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How to cite:

Annesley, Claire and Himmelweit, Susan (2011). Women. In: Yeates, Nicola; Haux, Tina; Jawad, Rana and Kilkey, Majella eds. In defence of welfare: the impacts of the spending review February 2011. The Social Policy Association, pp. 19–21.

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Version: Version of Record

Link(s) to article on publisher's website:  
<http://www.social-policy.org.uk/downloads/idow.pdf>

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# IN DEFENCE OF WELFARE: THE IMPACTS OF THE SPENDING REVIEW

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FOREWORD BY

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**The Financial Times**  
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**FEBRUARY 2011**  
**[www.social-policy.org.uk](http://www.social-policy.org.uk)**



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The SPA Annual Conference 2011 'Bigger Societies, Smaller Governments?' will take place from 4-6 July 2011 at the University Of Lincoln. Plenary sessions so far confirmed include Dr Sarah Cook of the United Nations Research Institute for Social Development, Professor Jan Pahl of the University of Kent, and a session on 'The Big Society: A new direction for third sector policy in England?' with Professor Pete Alcock of the University of Birmingham, Karl Wilding of the National Council for Voluntary Organisations and Ruchir Shah of the Scottish Council for Voluntary Organisations. The conference will also include about a hundred papers examining various dimensions of social policy and welfare provision in UK and wider international contexts. More details: [www.lincoln.ac.uk/conferences/spa2011](http://www.lincoln.ac.uk/conferences/spa2011).

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## FOREWORD

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### NICHOLAS TIMMINS, THE FINANCIAL TIMES, SPA PRESIDENT

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**I**n the middle of history, it is hard to get it right. It can be done. Lord Grey, the British Foreign Secretary in 1914, declared that 'the lamps are going out all over Europe' - a phrase that presciently declared that the First World War would change western society forever.

Against that, Richard Titmuss, in his day the doyen of social policy scientists, once declared that an admittedly large increase in the amount of funding that went to the NHS from the more regressive national insurance contributions rather than general taxation, was 'the final stick of dynamite under the welfare state' - a judgement that few would share 50 years on.

Equally, many made the same judgement during Margaret Thatcher's earlier years as prime minister - her 1980 social security bill consisted of just six clauses, every one of which was a cut.

Some of those were indeed game changing. They ended the UK's tentative move towards a more mainland European-style earnings related benefit system. Some did profound damage - the abolition of the 'better of earnings or prices' formula for uprating the basic state pension sent it on a slow downward spiral that undermined both state and private pensions for 30 years. It has only now been halted by the Coalition Government placing a 'triple lock' on the increase, so that it will rise by the best of earnings, prices or £2.50 a year - a somewhat bold move, one might say, given the deficit.

On the benefits side, much of the welfare state got meaner in the 1980s and 1990s in the wake of two recessions. Yet by the early 1990s, in the memorable phrase of Julian Le Grand, despite the 'economic hurricane' and 'ideological blizzard' to which it had been subjected, what was remarkable was how much of the welfare state survived, not how little was left.

It was changed in shape, certainly. Less generous in some areas, notably in housing. But in others - not just health and education but also social care and some benefits for the disabled - it had been undeniably bolstered, even if some of the mechanisms that accompanied the extra money, such as the introduction of more market-like mechanisms in the provision of services, remained controversial.

Right now, there is no doubt that what is happening is historic. The Coalition has announced the biggest single set of spending cuts since at least the Second World War - £81 billion of them. Many affect the welfare state - with even the relative protection offered to schools and health amounting, in reality, to a reduction in the face of rising demand.

The rise in tuition fees for higher education is a watershed - a partial de-nationalisation of the universities. So too is the ending of child benefit as a universal payment.

Some technical sounding changes - the replacement of the retail price index by the consumer price index for uprating the state second pension and public service pensions will reduce their value by perhaps a quarter over the coming decades unless the formula is again changed.

The cuts to housing benefit have led to fears that the least well off will be forced out of city centres - changing the shape and nature of British society.

Some cherished parts of Labour's programme to boost social mobility - the child trust fund and educational maintenance allowances, for example - are going. Against that, within the schools budget, there will be a 'premium' for disadvantaged pupils.

And then there are policies that accompany the Spending Review - for example the

move to a single, universal credit – that are not particularly party political in origin but which have the potential for a big impact on their recipients.

In this collection – *In Defence of Welfare* – some of the UK Social Policy Association’s leading lights analyse these changes. And given that there were going to be cuts anyway to address the deficit, some suggest alternatives.

The papers range from the fairly technical, to a call to the social policy community to lead a national campaign in defence of the welfare state, to the judgement that ‘this is how you break a society’.

Time and events will tell. But here, still close to the announcements, is an academic version of ‘the first rough draft of history’ – an attempt in the middle of it to assess just how profound the impact on welfare, and the welfare state, will be.

# THE NEW POLITICS OF WELFARE

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## CUTS TO WELFARE SPENDING

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**MIKE BREWER AND JAMES BROWNE, INSTITUTE FOR FISCAL STUDIES**

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**J**une 2010's *Emergency Budget* and October 2010's *Spending Review* were the Coalition Government's opportunity to prove it was serious about cutting the deficit. Not cutting the deficit is not an option: the financial crisis and associated recession opened an additional structural hole of approximately 5.8 per cent of national income, or £86 billion per year in today's terms. Ignoring this would lead to an unsustainable debt path.

But, of course, no political party has ever proposed to do nothing about the deficit. There are choices to be made about how fast to do it, and whether the hole should be filled mostly with tax rises or spending cuts. The previous government suggested filling 70 per cent of this structural hole by 2016/17, but the Coalition Government wants to go further faster, closing the hole entirely by 2014/15. In the general election campaign, the Conservative Party suggested that 80 per cent of the hole be filled by cutting spending, and 20 per cent by increasing taxes. At the time of the election, the other political parties wanted tax rises to do slightly more of the work and spending cuts slightly less, and, in the end, the plans announced in the *Spending Review* assume that 73 per cent of the work will ultimately be done by spending cuts and 27 per cent by tax rises.

### WELFARE CUTS

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Of the £80 billion a year spending cuts announced in the *Spending Review*, £18 billion will be found from cuts in welfare spending by 2014-15. The largest single saving came from the decision to link benefits and tax credits with the Consumer Prices Index (CPI) rather than the Retail

Prices Index (RPI) or Rossi index (which is the same as the RPI except that it excludes the costs of mortgage interest payments, rent and council tax), as they are at the moment. Because the CPI has historically given a lower measure of inflation than either the RPI or the Rossi index, this is effectively an across-the-board cut to all benefits received by working-age adults (the pension credit guarantee and the Basic State Pension have been spared, since these will be increased in line with earnings rather than prices); the change is, therefore, estimated to save the Government £5.8 billion a year by 2014-15, a figure that will increase each year as the savings compound.

There are two main reasons for the differences between the RPI and CPI. Firstly, like the Rossi index, the CPI excludes the costs of mortgage interest and council tax (although, unlike Rossi, it includes rent), which have, in the past, tended to rise faster than general prices. Secondly, a technical difference in the way the CPI is calculated means that, even if it covered the same goods as the RPI, it would still give a lower measure of inflation. The Government argues that these differences make the CPI a better measure of the 'inflation experience' of households on benefits, on the grounds that benefit recipients are largely insulated from changes in the housing costs the CPI excludes, and that the way the CPI is calculated allows for the fact that households can minimise the impact of price changes on their welfare by substituting away from goods that have become relatively more expensive. The second of these arguments is reasonable, although the first has been questioned by other Institute for Fiscal Studies

researchers (Browne and Levell, 2010a). There are two main criticisms of the Government's argument. First, households that are already insulated from housing costs because they receive housing benefit and council tax benefit currently have their benefits uprated with the Rossi index, which already excludes these items; for these households, the CPI therefore offers little, if any, improvement in terms of its coverage. (However, once local housing allowance rates are increased in line with the CPI rather than local rents from 2013–14, the CPI will provide a better coverage for these households, since they will then be exposed to real increases in rents). Second, for households who do not receive means-tested benefits, the coverage of the CPI is less appropriate than the RPI for measuring their inflation experience because such households do tend to face the costs of housing and council tax.

The other benefits that will be hit with significant cuts are child benefit, the child and working tax credits (CTC/WTC), housing benefit – particularly housing benefit paid to those renting in the private sector, known as Local Housing Allowance (LHA), Disability Living Allowance (DLA) and Employment and Support Allowance (ESA). Most of these are benefits that have seen expenditure rise in real terms over the past 10 or 15 years. But there is no simple reason for these increases: spending on housing benefit did rise considerably during the recent recession, as one would expect, but both the numbers of claimants and average awards had been rising for a number of years before the financial crisis hit. The increased spending on DLA largely reflects higher numbers of recipients (as real entitlements have hardly changed). Spending on tax credits has risen, by contrast, largely through policy decisions taken by the past government to increase entitlements for families with children in real terms.

### IMPACT

What will be the impact of these cuts? £2.5 billion will be saved in child benefit by freezing it for three years, and then means-testing it for the first time, by removing it from families containing a higher-rate income tax payer. But the particular form of means-testing has a

number of unusual features. First, the means test will be based on individual rather than joint income. This means that, to give an extreme example, a one-earner couple with an income of £44,000 would lose all their child benefit, but two-earner couple where each has an income of £43,000 would keep all their child benefit. Secondly, this reform seriously distorts incentives for some families with children. In particular, parents whose income is just below the higher-rate income tax threshold would find themselves considerably worse off after a small rise in income as they would effectively lose all their child benefit as soon as their income rose above the higher-rate income tax threshold. The Government argues that using the income tax system to means-test child benefit is less costly than devising a brand-new means-test, and can be implemented more quickly. But the Government could have straightforwardly reduced spending on child benefit by combining it with the child tax credit in some way. Furthermore, the Government expects to lose £280 million a year through parents potentially affected by the loss of child benefit manipulating their taxable income to avoid crossing the higher-rate threshold, which is hardly the sign of a cheap or efficient means-test (HM Treasury/DWP/HMRC, 2010).

The reforms to tax credits mainly involve a more aggressive means-test, with the rate at which tax credits are withdrawn being increased from 39 per cent to 41 per cent from April 2011 and tapering the family element of CTC immediately after the child element is exhausted. This will mean that, from April 2012, a two child family will not receive any tax credits if their income exceeds £31,000. Significant sums will also be saved by altering the way in which tax credits respond to changes in circumstances (essentially, allowing parents less time to back-date claims, having tax credits respond more quickly to rises in income, and more slowly to falls in income); it is likely that the number of overpayments will rise as a result. However, the Government has announced above-inflation increases in the per-child element of the child tax credit in 2011 and 2012, at a total cost of £2.4 billion. The combined impact of all these changes on tax credit entitlement is complicated, depending on how many children are in the



family, whether it qualifies for the working tax credit, and family income.

Much attention has been focused on the changes to local housing allowance (LHA). LHA rates are currently supposed to be set at the median level of rents in a local area; from April 2011, they will be set at the 30 per cent centile, and subject to a nationwide cap on the level and on the property size. Virtually all LHA recipients will lose from these changes. Most should find, though, they can still afford around 30 per cent of rents in their area; the two groups who will see much bigger falls in their LHA payments are large households currently in properties with 5 or more bedrooms, and those living in Central London, where the nationwide caps will be binding. It is possible, of course, that reductions in LHA rates may lead landlords to reduce rents in response. Arguably a more important change will take place in 2013, from which point LHA rates will be linked to the CPI: this breaks the link between LHA rates and the level of local rents, and some have warned that this reform will lead to many areas being unaffordable to those on LHA in the medium- to long-term.

There are two reforms affecting disability benefits. First, the Government will be introducing a medical test into DLA, modelled on the existing test for ESA claimants. It will apply this to the existing

stock as well as new claimants, and expects it to reduce the number of claimants by a fifth. It is hard to object to the idea that DLA recipients should undergo a medical test, but clearly the move will make those worse off who in future are denied DLA. Second, the Government has also announced a reform to ESA which will mean that it will be paid for more than 12 months only if a claimant is heavily disabled or if a claimant's family has such a low income that they qualify for the means-tested variant of ESA.

