms. For them, the rationalisation involved in the 'regeneration of industry' would mean a faster capital withdrawal, job loss, and dereliction.

But before this scenario of waste and destruction we can expect a fight back. Public sector workers faced with big cuts in living standards and redundancies will resist. The community faced with the prospect of even worse basic services will organise against the cuts. The success of these fights depends on several factors

Their own strength, determination and organisation. Their ability to forge links with other groups of workers and gain solidarity action.
Their success in uniting the workers within the public services with those who depend on these same services.