### THEMES

Are there any overarching themes running through these benefit cuts? First, pensioners have been largely spared: the pension credit and basic state pension are not affected by the move to index benefits with the CPI, the stricter disability test for DLA will not apply to Attendance Allowance (the equivalent benefit for pensioners), and universal benefits for pensioners will continue in their non-means-tested form. Secondly, although all working-age benefits have been cut back to some extent, the working-age benefit system as a whole will be more focused on the poorest as a result of these reforms. Third, those families receiving very large payments of benefits and tax credits will be particularly hard hit as a result of

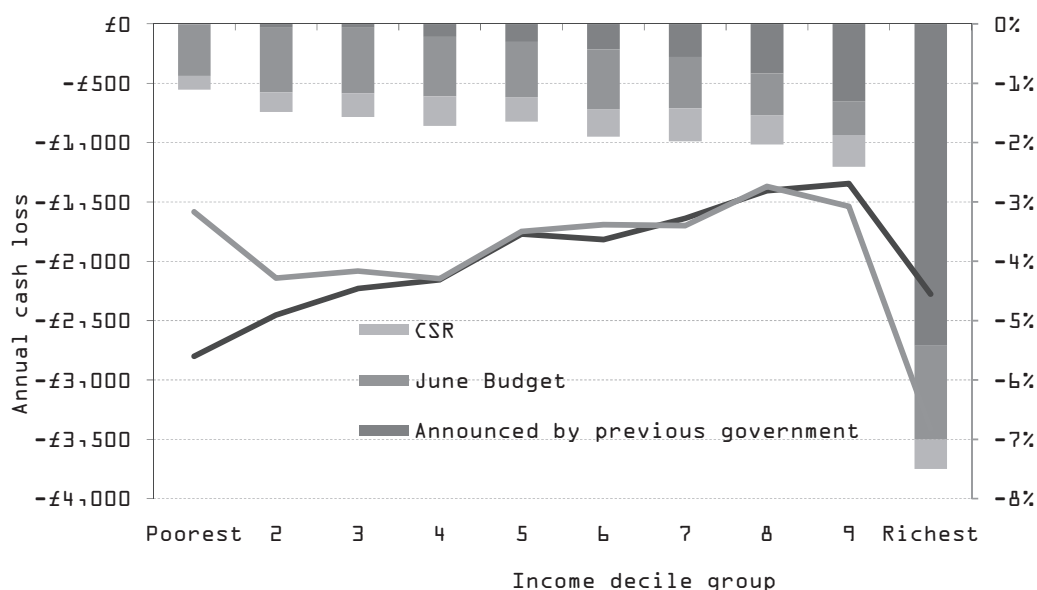


Figure 1: Distributional impact of tax and benefit changes to be introduced by 2014-15 by income decile group

changes to Local Housing Allowance and the benefit cap. Inevitably, the poor will lose more as a percentage of income than the rich from such a large reduction in the overall welfare bill. And, as our distributional analysis of all tax and benefit changes to be introduced between now and 2014–15 in figure 1 shows, the tax rises announced by the Government are not sufficient to offset this pattern for the bottom 90 per cent of the population. It is important to recognise, though, that the hardest hit from tax and benefit reforms taking effect between now and 2014–15 will be the very richest, mainly as a result of reforms pre-announced by the previous government.

The Government initially claimed that its June 2010 Budget was progressive, but this was based on a distributional analysis of tax and benefit changes which omitted some of the largest welfare cuts (because the Treasury did not feel it could model precisely which households would be affected). The Government has also claimed that its measures will have no measurable impact on child poverty in 2012–13. We have not yet assessed this second claim, but we have noted that the Treasury's supporting analysis again omits many of the welfare cuts due in

2012–13. And, given that there are more cuts to welfare benefits in 2012–13 and 2014–15, it would be very surprising if the direct impact of the Government's changes on child poverty was neutral by the end of the Parliament. The Government has said, though, that it is unfair to judge it on policies due by 2014–15 given that it has not made a final decision on the level of welfare benefits and tax allowances in that year. In particular, we now know that the Government intends to introduce a Universal Credit, replacing all means-tested benefits and tax credits for those of working age, from 2013. In principle, a unified system of means-testing will save the Government money, reduce losses to fraud and error, and be simpler and more transparent for claimants. The Government also wants to strengthen the incentive to work facing benefit recipients, particularly for so-called mini-jobs. In the Spending Review, the Government set aside a total of £2 billion to pay for the costs of building new systems, and paying higher benefit entitlements to some claimants. Although we don't have enough details to be sure, it seems likely that this reform will lead to some low-income families gaining. We hope this will become clearer when the Government legislates for the Universal Credit early in 2011.

*Notes: Income decile groups are derived by dividing all households into 10 equal-sized groups according to income adjusted for household size using the McClements equivalence scale. Decile group 1 contains the poorest tenth of the population, decile group 2 the second poorest, and so on up to decile group 10, which contains the richest tenth. Assumes increases in employer NICs are passed on to employees in the form of lower wages.*

Sources: Authors' calculations using TAXBEN run on the 2008–09 Family Resources Survey and 2008 Expenditure and Food Survey.

## FAIRNESS

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### TANIA BURCHARDT, LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

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**T**he Coalition Government has made considerable use of the concept of 'fairness' in support of its policies and, in particular, in justifying the package of public spending cuts announced in the June

budget and the Comprehensive Spending Review (CSR). Indeed according to HM Treasury's CSR website 'The Spending Review sets out a new vision for a fairer Britain' (2010a, accessed 16/11/10). What

*is meant by 'fairness' in this context has been less clear. Significant differences of interpretation are apparent in recent statements by the Prime Minister, Deputy Prime Minister and Chancellor:*

Cameron: *'Fairness means giving people what they deserve – and what people deserve depends on how they behave.'* (speech to Conservative Party conference, 6/10/10 – Conservatives 2010)

Clegg: *'It is simply not acceptable that the circumstances of a child's birth can become a life sentence of disadvantage.'* (announcing 'fairness premium', 15/10/10 – Liberal Democrats 2010)

Osborne: *'[F]airness – that we are all in this together and all must make a contribution. Fairness means creating a welfare system that helps the vulnerable, supports people into work, and is also affordable for the working families who pay for it from their taxes. Fairness also means that across the entire deficit reduction plan, those with the broadest shoulders should bear the greatest burden. Those with the most should pay the most, including our banks.'* (CSR speech, 20/10/10 - HM Treasury 2010d)

*'There is nothing fair about running huge budget deficits, and burdening future generations with the debts we ourselves are not prepared to pay.'* (CSR speech, 20/10/10 – HM Treasury 2010d)

Fairness, it seems, encompasses something about a concern with intergenerational justice, issues of social mobility, a principle of universal but progressive contributions, just deserts and the protection of the worst-off. Almost any individual policy could be justified by appeal to one or more of these ideas, but if we take the package of tax and spending cuts as a whole, to what extent can they be seen as promoting any of these concepts of justice?

#### INTERGENERATIONAL JUSTICE

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Firstly, intergenerational justice. Great play has been made of the importance of not leaving 'the next generation' with huge public debt. But this is based on a rather narrow and superficial analysis. The definition of 'the next generation' is

unclear. Assuming it refers to those who are currently children and young people, the size of public debt they inherit will be only one determinant of the potential their adult lives hold. The condition of public infrastructure (hospitals, schools, housing stock, railways and roads, etc) and the skills base of the workforce (trained doctors, teachers and engineers) will also be important. There is little advantage to having low public debt if you will not be able to be treated when you are sick, housed when you are homeless, or, less dramatically but no less importantly, unable to make a living because the basic services on which the economy depends are dilapidated, understaffed and under-skilled. Physical and human capital are accumulated over periods of years and decades, but they can be undermined at the stroke of a Chancellor's pen.

Moreover 'the next generation', however defined, is not homogenous. The children and grandchildren of today's wealthy stand to inherit considerable private wealth, especially in the form of housing assets, and hence will be shielded from the long-term impact of public spending cuts, while the children and grandchildren of today's social housing tenants are likely to be dependant on public services and transfers to a much greater extent. Saving 'the next generation' from high taxes to service a large public debt by cutting today's and tomorrow's public spending is of considerable advantage to the next generation of wealthy individuals and of doubtful advantage, and quite possibly significant disadvantage, to the remainder of the next generation. Raising the threshold for Inheritance Tax serves only to reinforce the inequality.

#### SOCIAL MOBILITY

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This brings us to the Coalition's claims to be promoting fairness through enhanced social mobility. Conservative politicians are fond of asserting that social mobility fell under New Labour, and this may indeed be the case, although there is no evidence as yet to support this claim. Social mobility – the extent to which children find themselves as adults in a different place in the social order, usually defined in terms of earnings or occupation, than their parents – takes a generation, literally, to become manifest.

However, research on previous generations of young people going on into adulthood has revealed a number of factors that promote or hinder social mobility. Firstly, we know that experiencing unemployment early on in your labour market career has a long-term adverse effect on your earnings and employment chances, a so-called 'scarring effect' (Gregg, 2001). Hence, the particularly high rates of youth unemployment during the current recession – reaching 21 per cent for men aged 18-24, according to the Labour Force Survey – are likely to be extremely damaging for today's young people not only in the here and now, but also for their prospects of achieving upwards social mobility. The loss of hundreds of thousands of public sector jobs and related private sector jobs just as the country is apparently emerging from recession is not offering a helping hand to these young people.

Secondly, research has consistently pointed to the importance of education in promoting social mobility. The Coalition Government is protecting spending on schools, and this is certainly to be welcomed from a social mobility perspective, but in the modern 'knowledge economy', higher education is also significant in determining future earnings and employment prospects. Here the Government's proposals for a dramatic shift away from tax-funded support towards direct financing by individuals and families are likely to have a strongly unequal effect, reinforcing the link between the class background of your parents and your own chances of acquiring a degree. Many children from wealthier backgrounds will *not* be saddled with debt because their parents will be in a position to support them directly, while potential students from poorer backgrounds will need to make the difficult judgement about whether to risk incurring substantial debt to increase the chance of future higher earnings, or whether to play safe and start earning right away. The proposed extension of bursaries and scholarships is little more than a sop, since a young person from a disadvantaged background would need to jump through two hoops (university entrance and scholarship application, the latter most often with *higher* academic requirements), each associated with considerable uncertainty, while those in a more privileged position need only meet one set of criteria.

Thirdly, international evidence suggests that countries with high inequality at a point in time ('cross-sectional inequality') tend to have low social mobility and countries with low cross-sectional inequality tend to have higher social mobility (Blanden, 2009). This also makes sense intuitively: it is easier to climb a ladder if the steps are relatively close together. So one route to promoting social mobility would be to reduce inequality in the here and now.

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### FAIRNESS

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This brings us to the Coalition's third interpretation of fairness – that they are protecting the most vulnerable, and ensuring the burden of cuts is borne by those with the 'broadest shoulders'. Were this the case, it would be an equality-promoting package and hence could also have a positive effect on social mobility. This concept of fairness is closely associated with the liberal egalitarian political philosopher John Rawls, whose 'maximin' principle requires that priority be given to the worst off. To what extent does the package of cuts in the Budget and CSR meet this criterion?

The analysis in Annex B of the Treasury's Spending Review document (HM Treasury 2010a), suggests that the combined effect of changes in taxes, benefits and services is mildly progressive by 2012-13, with the top fifth of the income distribution losing most (as a proportion of their combined income and the value of benefits-in-kind they receive), while the one-but-top fifth and the bottom fifth of the income distribution lose least. However, independent analysis by the Institute for Fiscal Studies (Browne and Levell 2010b) gives a rather different picture. The HMT analysis omits the impact of the reforms of Housing Benefit, Employment and Support Allowance, Disability Living Allowance and Council Tax Benefit, all of which are likely to have a larger negative effect on the poorest half of the income distribution. It also omits around two-thirds of the cuts to departmental spending, on the grounds that the impact on households cannot be clearly allocated. Moreover, the Treasury analysis of taxes and benefits stops at 2012-13, leaving a further £10.7 billion of the proposed £18 billion welfare cuts still

to come into force. Correcting for these limitations in the HMT analysis as far as possible – which necessitates making some assumptions about the future incidence of welfare cuts and about the value of services to different family types – Reed (2010) concludes that the bottom tenth of the income distribution will be hardest hit, losing around 11 per cent of their combined net income and the value of public services they receive per year, compared to approximately 4.5 per cent per year for the top tenth of the income distribution.

Finally, we can consider whether the Coalition's policies support the 'just deserts' interpretation of justice reflected in the Cameron quote at the beginning of this paper. This is perhaps closest to the libertarian theory of justice, associated with the political philosopher Robert Nozick, according to which people are entitled to the full fruits of their labour and to their assets, provided they have been obtained through fair exchange. Hence there is no justification for compulsory redistribution, or taxation to fund public goods. The role of the state is limited to contract

enforcement and keeping the peace. Instead, people are expected to come together in voluntary collectives and decide among themselves to support community projects - a vision which appears to have much in common with the 'Big Society'. As critics of libertarian philosophy have been quick to point out, the effects are likely to be a polarisation between the 'haves' and 'have-nots', particularly when the starting point is very unequal and when residential patterns overlap geographically with socio-economic segregation.

Yet this libertarian philosophy is 'out of sync' with the British public. Evidence from the British Social Attitudes survey has shown that nearly three-quarters (73 per cent) believe the gap between those with high and low incomes is too large, and a similar proportion (69 per cent) believe it is right that taxes paid by the majority help to support those in need (Sefton, 2005). As the cuts begin to take effect, the underlying rationale of the Coalition's policies will become ever more apparent. The expectation must be that it will also be increasingly unpopular, and that any claims of 'fairness' will soon ring hollow.

## TARGETING AND UNIVERSALISM

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PETE ALCOCK, UNIVERSITY OF BIRMINGHAM

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**T**argeting and universalism are issues at the centre of social policy practice and analysis. We have both targeting and universalism within our welfare system, and policy development seeks to balance a constant tension between the two. This tension contains both practical implications and clashes of principle. In practice it matters because the choice between targeting and universalism has major consequences for the way welfare services are designed and delivered. In principle the different approaches address central concerns of social policy in very different ways.

The practical consequences of targeting are

significant, and can lead to major problems in the delivery of welfare services. Targeting aims to focus support only upon those who are in need. This can mean targeting by need, for example, the support services provided for some people with disabilities. More usually, however, it tends to mean targeting support upon those unable to provide for themselves because of low income or lack of independent income, and it requires those seeking such support to undergo a test of their means to determine entitlement.

Such means-tests are relatively expensive to administer, because they require detailed, and ongoing, checks in order to determine

entitlement. These are complex for claimants as well as administrators. They can lead to problems with take-up – not all those who might in theory be entitled actually receive the support they need because of the complexity of entitlement. They can also lead to high levels of error and fraud, where complex circumstances are inadvertently or deliberately misrepresented. Targeting also produces what commentators have called the ‘Poverty Trap’. This is the consequence of targeting support upon those with low incomes, which means that this support must be withdrawn if income rises. As a result little real benefit is felt by those securing an increase in their income, and in effect they remain trapped in poverty.

The practical problems of targeting are all well known and well documented in academic social policy debate, although not often understood outside of this. From an administrative point of view therefore targeted provision is always in practice second best. Universalism is simpler and easier because it provides the same support to everyone. However, this means supporting people who have extensive resources and could easily purchase such support themselves. Thus universal Child Benefit is paid to the Prime Minister (or more likely to his wife, as it is normally paid to the major carer), despite the fact that they are millionaires and do not need this extra money. Especially at times of public austerity this does not look like a prudent use of scarce resources; and this is just what the Coalition Government has concluded in its Spending Review, promising to withdraw Child Benefit from high rate taxpayers and tighten the targeting criteria for tax credits and benefits such as Housing Benefit.

Predictably, however, the practical problems with such further moves towards targeting quickly come to the fore. Already the Government is having problems matching up the high rate taxpayers (often men) with the Child Benefit recipients (often women), because taxation is administered on an individual basis – leading to more intrusion and confusion within the tax system, and greater administrative costs. Tighter limits on tax credits will have the effect of steepening significantly the poverty trap, as explained by Brewer and Browne, with closer focusing of credits on the lowest paid likely to lead to higher marginal tax rates

for some recipients, which in extreme cases could exceed 90 per cent. That is, for each extra pound earned, up to 90 pence could be lost through withdrawal of credits and other forms of means-tested support.

The planned changes to Housing Benefit are being made in part to minimise the problems caused by higher benefit levels for the unemployed than for those on low pay – without raising support for the low paid which would exacerbate the poverty trap. However, these changes seem likely to price these Housing Benefit claimants out of the housing market in many inner city areas, leading to evictions and re-housing – again potentially with higher costs elsewhere and increased administrative intervention. Whatever the desirability in principle, more targeting inevitably leads to greater practical problems.

However, there are issues of principle too. The new Government has stated its commitment to policy being driven by a concern for fairness. Targeting is fair in one sense, they suggest, because it pays each according to their needs. But this raises difficult questions about what is need, and who decides this. In the case of Child Benefit, for instance, arguably it is the children’s needs which are being met, through payment to their carer – and children’s basic needs are the same whatever the circumstances of their parents. More generally though there is a social dimension to need, and to benefit. Child Benefit is also an investment in future generations for everyone’s benefit – we all need children to grow up fit, healthy and well cared for. So is it fair to target the high rate taxpayers with children for an increased contribution to this investment, rather than higher rate taxpayers in general?

This raises the more general question about who pays for, as well as who benefits from, welfare services; and here the principles of equality and inclusion also compete with fairness. Any commitment to equality within welfare provision requires us to pay attention to who pays as well as who benefits, as the collective investment in children demonstrates. If the notion of fairness does not also embrace this, then it is only addressing one part of the welfare contract – and the absence of focus on taxation policy within the Spending Review

suggests such a narrower approach may at the moment be more influential.

Who pays for welfare matters for another reason, however; and this is because it is through paying for, as well as benefitting from, welfare services that all citizens feel included in them. One of the reasons for the continuing popularity and high engagement with the NHS is the fact that all pay for, and benefit from, it. It was also the principle behind Beveridge's National Insurance (NI) scheme, established at the same time, and this remains a continuing source of popular support for NI through the belief that contributors have paid for their pensions or other benefits. Although in practice the complexity of NI entitlement makes this relationship less effective on the ground, and its legitimacy was undermined by Labour Government increases in contributions to meet more general taxation needs.

Universal services are popular because all are included within and contribute to them; and, ironically, this appeals to another notion of fairness – that paying for something justifies benefitting from it. It makes it easier to equalise benefits, since all get the same, whilst redistributing through

contributions, since all pay what they can afford. It also promotes inclusion as all are both paying for and benefitting from public support, whereas targeted support has sometimes been associated with stigma for those receiving benefits which are seen to be 'only for the poor'.

The role of targeting has been growing significantly within social policy for some time now, and the Spending Reviews are likely to accentuate this drift. Nevertheless the principles of universalism remain central to much social policy delivery and debate. The tension between targeting and universalism continues to be very much in balance therefore. Support for universalism could be encouraged through appeals to the alternative approach to the principles of fairness and inclusion that it offers – fair because all do over time contribute to cost of services and benefits, and inclusive because all benefit from them. At the same time the practical problems of targeting in high administrative costs, failure to take-up entitlement and high marginal tax rates, will be likely to dominate the delivery of means-tested support. When concerns over these arise, as inevitably they will, policy makers will know that there is an alternative.

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## THE UK WELFARE STATE GOING WEST

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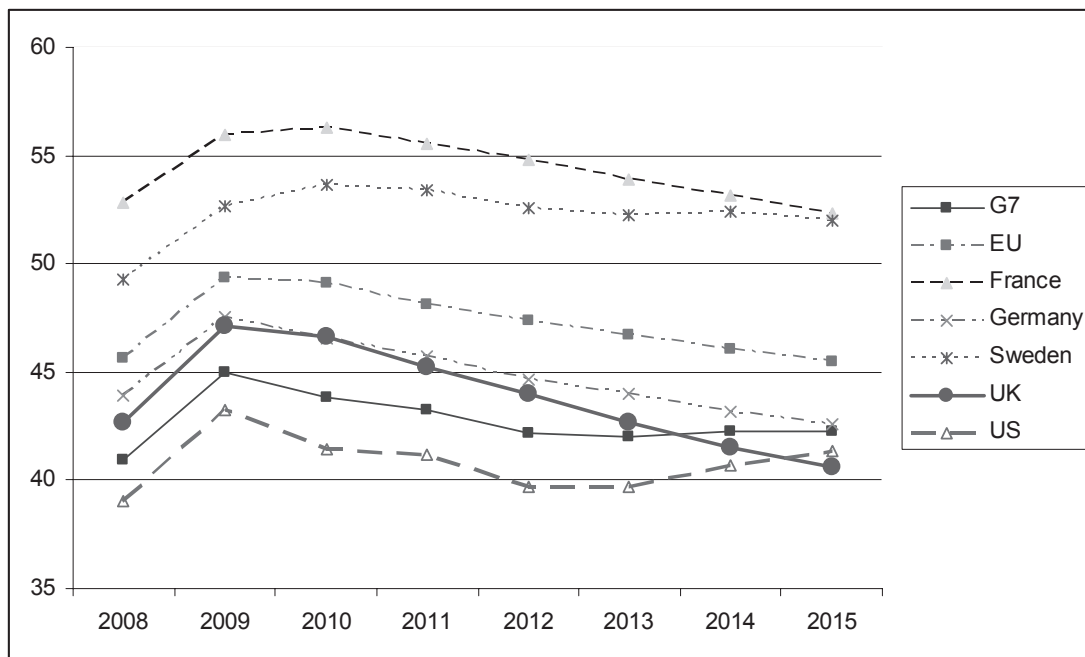
PETER TAYLOR-GOOPY, UNIVERSITY OF KENT

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**B**ritain has abandoned its attempt to join the European tradition of state welfare and is making a decisive move towards the US/liberal model of market capitalism. This is implicit in the discussion of policies in various areas elsewhere in this volume. It emerges clearly when patterns of overall spending, privatisation, management of the labour market, social divisions and insecurity are considered. The British approach offers a qualitatively different solution to the problem that faces all advanced economies: how to maintain competitive position in an expanding world, where other economies are growing rapidly. It is a gamble and

one that is not being taken by anyone who has a choice in the matter. The weaker Mediterranean and Celtic governments are not in a position to preserve their social settlements because they cannot maintain the incomes from taxation or borrowing to do so. The British experiment may work, in the sense of restoring growth. If it does we will undergo a painful transition, but wake up in a very different world, one that is more competitive and more prosperous but more unequal. Restructured Britain will be able to offer good lives to the advantaged but not to more vulnerable groups, and will be less humane than Europe at its best.

Figure 2: Public Spending Trends, Selected Advanced Economies 2008-15 IMF (per cent GDP)



Source: IMF (2010)

### SPENDING TRAJECTORIES

The overall pattern of public spending across Western economies in the early years of this century was of a more or less steady state in the context of continuing growth. This was succeeded by a sharp rise from 2007-8 in response to the demands to rescue favoured industries, provide investment capital and manage unemployment. Spending follows the usual cyclical pattern of spending, relatively lower when GDP rises rapidly, higher during recession, because GDP is relatively lower and the demands are greater. It is exaggerated by the scale of the crisis.

Public spending in the UK had been climbing painfully from the low position of the late 1990s towards the level of the more developed European countries. This reflects reforms to expand the NHS, education and social care, and tax credit and other subsidies towards those on lower incomes and improvements in pensions. In common with many countries, spending ceased to rise from 2004-5 so that the (limited) progress towards a mitigation of poverty came to an end. The UK and US with their relatively large and needy financial sectors experienced a particularly rapid rise in demands on the exchequer between 2007 and 2009. The spending

increases elsewhere in Europe tended to include a much greater proportion of labour market subsidies, most notably the state-financed 'training schemes' that effectively took many core workers off company payrolls at the height of the downturn in Germany, France and Italy. These have been followed by measures to reduce social insurance contributions and help particular groups, younger unemployed people and long-term unemployed (OECD, 2010).

Where the UK stands out is in the spending trajectory after 2009-10 (see Figure 2). The combination of the previous government's March 2010 Budget, the June 2010 Emergency Budget and the September 2010 Comprehensive Spending Review set state spending on a downward course steeper than in any major European country, so that it falls below G7 levels and that of the US by 2014-15. The G7 includes Germany, France, Italy and Canada, as well as the US and Japan, so a position below spending levels averaged across these countries is not a new experience (but one that is instructive to those considering how the UK stands in international comparison). What should be noted is that this is the first time UK public spending has ever fallen below that in the US. This fact brings home how substantial



a shift is contained in the current policy package.

### THE IMPACT OF THE NEW POLICIES

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One feature of the changes is that the UK Government has decided to reduce support for the economy more rapidly than any other major economy. Centre-right commentators sometimes interpret the cuts package as simply a return to the normal British pattern. After all, spending during the years of growth in the late 1980s, late 1990s and early 2000s was at about the 40 per cent level. This argument misses the point.

First, the period in which spending in the UK is to be abruptly cut back is not expected to be a boom, but rather a cautious return to growth, with high levels of unemployment imposing particular demands on the state. Second, as other chapters point out, the cuts for the mass services, health care, education and pensions, will be much less severe than for the benefits directed at low income minorities. The protected areas account for about half of all public spending. The 2009-15 cuts impact on poor groups in a way that previous cyclical shifts in public spending have not. The shift away from European social protection and solidarity is part of a programme that imposes a more insecure, market-centred system.

The spending cuts and competition rules in relation to local government open up opportunities for private providers to take over services, and make it increasingly difficult for local authorities who wish to keep provision in-house. It seems likely that many GP consortia will not have the resources to manage services effectively in the new NHS and will use private companies to do so. The move to extend academy status eventually across all state schools opens up a range of opportunities for private education management firms. The free schools currently under consideration will be mostly run by private companies. In higher education the Browne review signals a shift to a largely market-centred user-financed system. The Government has indicated openness to private providers to attain university status.

Benefit reforms are designed to sharpen work incentives yet further. These pressures

will be extended to substantial numbers among those currently receiving sickness and disability benefits. Related reforms to tax-credit, rent benefits and to social housing and the greater targeting of the more universal benefits will intensify the difficulties faced by those at the bottom further.

These changes are likely to be associated with further social divisions and a continuation of the pattern of growing inequality traced by Atkinson (2007) across advanced countries during the past quarter-century. In particular the imposition of greater costs for child care (through cut-back of schemes), higher education, and housing (through rent benefit reforms and the move to 80 per cent market rents for new social housing) will damage those towards the bottom, but not better-off groups.

The shift towards the market, the contraction of state sector and expansion of private sector employment and the current likelihood that employment protection will be weakened will lead to greater insecurity in many people's lives.

### THE NEW GROWTH MODEL

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These changes are sometimes seen as the normal centre-right market-centred programme, facilitated by the opportunity to advance an exceptionally stringent cuts package that the crisis offers. An alternative approach is to understand them as a conscious restructuring, intended to resolve a long-standing problem. The UK, like many western countries, flourished during the first 19<sup>th</sup> century era of globalisation through industrial, imperial and military pre-eminence. That era ended in the conflicts between the post imperial powers of the first half of the 20<sup>th</sup> century. The post second world war boom under US hegemony provided 30 years of stability. From the 1970s globalisation has reasserted itself, this time with the centres of economic dynamism elsewhere.

Europe (and the UK) may continue to achieve real growth. In fact the UK grew rather faster than the main European economies during the boom between 1997 and 2008. The problem is one of relative decline, as centres elsewhere grow much

faster. The UK's share of world total GDP shrank from about four and a quarter per cent in 1980 to two and three-quarter per cent by 2010 and is predicted to continue to decline (IMF, 2010). This is what underlies the fear that the loss of the political and military power associated with economic domination condemns Britain to backwater status. One response is that of Germany and to some extent France and associated countries: an integrated corporatist welfare model that sustains high value-added, high productivity export industries, able to retain comparative advantage by competing on quality.

Britain has gradually lost its position as a major exporter. One possible growth path sought to emulate Germany with the welfare state conceived as investment in human capital. Such policies, under Wilson and Blair, have not provided the basis for stable growth. Another approach highlights the contribution of the new service sector industries, notably the finance sector. These have failed to generate wealth in sufficient volumes or with sufficient stability to secure national prosperity. The welfare reforms are best understood as part of a different growth strategy. This

rests on achieving competitiveness by offering low taxes, a deregulated marketplace and a relatively cheap and highly-motivated work-force for a country at a north European level of development. Leading to sharp and continuing cuts in the social wage, a weakening of employment protection and the intrusion of market-competitiveness across society – and perhaps a more dynamic and fluid society. If you can't beat the leading European powers at their game, you might as well try the American model.

The US has had growth of about 100 per cent during the past 30 years and productivity gains of over 80 per cent, but the incomes of most of the population have only risen by 9 per cent. Median full-time men's wages have been largely static and this limited rise is a real increase in women's wages (Wasow, 2008). The gains of economic progress have gone almost entirely to the top 20 per cent, most of them to the top two per cent (Hacker and Pierson, 2010). Advocates of the US solution should remember that, in liberal competitive capitalism with a weak labour movement and limited social protection, it's the rich that gets the gravy.

## CLEARING THE POOR AWAY

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**DANNY DORLING, UNIVERSITY OF SHEFFIELD**

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**T**he *Comprehensive Spending Review* announced the start of a new era of engineered social polarisation; a further separation of the lives, hopes, homes and chances of rich and poor.

One of the first announcements was that new tenants of council and other social housing will now have to pay at least 80 percent of market prices in rent. In one stroke millions of low paid families are to be excluded from living in hundreds of towns, cities and villages where they no longer earn enough to 'deserve' to be.

At age 60, shadow Chancellor Alan Johnston

is adept at dealing with callousness. His immediate reaction to the cheering that greeted the Government announcements was that for many Coalition MPs it was now obvious that 'this is what they came into politics for'. George Osborne (39), who became an MP in 2001, ended his speech saying he had brought sanity to our public finances and civility to our economy. The printed version of his speech suggests the word was 'stability', not 'civility', but George was mumbling at that point and I think that he thinks he is civilised.

Osborne announced that housing benefit will not be paid for people under the age of

35 who live alone - this previously applied only to those under 25. There would be a 10 per cent cut in council tax benefit for those who can not afford to live in certain areas. The few remaining people living on modest incomes near affluent suburbs or in economically successful towns and villages are to be cleansed away.

We now know that the Spending Review is at least as regressive as the June budget, as were the cuts announced for local council core funding. The best-off fifth of society will lose just 1 percent of their entitlements to public services and spending, the lowest losses of any group. Furthermore, a million people currently on employment and support allowance due to ill health will each lose £2,000 a year if they cannot find a job. Osborne announced further privatisation of pensions, with the state pension age rising rapidly to 66 years. Only those with private provision can now retire at the normal age. Public sector pensioners will have £1.8 billion removed from them by 2014-15. This will further impoverish many of that group. Pension credits will be frozen for three years.

No family on benefits is to receive more than the income of an average family in work, no matter what the circumstances of their children. If you are poor - or are made poor when you lose your job or have a pay cut forced on you - and have three or more children, you may need to leave your town for a new life in a cheaper area, away from where the remaining well paid work is.

Understanding demographic trends is crucial to understanding the review. Provision for the NHS did not include the extra costs of the 1946 baby boomers retiring, or the cost of new privatisations being introduced there (which were not even in the Tory manifesto). Provision for education would not maintain current rates of spending per child once the new privatised 'free' school costs are added in. University places will be slashed, but 75,000 more apprenticeships are to be created for the children of the more-deserving, better-behaved poor - those who know their place. The educational maintenance allowance for less well-off children will be phased out, another significant cut to children's finances which,

when combined with all the Chancellor's other measures, means that child poverty will rise - despite what he suggested in this speech.

But not everyone loses out. More affluent savers who lost money they invested in Equitable Life and the Presbyterian Mutual Society will soon receive £1.7 billion from tax payers - mostly from tax payers poorer than them. Thus money is being redistributed towards the affluent. And there will be more property for the affluent to buy with these windfalls in and around London, in villages and in market towns, as the poor vacate their homes for cheaper places to live.

Raising the cap on train fares will mean that those who do move out to make ends meet will end up paying even more to get into London and other cities for work. Local government will be allowed to borrow more in richer areas, against expected business rates, instead of Westminster borrowing, so that the places where business makes a lot of money can be spruced up. Local government in poorer areas cannot make such newly permitted borrowing.

George Osborne (39) is younger than me, and I am still a relatively young university professor. His work experience has been limited to shelf-stacking and a few weeks of filing in the NHS. Danny Alexander, the chief secretary to the treasury, is even younger (38). For a year he had a job outside of politics, doing PR for a national park. Between them, these inexperienced young men - who as far as I know have never been on the dole - announced a huge raft of cuts which their own figures say will directly make half a million public servants redundant.

The former Conservative Chancellor, and current secretary of state for justice, Ken Clark (69), had warned of a double-dip recession if cuts were savage. On 21 October, Teresa Perchard, director of policy at the Citizens Advice Bureau, warned that housing benefit changes would 'create a group of nomads...maybe not where the jobs are.' On the same BBC radio programme, Alan Johnston said that Osborne's speech was 'unfair, unwise and untruthful in some of the statistics' and that the Chancellor was 'asking children

to make a bigger contribution than the banks’.

There were a huge number of alternatives to what took place on Wednesday 20 October 2010, but few of those alternatives would have resulted in the clearing and cleansing out of so many poorer people

(and people made newly poor) from more prosperous areas of the country. Many younger people will now go abroad to find work or a university place. Many of them will never return. Poorer families will struggle the most, but fewer will be visible through the windows of ministerial cars. This is how you break a society.

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## IMPLICATIONS FOR SPECIFIC GROUPS AND POLICIES

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### CHILD POVERTY

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**JONATHAN BRADSHAW, UNIVERSITY OF YORK**

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#### THE STATE OF CHILD POVERTY AT THE GENERAL ELECTION

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The Labour Government’s aspiration to halve child poverty by 2010/11 is not going to be met. The strategy ran out of steam after they had (just) failed to meet the five year target to reduce child poverty by a quarter by 2004/5. At the time of writing, the latest data we have is *Households Below Average Income* for 2008/9. It shows that

- There was no reduction in the percentage of children living below 60 per cent of contemporary median income between 2003/4 and 2008/9, either before or after housing costs.
- There was no reduction in the percentage of children living below 60 per cent of the 1998/99 median income held constant in real terms between 2004/5 and 2008/9 after housing costs and a 1 per cent reduction before housing costs.
- There was no reduction in the percentage of children falling below the thresholds of low income and

material deprivation between 2004/5 and 2008/9.

- Over the period since 1997 there has been a significant change in the composition of poor children. In 1996/97 55 per cent lived in workless families. By 2008/09 only 41 per cent lived in workless families (before housing costs).

Child poverty needs to fall by 1.1 million between 2008/09 and 2010/11 to meet the 2010 target of halving child poverty. Poor children may have benefited from the falling level of inflation in 2009/10 which meant that benefits and tax credits grew in real terms. The bringing forward of the April 2010 uprating might also have helped. However this is likely to have been offset by growing unemployment in 2009/10 and increasing inflation in 2010. The Institute for Fiscal Studies (Brewer et al., 2009) had predicted a fall in the number of children in poverty by a further 600,000 by 2010/11 given announced policies, but Joyce et al (2010) for IFS now believe this prediction is too optimistic.

Even if it was achieved the number of children in poverty in 2010/11 would still exceed the target by 600,000.

The Child Poverty Act was passed just before the General Election with all party support. It sets clear and specific legal targets to eradicate child poverty by 2020. The Act requires the Government to publish a national strategy by 25 March 2011.

### NOW THE CUTS

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The Government has decided to reduce the deficit by £81 billion by 2014/15. It chose to achieve this by taking 80 per cent from spending and 20 per cent from tax increases – though it looks now as if that balance is going to be 73/27 per cent. We now have had the emergency budget of June 2010 and the results of the Comprehensive Spending Review on 20 October 2010.

There are three announcements that will help child poverty

- The child element of child tax credit will be uprated by £180 per year above indexation in 2011/12 and £110 above indexation in 2012/13.
- The income tax personal allowance threshold will increase by £1000 in 2011/12 and will benefit earners with incomes above the tax threshold, not just those with children.
- The 1 per cent increase in national insurance contributions announced by the previous government has been scrapped. This helps all earners above the threshold.

Below is a much longer list of measures that are likely to increase child poverty. They are in no particular order:

- The maximum limit of childcare costs met under Working Tax Credit will be reduced from 80 per cent to 70 per cent - this could cost families up to £30 per week.
- Abolishing Educational Maintenance Allowances before the school leaving age is increased.
- Abolishing the Health in Pregnancy Grant.
- Abolishing Child Trust Funds.
- Reneging on the previous government's commitment to extend

free school meals to poor families in employment.

- Withdrawing Child Benefit from higher rate tax payers will not hurt the poor in the short-term but child benefit may suffer in the long term.
- Freezing Child Benefit for three years from 2011.
- Freezing Working Tax Credit for three years.
- Removing the baby element and proposed toddler element in Child Tax Credit.
- Lone parents to be expected to look for work once their youngest child reaches school age, from October 2011
- Surestart maternity grant restricted to the first child only.
- A £2500 disregard will be introduced into Tax Credit for in-year falls in income and in-year rises in income that will be disregarded from calculations of Tax Credit, will decrease from £25,000 to £10,000 in 2011 and then to £5000 in 2013.
- Cutting spending on Council Tax Benefit and making it a local function.
- Introducing a benefit cap will reduce the incomes of large families with children – the Government estimates 50,000.
- Increasing VAT from 17.5 to 20 per cent.
- Introducing a Housing Benefit cap and reduction in local housing allowances.
- Withdrawing entitlement to Working Tax Credit of couples with children working 16-24 hours per week.
- Uprating all benefits in line with the CPI instead of the RPI or Rossi index.

The Government has launched a consultation on its approach to ending child poverty and improving life chances (<http://www.education.gov.uk/consultations/index.cfm?action=consultationDetails&consultationId=1737&external=no&menu=1>). As part of this the independent Child Poverty Commission, which was required under the Child Poverty Act, is being reviewed. Meanwhile the Frank Field Independent Review of Poverty and Life Chances (<http://povertyreview.independent.gov.uk/media/20254/poverty-report.pdf>) has been published including recommendations to: invest in a Foundation Stage using resources

that would go to child cash benefits; and introduce a new set of Life Chances Indicators.

It will take some time to assess fully the overall impact of this package but the work has begun (Family Action, 2010). There is also the impact on poor children of cuts in capital spending, general central and local government services (such as Surestart), and the loss of 500,000 public sector jobs.

Overall the distributional consequences of the measures are regressive (Browne and Levell, 2010b) (though the Government seeks to deny this). The Government has claimed that the Spending Review had no 'measurable' impact on child poverty in the next two years. What happens then? From a fairness perspective it looks as though pensioners have emerged relatively unscathed while poor women and children are hit hardest.

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## WOMEN

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**CLAIRE ANNESLEY, UNIVERSITY OF MANCHESTER AND  
SUE HIMMELWEIT, THE OPEN UNIVERSITY**

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**T**he UK Women's Budget Group (WBG) welcomes the emphasis that the Coalition has placed in the Spending Review on fairness and social mobility. The extension of 15 hours free early education and care to all disadvantaged 2-3 year olds from 2012-13 is to be applauded. However, its approach to fairness fails to acknowledge that men and women start from unequal positions, and that there are many barriers to social mobility other than lack of educational qualifications. Unequal employment opportunities and unpaid caring responsibilities are just two examples.

We also welcome the Treasury's attempt to produce an Equalities Impact Assessment of its spending decisions, following its failure to comply with this legal requirement for the June Emergency Budget. But we find its Impact Assessment inadequate. It provides almost no quantitative data on how men and women will be affected by its decisions and it excludes most aspects of the Spending Review, claiming either that there is no impact or that the impact is impossible to measure.

The Women's Budget Group has produced its own Gender Impact Assessment of the Spending Review (WBG, 2010) and finds that the record cuts to the public sector services and welfare budget impact

disproportionately on the public services women use as well as on their jobs and incomes. The cuts amount to an immense reduction in the standard of living and financial independence of millions of women. Collaboration with Howard Reed, Landman Economics, enabled the WBG to produce the first gendered impact assessment of the cuts to public services by examining the distribution of the cuts between households with different gender characteristics (ibid). We find that the groups that will suffer the greatest reduction in their standard of living due to cuts in public services are lone parents and single pensioners, the majority of whom are women. Lone parents will lose services worth 18.5 per cent and female single pensioners, services worth 12 per cent of their respective incomes (see figure 3).

Overall, single women will lose services worth 60 per cent more than the value of services single men will lose as proportions of their respective incomes, and nearly three times those lost by couples (see figure 4).

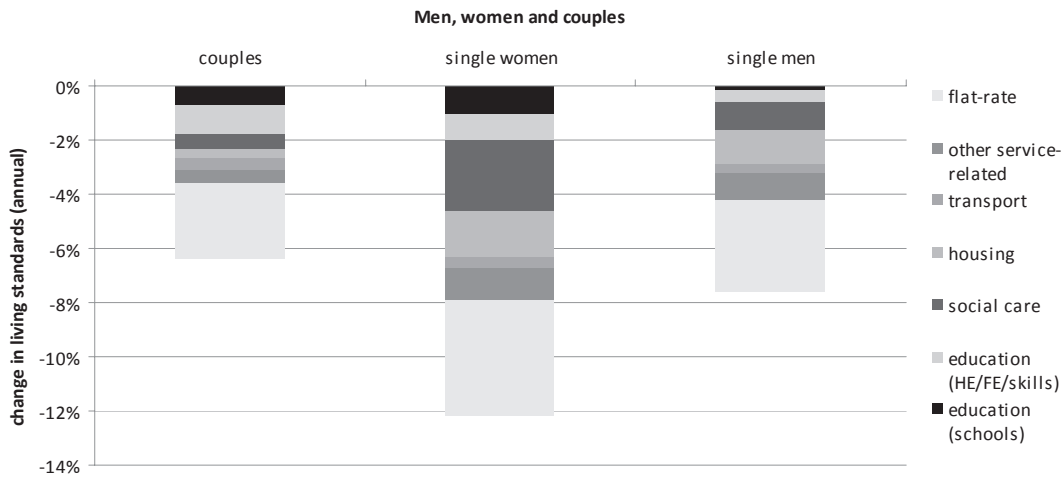
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### JOB LOSSES

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Using data from the Labour Force Survey, the WBG finds that the cuts will lead to hundreds of thousands of job losses for

Figure 3: Effects of spending cuts by family type: as per cent of net income, all services



Source: Howard Reed

Figure 4: Distribution of cuts among single women, single men and couples, as a per cent of net income, all services.



Source: WBG and Howard Reed

women as 53 per cent of the jobs in the public sector services that have not been protected from the cuts are held by women. What is more, women’s levels of pay and conditions of employment are worse in those parts of the public sector which have been protected from cuts, meaning that women’s conditions of employment are set to deteriorate overall.

The WBG’s analysis of the cuts in welfare spending finds that these will fall disproportionately on the finances of women. For example: Child Benefit is paid almost 100 per cent to women, while

53 per cent of Housing Benefit claimants are single women. Both benefits have been cut significantly in real terms and eligibility has been tightened. Also, the childcare component of the Working Tax Credit has been reduced from 80 per cent to 70 per cent of costs and couples will be required to work longer hours – from 16 to 24 – before they are entitled to this.

### BEARING THE BRUNT

Despite the Coalition’s expectation that ‘all sections of society who are able to do so contribute to deficit reduction’

(HM Treasury, 2010a: 27) it is clear that women are bearing the brunt of the cuts. The Government claims that there is no alternative. Ian Duncan Smith said that the alternative to clawing back Child Benefit from families with a higher-rate tax payer would have been to raise income taxes, which people would not have liked either. But he forgets that non-parents pay income tax too, so any such tax rise would be spread more widely and therefore smaller. A tax rise would not have impacted on those women looking after children full-time who have no other income of their own, while clawing back Child Benefit will leave many without any independent resources.

Another option would be a Robin Hood tax on financial transactions, so called because it takes from the rich and (potentially) gives to the poor. This could be turned into a 'Maid Marion' tax by ensuring that the revenue from the tax is used to avoid the cuts in benefits and

public services that are so damaging to women. Even at the extremely low rate of 0.01 percent, net revenues of £25 billion per year could easily be raised, enabling the Government to avoid some of its most damaging spending measures on women and their children.

The Coalition needs to rethink its approach to managing the deficit if it wants to be judged as fair. Placing more of an emphasis on raising taxes on those who can afford to pay them rather than radically cutting services and welfare expenditure for women and their families is a fairer way to spread the burden of the deficit. In the meantime, the WBG calls on the Coalition to: stop its unfair attack on women's jobs, incomes and services; deliver a Gender Impact Assessment that provides a full qualitative and quantitative analysis of the gendered effects of the Spending Review and; take action now to mitigate the unfair burden of the Coalition's Budget and Spending Review on women.

## OLDER PEOPLE

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### ALAN WALKER, UNIVERSITY OF SHEFFIELD

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**T**he measures announced in the Emergency Budget and Comprehensive Spending Review (CSR) have to be viewed in the context of the relative paucity of provision for later life in the UK. The basic state pension (BSP) has always been low in relation to earnings (now only 16 per cent of average earnings or 31 per cent if the Second Pension is included, compared with 51 per cent in France, 62 per cent in Sweden and 82 per cent in the Netherlands) with successive governments choosing to make poor pensioners rely on means-tested supplements to the universal BSP. Take-up of these selective benefits has never approached 100 per cent despite concerted efforts to raise awareness – it stands currently at a maximum of 70 per cent for Pension Credit. Not surprisingly

*therefore, in comparison with other EU countries, the UK has a high at risk of poverty rate among older people: 30 per cent compared with an EU average of 20 per cent, 17 per cent in Germany, 13 per cent in France and 11 per cent in Sweden (European Commission, 2010).*

Against this backdrop, how will older people be affected by the Coalition Government's reforms? This section will focus on only two components for pensioners' living standards: incomes and social services, which leaves out other important determinants of their quality of life (Walker, 2006). Thanks to analysis by the IFS (Brown and Levell, 2010b) we can be certain about the effects of the changes to taxes and benefits, the income side, but much less so with regard to services because the precise impact



depends on how the public expenditure cuts are distributed by local authorities.

### TAXES AND BENEFITS/PENSIONS

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On the fiscal and social security front, low income groups and pensioners were protected, in relative terms, by the reforms announced by the previous government before it left office, while richer groups, such as single earner couples and single people in work, had the heaviest burden as a proportion of income. As the IFS demonstrates, the measures in the June Budget, however, disproportionately affect those groups that are the most reliant on social security, especially the single, unemployed, lone parents, and couples with no earnings (Brown and Levell, 2010b). Pensioners are the least heavily hit but still suffer a net loss of just under 3 per cent of their incomes from 2010–14. Of course, there are affluent as well as poor older people but only 16 per cent of pensioner couples and 7 per cent of single pensioners are in the top one-fifth of the income distribution while 44 per cent and 58 per cent respectively are in the bottom two-fifths. Therefore the majority of pensioners, as well as other groups reliant on benefits or pensions, will lose as a result of the Coalition Government's reforms.

Some of the very poorest older people will be hit hard by the benefit reforms. Among the poorest and most socially excluded in old age are those living in the private rented sector (Barnes, et al., 2006). The cuts in Housing Benefit mean that 80,000 or so older people receiving Local Housing Allowance will lose an average of £12 per week nationally and, in London, in excess of £30 per week. Many of this group are already struggling with their housing costs and have no realistic prospect of renegotiating their rent levels or moving to cheaper accommodation.

On a positive note the Coalition Government has restored the uprating link between the BSP and average earnings – a change campaigned for by the pensioners movement ever since its de-coupling in 1980. From April 2011 the BSP is due to rise in line with the higher of either average earnings, prices or 2.5 per cent. Prices have risen faster than average earnings so the BSP will rise by 4.6 per cent in April. There is a sting in the tail though: from

2012 the prices measure used for pension uprating will be the Consumer Price Index (CPI) rather than the currently used Retail Price Index (RPI). The CPI is usually lower than the RPI so this can be interpreted as a cost-cutting measure. The Government claims that the CPI represents low income groups' expenditure better than the RPI but there is no convincing evidence to support this claim and, according to the IFS (2010), it is the RPI that provides the 'superior' coverage of goods and services. Also, from April 2011, the State Second Pension, SERPS and/or Graduated Pension will be uprated in line with the CPI rather than the RPI, a difference of 1.5 per cent. This seems like a small difference but the majority of Britain's pensioners live on relatively low incomes and the losses are cumulative. So the BSP is over £30 lower (for a single pensioner) per week than it would have been if the earnings link had not been broken in 1980. Finally with regard to social security, the means-tested Pension Credit Guarantee will be uprated by the cash increase in the BSP rather than as a percentage of earnings or the RPI.

As part of the CSR it was announced that state pension ages will be equalised by November 2018, 2 years earlier than planned. The pension age for both men and women will then be increased to 66 by April 2020. This will affect around 5.1 million people and the vast majority of losers will be women. For example a woman born on 5 April 1953 could claim her state pension a month before her 63<sup>rd</sup> birthday, whereas one born a year later would have to wait until she was 66. The Treasury estimates that this change will save some £30 billion in reduced pension payments and raise £13 billion from increased tax and NI contributions. Also this is clearly not the last word by the Government on state pension ages.

### SOCIAL CARE

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The context for a consideration of the impact of the CSR on social care for older people is, first, that between 1998/9 and 2008/9 there was a 54 per cent increase in spending on Adult Social Care (which is mainly for older people). Despite this increase, secondly, there is a considerable 'care gap' between what is needed and provided. It is estimated that, in England,

there are 1.4 million older people with low level care needs and 0.9 million with high needs. The majority (5.5 million) do not require care. But only three out of five of those with high needs receive any formal support either in their own homes or in residential care/nursing homes. Also there was a decline of some 70,000 receiving support in their own homes, 2000 to 2009, as eligibility criteria were tightened.

The starting point on social care then is, on the one hand, substantial under-provision at the high end of need and, on the other, virtually nothing of a preventative nature at the lower end. Also, because of population ageing and increases in the cost of care, just to maintain the current level of access to public support requires a real term increase of 3.5 per cent per annum. The CSR announced 'protection' for Adult Social Care in the form of £1 billion by 2014/15 plus a further £1 billion to be provided by the NHS through joint working with councils. This 'protection' therefore relies, on the one hand, on money being transferred from the NHS which itself is facing the tightest financial constraints for 30 years and, on the other, on local authorities being able to allocate sufficient resources when their funding is being reduced by 26 per cent, and

then only in 4 years time. The absence of ring-fencing for this protection looks like tacit admission of the impossibility of this task. As this point while we cannot know what the eventual impact will be on older people in need of care it is possible to model likely outcomes. For example, even a small real term reduction of just over 6.5 per cent per year from 2010/11 results in a 22 per cent budget reduction by 2012/13 because of the need to raise funding by 3.5 per cent per annum just to stand still (Forder and Fernández, 2010). This level of budget cut would result in the further exclusion of around 170,000 of those with high needs from full support and a reduction in all recipients of state support by around 490,000. As a corollary to these reductions, self-payments by older people would rise.

In conclusion the impact of the tax and benefit reforms on older people is negative but, apart from some groups such as those in the private rented sector, modestly so compared with other less favoured benefit recipients. In the social care field the impact looks likely to be severe. Equally importantly the Government's cuts agenda appears to veto any progressive social policy advances in the form of either a reduction in pensioner poverty or a narrowing of the social care gap.

## YOUTH

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### BOB COLES, UNIVERSITY OF YORK

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**O**ne of the first acts of the Coalition Government on its first day in office was to abolish the Department of Children, Schools and Families (DCSF) and replace it with a Department for Education. This signalled a return to a department concerned with organisations and institutions (schools and colleges) rather than focused on serving the needs of a particular client group, children, young people and their families. It also cost a lot of money.

#### DUCKING THE NEET ISSUE

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In July 2010, the Audit Commission published a thorough and comprehensive examination of one of the most intractable problems facing youth policy in the UK in recent decades, young people who reach minimum school leaving age and drop out of all forms of education, employment and training (NEET) (Audit Commission, 2010). The numbers who were NEET had reached 208,196 by 2008, some 10.3 per cent of the age group.

Part of the review undertaken by the Audit Commission was to attempt to estimate the life-time cost to the public finances. This revealed that this cost had risen from £8.7 billion in 2002 to just short of £12 billion in 2008 (Coles et al., 2010).

Research undertaken for the Audit Commission also helped to identify sub-groups within the NEET group who proved especially expensive to public expenditure. It calculated that failure to identify and support children with special educational needs could result in a life time cost to public expenditure of £575,000 for each child. In the case of a young offender, the life-time public finance savings from a programme of support, which resulted in desisting from future offending, compared to a young offender who went on to be a persistent offender, exceeded £2 million for a single case.

The research also highlighted very significant public finance savings to be made by relatively modest investment in effective support for care leavers, young carers, teen mothers, young offenders and young people with disabilities. What are sometimes naively regarded as cuts of luxuries we cannot afford can, and should, be seen as investments that will result in long term savings to public expenditure.

However, support for groups of vulnerable young people has now been put at risk by reductions in central government support for local authorities. Many of the modestly funded young support programmes identified by the Audit Commission (2010) cost only a few thousand pounds. The research also illustrated how, although these are currently funded by local authorities, the longer term costs which will accrue if such programmes are cut will be borne by central government. This is because of future losses to tax and National Insurance revenues, benefit payments, and the costs to the National Health Service and Ministry of Justice.

### EDUCATIONAL MAINTENANCE ALLOWANCE

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Educational Maintenance Allowances (EMAs) were initially piloted in 15 areas of the UK before being rolled out nationally

in 2004. These were intended to increase participation rates in post-16 education, especially amongst the children of poor families whose participation rates were particularly low. EMAs rewarded attendance with payments of between £30-£40 per week. The full rates were paid to poor families - families with an annual income of £13,000 per year or less - with lower allowances to families earning up to £30,000 per year. These are set to be withdrawn following the Comprehensive Spending Review (CSR), with the budget for supporting the children from poor families virtually eliminated. Head teachers and college principals are outraged as they will be left with the impossible task of adjudicating who amongst the poor can be supported by a hardship fund which is now woefully inadequate to meet students' needs. They fear participation rates will dip once more and the numbers NEET will inevitably rise.

The success of EMAs in meeting policy goals is impressive, resulting in significantly increased participation, retention and achievement. Participation of 16 year olds was shown to have increased by 5.9 per cent and amongst the most difficult group (boys living in urban areas) by 6.9 per cent. The largest impact was on young people living in families in socio-economic groups 4 and 5 (semi-skilled and unskilled workers), where increases of 9.1 per cent were recorded.

The national evaluation of EMAs concluded that they had a disproportionate, positive, impact upon the destinations of specific target groups who tended to be under-represented in post-16 education, namely, young people from lower income families and young men (Middleton et al., 2005).

### FUTURE JOBS FUND AND YOUNG PERSONS GUARANTEE

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Earlier in May 2010, the Government had announced the withdrawal of important support for the older age group. The Young Persons Guarantee and Future Jobs Fund were first announced in the 2009 Budget and were targeted at 18-25 year olds who had been unemployed for over six months. The Future Jobs Fund (a key part of the Guarantee) was a job creation measure aimed at helping the

most vulnerable young people to escape the impact of recession. It used up to £1 billion in 2009-2010 to support more than 100,000 young people into new jobs paying at least national minimum wage (Haymann, 2009).

#### WHAT IS THE ALTERNATIVE?

The Coalition Government in its rush to cut public expenditure has failed to distinguish between cuts that can save money and cuts which will result

in public expenditure increases in the future. Some public expenditure must be seen as cost-effective investment. On NEET, cuts in youth support are likely to increase the £12 billion life-time cost of NEET very significantly. Scrapping the EMA will increase the numbers NEET as well as causing short term hardship for poor families who cannot afford post-16 education. Ceasing to invest in the Future Jobs fund will push up youth unemployment and the cost that brings through benefits.

## DISABLED PEOPLE

### ALAN ROULSTONE, UNIVERSITY OF NORTHUMBRIA

**D**isabled people have largely been protected from major welfare retractions during periods of fiscal crisis. This stance has recently changed dramatically. Key targets for policy reform are those disabled people claiming Employment Support Allowance (ESA), formerly Incapacity Benefit (IB). More differentiated approaches have already been introduced to establish those disabled people too sick/disabled to work, those that should move rapidly into work or mainstream jobseekers allowance and a review group who will face continual Work Capability Assessment; it is assumed many will be moved off ESA where work capability is in evidence. Those ESA recipients deemed closest to the labour market and allocated to the Work Related Activity Group will have their claim limited to one year. The key benefits that make work possible for those on low incomes are also being reappraised. Housing benefit will be capped at a modest level. This will likely impact negatively on those disabled people in high housing cost areas. Any tightening of eligibility for new housing benefit claimants will impact disproportionately on disabled people contemplating entry to lower paid work. The Coalition Government is to introduce a universal credit that aims to incentivise greater access to work and hours build-up. The exact impact of the universal credit

on the 5 million claimants is very hard to gauge in the absence of detailed proposals. The benefit withdrawal rate is all important here with initial details suggesting a benefits withdrawal of 65/100 as opposed to the current 75/100. However as has been noted by IPPR (2010) job creation and support is not receiving the same degree of attention as welfare reform.

#### WORK PROGRAMME

Of note, the Government is planning to scrap the current complex array of work programmes for disabled people - for example New Deal, Work Step, and Work Preparation. It intends to introduce a single Work Programme for all out of work benefit claimants. Although the detail is limited, it appears some disabled people closer to the labour market will be supported via this single gateway of support. For disabled people with more obvious support needs a Work Choice programme is being introduced to provide intensive support. The details provided on intensive support suggest CV writing, brokerage and closer working with employers will form the main support activities. In truth, these forms of support were available under previous schemes, whilst the more hands-on approach to employers seems at odds with the proposed

review of disability discrimination legislation which may be viewed as reducing the power of ADL (Anti-Discrimination Legislation) in the disability field. No figures are available for the savings from an additional entry of large numbers of disabled people into paid work (although benefit savings will be evident where someone enters work, there will be additional costs where extra hours are worked and withdrawal rates are made to benefit the claimant).

The key assertion that benefits are more attractive than paid work because of disincentives in the benefits system is borne out by some evidence (OECD, 2003). However this report also failed to find one key programme or approach across OECD countries that substantially improved disabled people's path to paid work. The Government does however plan to increase tax allowances for low income earners from April 2011 which may benefit some disabled people. Also helpful may be the reforming of Access to Work, a key workplace support fund to allow funding before a job is secured so that a disabled person can enter employment with support in place. The exact role of employer's financial contribution, a current feature of the scheme, is unclear at this point. Local labour market conditions are closely linked to rates of 'out of work' disability benefit recipients; research (Beatty and Fothergill, 2003) points to the absence of job opportunities, benefit traps and also cycles of worklessness all being important. Harsher welfare regimes in the absence of greater employment opportunities may simply lead to movement on to less generous benefits, an important policy consideration where genuine extra costs are no longer met. Evidence from the mainstream jobseekers allowance population of churning, repeat entry and exit to the jobs market suggests that sustained employment for some disabled people leaving ESA may be limited.

### FUNDING COMMITMENTS

For those with the highest levels of social support needs the news that around £2 billion is being made available to support adult social care by 2014/15 is welcomed. The Disabled Facilities Grant, a means tested fund supporting accessible homes, is being increased from £169 million in 2010/11 to £185 million in 2014/15. These

commitments are welcomed by some disability organizations, but the timetable, in taking the commitments to 2014/15, has prompted concerns that actual uplifts in 2011/12 will not be anything approaching this sum. This news comes in the wake of major reviews on the funding in this area - the Wanless Review (2006) and the Sutherland Review (2008). An ageing population, personalization and user led organizations (ULOs) of course are all premised on further budgetary investment. Arguably however, these extra monies, if they materialize, will do little to ameliorate already severely strained budgets for adult social support. Many ULOs and Centres for Integrated/Inclusive Living (CILs) are under threat and many local authorities are now restricting their funding to the top category of eligibility. It seems reasonable to assume that, given wider local authority budget cuts and the reliance for up to half the new monies coming from health budgets, adult social care funding is likely to be extremely limited in the next 2 years. The figure of circa 500,000 fewer jobs in the public sector is unlikely to leave social care funding unscathed. New developments sit alongside withdrawn services - the Independent Living Fund (ILF), a fund providing funding for the most complex needs, will no longer be taking new applicants as the scheme is gradually withdrawn.

The Coalition aims to end the Child Trust Fund for disabled children and will likely redirect funding to direct payments for children and carers to provide greater respite care and hospice provision, with an extra £10 million per annum from 2011. Whilst welcome, these are essentially funded relief to prevent physical deterioration; the funding makes no connection to positive empowering life choices. The loss of Disability Living Allowance (DLA), housing benefit and ESA for some working age disabled people will likely perpetuate the link between having a disabled adult in a household and child poverty where suitable paid work is not available. The Government's statements on education are arguably the most worrying aspect of their proposed reforms. With little evidence to back up their assertions, the Coalition Government has stated: 'We will improve diagnostic assessment for schoolchildren, prevent the unnecessary closure of special schools and remove the bias towards inclusion' (Cabinet Office,

2010: 29). What is meant by removing the bias towards inclusion' is entirely unclear - how inclusion, a key plank of child policy for 13 years, can now be viewed as a bad thing begs major questions on the underlying philosophical changes in some parts of the Coalition.

### JAM TOMORROW

Overall the emergency budget of May 2010 and CSR outcomes in November present some positive developments for disabled people. However the pledge of increased spending by 2014/15 seems to offer 'jam tomorrow' for many disabled adults. The ability to fund these uplifts seems heavily dependent upon reduced benefit payments given the wider fiscal squeeze on spending to 2015. This is a major gamble with the public finances. The ability to encourage more disabled people into paid work whilst respecting their human rights to good treatment and not being forced to take poverty level benefits is a very real one. Critics have tended to view the rhetoric of the ending of the tragic waste of disabled worklessness as simply a smokescreen to save money and redefine the disability category regardless of the altered economic position of those moved out of the more generous disability benefits. The proposed cuts in health and social care risk reversing hard won debates around personalised and enabling packages in the form of direct payments and personal budgets.

A critical longer-term perspective on disability policy might question some of the arguably populist strands of Coalition thinking and provide an alternative policy agenda. Firstly, the evidence firmly points to the need to link work programmes to greater economic opportunities. The discussion of unfilled vacancies for which disabled people might apply ignores the geographical mismatch of opportunity and geographical location of disabled people. The Coalition's suggestion of encouraging greater mobility to match person and opportunity ignores the cost of relocation, something likely to be made worse by the capping of housing benefit in high cost areas. Informal care networks would also likely suffer in forced relocations with an increased necessity to access funded formal care. It is hoped

that the revised Work Programme and Work Choice programme will provide the sustained and tailored support that proved successful in say the intensive Workstep programme for disabled people. However both programmes only plan to support those able to work 16 plus hours, and do not incentivise hours build-up below that figure. The mooted of a more 'realistic' operation of disability discrimination legislation can be read as an attempt to water down its legislative 'burden'. The available evidence suggests a more demanding operation of the legislation is required to support the reciprocal relationship between disabled jobseeker and welcoming employer.

Of all the proposed reforms adult social care may prove to be the most contested policy area. The raised expectations of personalisation, alongside an ageing population demands significant investments into the second decade of the 21<sup>st</sup> century to support user-led innovations. The review of all DLA and ESA claimants will be a very expensive process, and on current evidence, reviews will lead to many successful appeals. For many, DLA makes the difference between significant poverty and managing some additional disability-related costs. The loss of DLA may simply see more people applying for tax and pension credits. The loss of the DLA higher rate mobility component may cause disproportionate hardship where the Motability scheme is being used to fund a car from DLA. Mid-award withdrawal of DLA would threaten the functioning of arguably the most successful disability mobility scheme globally, one which sees 6 per cent of new car sales in the UK funded via DLA and Motability. The economic multipliers of disabled people often tend to get lost in evaluations based on the 'burden' of disability costs. A more effective and affordable approach is to undertake a six yearly review for all higher rate claimants based on independent medical evidence and aligned to DLA awards. The abrupt volte-face on educational inclusion goes against a burgeoning evidence base on the cultural and economic value of mainstreamed education. Evidence-based policy has been the mantra of the last 15 years. The sidelining of the considerable evidence on what works in disability policy may simply store up problems for the future.

## DISABILITY BENEFITS

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### EUGENE GRANT AND CLAUDIA WOOD, DEMOS

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**I**n his speech 'Welfare for the 21<sup>st</sup> Century' last May, Iain Duncan Smith said: 'we have to constantly remind ourselves that we are here to help the poorest and most vulnerable in our society', and achieve the right balance between risk and reward (Duncan Smith, 2010). For disabled people, however, the Government's recent plethora of fiscal and welfare reforms seem set to do neither.

#### DISABILITY LIVING ALLOWANCE (DLA)

DLA is a tax-free, non-means-tested allowance designed to help cover the extra costs of living with a disability. Such costs can be prohibitively high: analysis shows that when these are accounted for, the proportion of households with a disabled member living in poverty doubles (Sen, 2009). DLA allows recipients to meet vital expenses like the cost of personal care and medical equipment. Many have said that without it they would be unable to pay bills or get the healthcare they need (Corden et al., 2010).

However, DLA is soon set to undergo radical change. In his Budget speech, the Chancellor announced the introduction of a new 'medical assessment' for all new and existing claimants and revised eligibility criterion – both aimed at reducing DLA caseload and expenditure by a fifth, supposedly saving over £1 billion (Osborne in Onangua, 2010). (Note: in December 2010, the government announced DLA would be replaced completely with the Personal Independence Payment (PIP)).

There are real issues here with this plan – namely its accompanying estimations, assumptions and narrative. The new medical test for DLA is to be closely modelled on the Work Capability Assessment (WCA), which is so contentious it is under both government and independent review. The WCA is a medical test, currently used to assess eligibility for Employment and Support Allowance (ESA). And yet, analyses show it frequently fails

to accurately measure fitness for work (Citizens Advice, 2010). Consequently, around two thirds of disabled people assessed are found fit for work and moved to the stricter, less supportive Jobseeker's Allowance (JSA) (DWP, 2010c). Reports from Citizens Advice Bureau clients reveal that those found supposedly fit for work include people suffering from cancer who require the use of colostomies and stoma bags. Some people found fit for work, and so ineligible for ESA, are then too ill or unable to sign on to JSA, and so slip through the gap between ESA and JSA eligibility, ending up without any support at all.

ESA is the most appealed benefit in the UK. Some 8,000 cases are brought to tribunal every month; 40 per cent are overturned in the appellant's favour (Daily Mail, 2010). Such tribunals come at great stress to the claimant and significant cost to the taxpayer, and appeals will no doubt increase when DLA reassessments using this test are rolled out nationally. So too will the rate at which such assessments are overturned, which will inevitably reduce any actual savings the Government aimed to make.

Moreover, and perhaps more important, DLA is premised upon the social model of disability – in fact, it is the only benefit that is – which takes into account the personal, practical and social barriers that effectively 'disable' an individual with an impairment. The WCA, however, described as 'a clunky and insensitive medical assessment', takes little account of these additional barriers and costs (Disability Now, 2010; Citizens Advice, 2010), which makes it wholly inappropriate for DLA reassessments. Eligibility for DLA should aim to measure the practical and social difficulties a disabled person faces, and calculate the costs of these barriers accordingly. Establishing a medical diagnosis and measuring the functional impact of impairment via the WCA will only ever present part of an otherwise complex picture.

Then there is the worrying trend of misrepresenting DLA as an out-of-work benefit. In his Budget speech, the Chancellor claimed that reassessing recipients would improve 'incentives to work'. Elsewhere, the *Budget 2010* document explicitly suggests reforming disability benefits will 'reduce dependency and promote work'. However, such depictions are highly misleading; recipients can work and claim simultaneously. DWP research shows DLA enables recipients to meet key expenses like healthcare and transport; parents of child recipients use it to cover costs like physiotherapy, extra tuition, and speech and language therapy (Corden et al., 2010).

### INCAPACITY BENEFIT (IB)

Plans to reassess Incapacity Benefit recipients are expected to save around £1.5 billion and result in some 23 per cent of claimants being moved to JSA (BBC News, 2010a; Work and Pensions Select Committee, 2010). Claimants are to be tested using the WCA – many of its shortcomings have been outlined above. As aforementioned, appeals for ESA are high and will almost certainly increase as reassessments for IB are rolled out. Academics like Paul Gregg – one of the architects of the ESA system – rightly point out that incorrectly assessing individuals as fit for work could end up costing the Government more money rather than saving it (Daily Mail, 2010).

IB was never likely to have been excluded from the Government's welfare reforms, nor should it have been. However, many disabled people passed on to JSA will be at a distinct disadvantage when trying to comply with its conditions. Some will be unable to take up offers of work because these are unsuitable to their needs. Surveys of disabled people in pursuit of work show almost half have had to restrict their choice of jobs because of inaccessible transport; a quarter had to refuse a job offer for the same reason; almost another quarter had to decline a job interview (Gore and Parckar, 2010). Mindful of this, the Government's new JSA sanctions regime is likely to leave many disabled people at risk of having their benefits reduced should they have to decline – for perfectly valid, disability-related reasons – the offer of what may well be inappropriate work.

Finally, for many disabled people who are in employment, disability discrimination is still all too common: over half have experienced discrimination while at work (Gore and Parckar, 2009). However, should an affected individual then be judged to have left their job voluntarily, they may then be subject to further benefit sanctions, leaving them even worse off than before. Ultimately, for disabled people, the suitability of JSA – its conditionality and sanctions regime – remains highly questionable.

### ALTERNATIVES

Disability benefits remain an emotive and highly controversial area of welfare policy; attempts to reconfigure them are almost certain to provoke outcry. The Government's attempt to reform disability benefits is bold but misguided. We do not suggest, nor do we believe, that disabled people should be exempt from such reforms, but the gravity of the unintended consequences that could arise – a rise in social and financial exclusion, an increase in 'low-pay, no-pay' cycles of employment and the further entrenchment of benefits dependency – is indeed serious. In the instance of DLA, we recommend exploring and developing a co-produced, personalised assessment, which properly measures the social and practical barriers a disabled person faces and the costs of overcoming them. In terms of welfare-to-work reform, we advocate reforming the WCA for ESA claimants (and those who will go onto the incapacity component of the forthcoming universal credit) to make it a holistic, personalised test that assesses a range of capabilities and identifies physical, psychological, social and practical barriers to work. Furthermore, we believe there should be established a 'work ready' ESA group for those IB claimants found fit for work, as opposed to moving them onto JSA. This group would claim the same level of benefit as JSA but – in recognition of the practical and social barriers disabled people face when seeking employment – would not be subject to the same conditions and penalty regimes. Rather, they would have access to a personalised support regime which would better enable them to move towards re-enablement and secure and sustain appropriate, meaningful employment.



## ADULT SOCIAL CARE

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**A**t face value, the 2010 Spending Review looks like an unexpected victory for adult social care. In the past there has been concern that adult social care is under-funded relative to other areas of the welfare state. Low status and poorly understood, it has also had to find ways of responding to a series of demographic, social, technological and cultural changes. As a result, there have been previous reviews (Royal Commission on Long-Term Care, 1999; Wanless, 2006), with a more recent national 'Big Care Debate' (HM Government, 2008) a Green Paper (HM Government, 2009) and a White Paper (HM Government, 2010). As a result of all this, adult social care went into the Spending Review with a clear argument. With no further action, costs would double within twenty years, and there was clear evidence to demonstrate the need for additional funding on the one hand and for more fundamental reform on the other. Arising out of this, the Spending Review announced:

- An increase by £1 billion in real terms in the Personal Social Services Grant to local authorities by 2014-15.
- An additional £1 billion by 2014-15 set aside from the NHS to support further health and social care integration and invest in re-ablement services.
- In time, there will be two new grants (to reflect the continued transfer of responsibility for learning disability services from the NHS to local government and to support the transfer of public health to local government).

### DEVIL IN THE DETAIL

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At first glance, it seems that the argument for extra investment has been won – and credit should go to social care leaders within the Department of Health and elsewhere for building such a strong case. However, this is only the part of the story – and the devil is often in the detail. 'To reduce administrative burdens

and increase flexibility for local authorities' (HM Treasury, 2010a: 44), the £1 billion additional grant will come to local authorities as part of the local government formula grant (that is, it will not be ring-fenced). Given that local government budgets will be reduced by 26 per cent, there is a risk that social care receives extra funding on paper, but that this is immediately swallowed up in a massive programme of broader local government cuts. Whether this is appropriate local discretion in an era of localism, or clever political cover when the full implications of the cuts become apparent, probably depends on your point of view. According to one media commentator, one interpretation of the Spending Review is that the Government has simply handed the axe to local government. Of course, this is nothing new as a political tactic, and similar approaches to the local government grant have also been common in the past. Indeed, the local government budget has sometimes been described in terms of the 'tardis effect' – if anyone added up all the cost pressures and spending predictions that ministers said had already been allowed for, the grant would be bigger on the inside than on the outside.

In recognition of some of this, the Government has acknowledged that significant reforms and efficiency savings will be needed. However, whether this will be enough to balance massive reductions in the local government budget, rising need and pressures within the NHS seems unlikely. According to the Local Government Association (2010), one means of managing demand in adult social care is to tighten eligibility criteria, with more councils likely to restrict access to support to people assessed as having 'critical' needs – although this would only be a last resort and there may be other ways of seeking additional efficiencies first. If this came to pass, it would mean an even greater focus on people already in crisis and undermine a series of other policies designed to rebalance the system towards

a more preventative approach. Another possibility is that adult social care benefits from additional funding from a ring-fenced NHS, but loses out more generally as a result of local government cuts - a case of swings and roundabouts.

### ALTERNATIVES

Instead of this, an alternative would be to more fully and directly invest in adult social care (perhaps ring-fencing the money so that it cannot be used to fill holes elsewhere). This might not be palatable with a firm commitment to localism – but failing to ring-fence will almost inevitably mean that money leaks elsewhere and social care suffers. What is also needed is a shift in mindset, so that social care is not seen as a ‘necessary evil’ that we can no longer afford in difficult financial times – but as a form of social and economic investment that improves people’s lives and makes substantial savings elsewhere. In our previous analysis of ‘the case for social care reform’, we identified 3 potential scenarios over the next 20 years (Glasby et al., 2010):

- *Slow uptake*: future policy/practice remains as now. Despite a stated commitment to more radical change, the commitment to reform is often rhetorical rather than reality.
- *Solid progress*: while the stated aims of policy remain similar, there is a much more concerted effort to improve outcomes and deliver savings through more radical change. In practice, the intended benefits are not fully realised to quite the extent that was envisaged and thinking retreats towards previous approaches.
- *Fully engaged*: there is a sustained commitment to genuine change, motivated by a desire to realise in full the benefits for the health and social care system and for wider society. Although some of the evidence base is currently contested or unclear, the outcomes surpass expectations and the mechanisms of reform start to really deliver.

Using our three scenarios, we conclude that doing nothing is not an option. On existing trends, the real costs of adult social care could double within two decades – and

this would be the case for current services (which have already been strongly criticised for failing to fully and appropriately meet need). Under our ‘solid progress’ scenario, the overall costs of the system would continue to rise, albeit rather more slowly than for the ‘slow uptake’ scenario. Given current financial, demographic and social pressures, it is imperative that policy for adult social care aims for the sustained commitment to change that gives the best chance to deliver the ‘fully engaged’ scenario. If this scenario were to be fully achieved (and this requires meeting a very demanding series of assumptions), our analysis suggests that we may see costs of adult social care contained at close to their current level.

In addition to the impact on social care spending, our review argued that social care reform/investment also has the potential to reduce spending in other areas (Glasby et al., 2010):

- It may be possible to save £1 on emergency beds days for every £1 spent on prevention (‘solid progress’) and £1.20 saved for every £1 spent (‘fully engaged’).
- If some of the gains from high performing integrated sites could be achieved more generally, there may be scope to achieve 2.7 million fewer hospital admissions among the over-65s each year (a 22 per cent reduction overall).
- Supporting social care service users to engage in paid employment could generate additional earnings of £400 million each year (of which over £50 million would be paid in tax and National Insurance) plus a reduction in benefits spending of £150 million (‘solid progress’). This would double under a ‘fully engaged’ scenario. Of course, achieving such changes at a time of high job losses in the public sector would be very challenging.
- Greater support for carers could lead to additional earnings of £750 million for working carers (‘solid progress’) or £1500 million (‘fully engaged’), with extra revenue gained through tax and National Insurance.

Overall, the response to the Spending Review from within adult social care probably depends on your point of view: an

optimist might say the glass was half full or the pessimist may say it is half empty. Without ring-fencing, the danger in the

current context is that the Local Authority Chief Executive might conclude that the glass is twice as big as it needs to be.

## VOLUNTARY AND COMMUNITY ORGANISATIONS

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### KARL WILDING, NATIONAL COUNCIL FOR VOLUNTARY ORGANISATIONS

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**S**pending reviews over the last decade have generally been occasions that the voluntary and community sector has met with a degree of certainty and even optimism. A period of sustained economic growth has been accompanied by greater investment in public services. Moreover, a number of concurrent 'cross-cutting' policy reviews into the role of the 'third sector' identified a greater role for voluntary and community organisations in the design and provision of services. Framed by the Compact (an agreement highlighting respective roles and responsibilities) and investment in infrastructure, a more mainstream partnership with the state has meant voluntary and community organisations have often been able to represent the needs and views of users, many of whom are the most marginalised in our society.

Partnership with the state has also built the capacity of the sector to deliver services: an estimated £12.8 billion of statutory income in 2007/08 flowed into the sector, much of which has been contract income for the delivery of services. A gradual shift from grants to contracts, and isomorphic tendencies on the part of statutory bodies, has however meant that smaller, grassroots organisations have fared less well. Whilst this partnership between the state and sector inevitably has been uneven in nature, the balance sheet for service users has been, we believe, generally positive. There are many examples of service redesign and improvement that have improved outcomes for users, such as the role of the RNID (The Royal National Institute for Deaf People) in modernising the NHS audiology service.

### BIG SOCIETY, EMERGENCY BUDGET

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This has not gone unnoticed by the Coalition Government. Voluntary and community organisations, mutuals and social enterprises have been widely lauded by Ministers and afforded a central place in the Big Society, a loose collection of policy ideas that imply a shift in responsibility away from the state towards the individual in a rebalancing of the mixed economy of welfare. The Big Society agenda itself has stimulated intense, wide-ranging debate over the relative roles of the state and voluntary organisations, not least of which is the public spending context within which such ideas must be implemented. The 2010 Comprehensive Spending Review (CSR), which sets the spending framework for the period 2011/12-2014/15, has therefore been viewed as critical to the sector's role in building the Big Society.

Needless to say, CSR was met by many organisations with a different level of expectation and response. A number of organisations were already dealing with the impact of announcements made in the June emergency budget: in particular, a reduction of £1.6 billion in the Area Based Grant had hit hard local authorities, with a number in-turn passing on 'in year' cuts to organisations they funded or contracted with. Our initial analysis suggests that northern local authorities have been hardest hit by the reductions in Area Based Grant and that a greater proportion of voluntary organisations are funded in such areas. Whilst it would be unrealistic to argue that the recipients of government grants or contracts should be immune from cuts in spending levels, the experience of

a number of funded organisations would suggest that some statutory bodies neither understand the organisations they work in 'partnership' with nor care about the impact upon the communities they serve. One Primary Care Trust is reported to have told its grant recipients to return any money relating to the remainder of the financial year. Negotiating the local impact of national decisions is likely to be a recurring outcome of the CSR, particularly in view of another central dimension of the Big Society agenda, localism.

### THE SPENDING REVIEW

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If the announcements of the emergency budget were the hors d'oeuvres, then a main course of spending cuts may yet prove indigestible for many voluntary and community organisations. Although overall government spending is set to rise, primarily due to higher interest payments on debt and social security payments, a 13 per cent reduction in departmental spending limits is likely to hit many parts of the sector, particularly those that deliver services. A number of commentators are currently suggesting that cuts might equate to a reduction of approximately £4.2 billion to the sector's annual income of £12.8 billion. We believe this figure requires substantiation and may be an overestimate.

Nevertheless, our analysis suggests that organisations working with central government departments of Communities and Local Government, Education and the Home Office will be hardest hit. Perhaps typical is the Supporting People programme, which provides housing related support to help vulnerable people to live independently in the community. Supporting People has been cut by 12 per cent and just as importantly the funding – like many other programmes – is no longer ring-fenced (see below). Conversely, increases in The Department for International Development (DfID) budget to meet the international target of 0.7 per cent of GDP spent on overseas development aid is likely to see significantly increased flows through UK-based NGOs, particularly towards the end of the spending review period. It is also worth noting that the voluntary sector and volunteering infrastructure will

see its funding reduced significantly as programmes are ended. In short, changes will create both winners and losers, with seemingly more of the latter.

We remain particularly concerned about the spending settlement likely to be received by local government. Indications are that a 26 per cent, front-loaded reduction in the local authority settlement will be passed on to groups and organisations funded to provide services. Such a reduction is equivalent to removing £1.8 billion from the sector's annual income, but this may turn out to be an underestimate. Moreover, many voluntary organisations are concerned that the removal of ring-fencing from local authorities' central allocation, a nod to the localism strand of Big Society, will lead to substantive variation in levels of service provision and the prioritisation of communities of place over communities of interest. Anecdotal evidence from the National Council for Voluntary Organisation's Compact Advocacy project – and indeed comments from the Minister for Civil Society – suggests that voluntary organisations will fare badly from local authorities' admittedly difficult challenge of reducing spending.

The CSR made a number of sector-specific announcements, the centrepiece of which was a £470 million package of support and capacity building funds. This includes funding for a pilot of the National Citizen Service, 'community first' funding (which replaces grassroots grants), and a £100 million transition fund to assist organisations delivering public services. There is also commitment to establish a 'Big Society Bank', which will provide capital for specialist financial intermediaries providing new forms of social finance. The latter have not escaped criticism, particularly in relation to their scale.

### UNCERTAIN FUTURES

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Does the CSR provide a financial framework for the Big Society? And if so, does it provide a framework for the voluntary organisations, mutuals and community groups that will be expected to implement the ideas of Big Society, not to mention deal with the impact on communities of reductions in public

spending? The speed and scale of funding reductions initially would suggest there are significant challenges for this agenda. Much will depend upon the attitudes and funding practices of local authorities to the voluntary and community sector. A willingness to work in genuine partnership to deal with the tough fiscal climate will be necessary. A shift in public service contracts towards payment by results represents a significant transfer of risk that many will not be able to bear. Increases in VAT and the end of transitional relief in gift aid will increase costs and reduce income. Transitional arrangements will help, though not solve, some of these challenges.

Voluntary and community organisations do not expect special treatment, or exemption from cuts in spending. Many are willing to engage in the Big Society agenda, whether in terms of building the engagement of communities or shifting from a grants-based funding model to a loans-based finance model. Where it is appropriate for their users and beneficiaries, organisations are willing to work with statutory bodies around shared services. Nevertheless, the Spending Review has reinforced the view of many that the good initiatives identified under the Big Society banner will be all the more challenging to implement in a climate of cuts and uncertainty.

## RELIGION AND FAITH COMMUNITIES

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### FRANCIS DAVIS, YOUNG FOUNDATION

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**P**ost-Comprehensive Spending Review (CSR), Eric Pickles will drive a 40 per cent reduction in the cost of staffing of the Department of Communities and Local Government (DCLG). At the time of writing, the Department had started a restructuring process that required those at the top of the organisation to re-apply for their jobs. This re-application approach would then work its way down the organisation, settling to a conclusion by the end of March 2011. While this re-ordering will likely give rise to the sadness of redundancy for many hard-working officials it is, in public at least, combined with a powerful intent for the Conservatives to continue to 'do God' very differently than their predecessors.

From the moment that the diplomat and think tanker Robert Cooper gained access to Tony Blair's inner circle in opposition, New Labour had an intensely ideological approach to what he called 'pre-modern' Islam. On the domestic front this was fulfilled by Ruth Kelly's decision to fund the creation of new 'representative' bodies for 'moderate' Muslims, Hazel Blears' exclusion of the Muslim Council of Great

Britain from 'stakeholder conversations', and the emergence of a civil service 'Head of Theology' charged with 'modernising' and 'contextualising' British Muslim thought. More practically, New Labour's response to Islam had consular support for Muslim pilgrims being funded by anti-extremism budgets, Muslim civil servants seeking more water taps for their prayer room receiving responses from the 'preventing extremism' unit rather than HR, and all religious communities other than Islam being dealt with as 'faiths', while Muslims were categorised as a security problem in a separate *Prevent* programme, whose assessment of civic threat was based on Muslim head count. Despite John Denham's principled efforts to change Labour's approach to Muslim communities, on arriving in Whitehall the new Secretary of State for Communities and Local Government, Eric Pickles, was able to declare *Prevent* 'a disaster'. And subject to the concerns of extreme security hawks in the Government, such as Dame Pauline Neville-Jones, Pickles will wash *Prevent* away.

## LOCALISM

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But for Pickles, removing religious communities from the centralist bureaucratic straight jacket of 'cohesion' and encouraging them to participate in the civic mainstream is also a key feature of his 'localist' agenda. A decentralising state needs less (expensive) national strategies of engagement, such as Labour's Faith Communities Consultative Council, and consequently feels little requirement to invest in 'capacity building' to make it possible for smaller communities to take part in such meetings. Rather, through the Localism Bill's 'rights' to save and buy a civic asset, or its 'right' to run public services, the Coalition would rather see faith communities working together to address unmet social need by unlocking local bureaucratic waste as a new source of civic finance.

Indeed, in the first six months after the election an extraordinary amount of Ministerial time was invested in reaching out to the Christian and Jewish communities in particular. While this gained David Cameron a full endorsement of the Big Society from the Catholic Bishops, and two and a half cheers for it from the Archbishop of Canterbury, it is unclear how long this peace will last as cuts to locally-funded Jewish and Catholic social welfare charities begin to bite. Meanwhile, Mr Pickles and Baroness Warsi have made known their hope that £5 million will be taken from the old *Prevent* funding stream and applied to the Church of England's inter-faith work at the parish level. To the National Secular

Society this looks like religious funding while to some Conservative advisors it arises more from the Church's legal and 'Established' status making it, in this view, the only quango to have survived Francis Maude's cull of non departmental bodies. Meanwhile new 'barrier busting' teams within DCLG will be among those seeking to help local authorities to become 'religiously literate', for example recognising that legally an organisational purpose of 'advancing religion' can also mean an open intent to provide services without discrimination and so need not be a basis for exclusion from contracting processes.

But this will be the real challenge for a department such as DCLG. As more of its functions fade away, or are re-located to the local level, to what extent will it want to keep a specialist advice function going as part of the current service it provides for the whole of Whitehall to draw upon? The lessons of the Labour years would seem to suggest that limited use of social science evidence to understand religious communities, and the ingrained secularism of the civil service combined with intense agendas from those with external access to Number 10 and the most senior of Ministers, can lead to policy distortions which do profound long term harm. On the other side of his massive restructuring plan this will be one for Mr Pickles and his team to watch, not least if they want to 'do God' very differently and ensure that faith communities are part of the 'Big Society' of the future.

## HOUSING BENEFIT

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### ANNE BRUNTON, BUCKINGHAMSHIRE NEW UNIVERSITY

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**F**rom April 2011, Housing Benefit payments will be capped at £400 a week for a family who occupies a house with up to 4 bedrooms and £250 a week for a one bedroom property as part of a drive to 'save' £2 billion a year by 2014-

15. Those under 35 will be expected to share accommodation, and finally those in social housing are likely to see a dramatic increase in rent estimated to be a 'tripling' by the National Housing Federation and dramatic changes to new tenancies. Social

*housing will no longer be a home but merely transitional property. A home will now only be defined as something that is 'owned'.*

The potential implications of these cuts seem relatively clear; an end to social mobility, a deepening of inequality, and the erosion of social diversity. In particular these cuts will affect the very poorest be they employed or unemployed. Those claiming working tax credits will, under current plans, remain exempt from the cap – this represents a very small number of the working poor.

The Government has sought to identify those who claim housing benefit as being synonymous with personal failure. The claiming of housing benefit is being characterised as shameful and those who do are being identified (or objectified) as 'scroungers'. There has been a total lack of any attempt to identify the complex forces that are at play and have led to the current state of affairs. These forces in the main being social (a shift in attitudes to both private and social housing), economic (the belief that a finite housing market can be the engine of an economy) and historical (the diminishing affordable housing sector); very little of this has the element of personal responsibility.

However, the constant blaming of the individual and the call for personal responsibility in the past weeks in fact only negates personal and governmental responsibility. Whilst poverty is seen as a personal failing there will be a recurrent curtailment of a frank debate on housing and housing policy.

### **CURBING BENEFITS**

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Without doubt it clearly rankles to pay money to private housing landlords. The process is fundamental to the current cost of private property and the shortage in affordable housing (to rent or buy). Government benefits help to bolster money hungry landlords and prop up extortionate rents. However, housing benefit cannot be capped without tackling the problem of unfair high rents. If you wish to have an unfettered private rented market along with a residualised social housing sector then you cannot curb benefits.

Curbing benefits in these circumstances will force out those living in the poorest housing in the most expensive areas. The consequences of this will be to make Britain into a nation of posh ghettos and of course areas of extreme and moderate poverty. As such the Coalition parties will be remembered as the government that killed social diversity and put the nail in the coffin of social mobility (what remained of it).

In addition, we know that stratified communities fail to understand one another. This process of enforced migration will exacerbate these problems and those associated with isolated communities: chief amongst them fear and unhappiness. As we know through the work of Hanifan (1916), Elias (1987), Putnam (2000), Wilkinson with Pickett (2009), the World Health Organisation (2008) and numerous other colleagues, deep inequalities manifest themselves in increases in stress related illnesses, higher rates of physical illness, lower rates of achievement and higher rates of crime. This deleterious effect is experienced by the rich and the poor. There is the potential for social disorganisation and a halting of social progress.

This housing policy is a very effective way of objectifying the poor and robbing them of any social worth. Moreover, the failure to enact Harman's law, which would prevent policy changes falling heavier on one class rather than another, shows clear commitment to this course of policy and a lack of any countervailing measures to inhibit this process.

Additional impacts will be felt by those left in posh ghettos - who without the services of the working poor - the cleaners, waiters, waitresses, nannies, care assistants etc. - will have to pay a premium for those services. Those who can afford to may provide housing to 'essential' employees. However, it is unlikely that the 'squeezed middle classes' will be able to adopt such a strategy. Furthermore, the Chartered Institute of Housing suggests that this 'social cleansing' will occur relatively quickly (Oliver, 2010). It is estimated that by 2020 almost all (13 out of 14) areas in London will be unaffordable to welfare recipients.

**ALTERNATIVES**

To pursue a capping of housing benefit it would be necessary to simultaneously introduce a fair (a watch word of the current administration) rent policy – which applied across the private and social housing sector. Currently the Government is seeking to make social housing comparable to the privately rented sector by making it less appealing by placing restrictions on tenancies (maximum length two years) and raising rents. By doing this the Government will be depriving those who live in social housing of the right to a secure housing tenancy.

Moreover there would need to be a radical and ambitious social housing building programme to rival that of post-war Britain. Alternatively, there could be a compulsory purchase of large swathes

of British housing in diverse locations to rent at realistic amounts. This last policy may provide (finally) a housing market that is realistically priced - and would probably save resources in the long term. Indeed the 'Pathfinder' project was going some way to implement these changes in some of Britain's poorest housing – a project that has now been axed under the Comprehensive Spending Review 2010.

For the first time in quite some while, after the banking bail out the British public are now the largest owners of housing in Britain (through mortgaged property). As such it is probable that we have some underutilised power over these larger social processes for the first time in a generation. Clearly, some radical rethinking needs to occur before the current policy successfully cleanses British cities of social diversity.

**WELFARE THAT WORKS?**

**COLIN LINDSAY, UNIVERSITY OF YORK**

**T**he Coalition Government faces a considerable challenge in tackling unemployment and worklessness within a context of global economic uncertainty and fragile recovery from domestic recession. While the details of a number of measures announced under the 2010 Comprehensive Spending Review (CSR) and White Paper 'Universal Credit: welfare that works' remain unclear, some consistent themes are apparent from what we already know.

**NEGLECTING THE DEMAND-SIDE?**

Unemployment has risen rapidly in the UK since the recession of 2008-09. The reasons for this clearly lie on the demand-side of the economy, with depressed demand in national and international markets eventually flowing through to reduced output and job losses. The rapid and severe cuts in public spending announced in the CSR may further undermine

demand, and relying on a consumer-led private sector recovery represents a risky strategy. Ministers reading their morning newspapers are likely to come across regular and dire warnings that they are cutting too far and too fast, issued by Nobel laureate economists ranging from our own Christopher Pissarides to Joseph Stiglitz in the US. Stiglitz (2010), for example, has made a compelling case for continuing stimulus investment, citing evidence that 'austerity converts downturns into recessions, recessions into depressions'. Furthermore, massive cuts to the public sector will inevitably accentuate the spatial labour market inequalities that explain why some depressed regions have both a higher proportion of public employment in the first place and higher rates of worklessness. There is little evidence that policy makers will seek to address such inequalities through well-funded, spatially-targeted economic development strategies – severe reductions in the budget for regional policy



(and the abolition of Regional Development Agencies) suggest that there will be an even greater reliance on one-size-fits-all, supply-side labour market policies in future.

### 'WORK FIRST' WITHOUT JOBS?

Coalition policy documents initially tended to identify two (and only two) 'key problems' with welfare and employment services: that the benefits system is too complex; and that it does not sufficiently incentivise work (DWP, 2010a). The general principle of proposed reforms that will simplify the benefits system and allow more generous 'disregarded' earnings has won broad support and should be welcomed (DWP, 2010b). However, at the time of writing there remains a lack of detail on how a single, universal income-based credit will be administered, and how health and other disadvantages will be evaluated and support allocated accordingly.

In the more immediate term, the CSR introduced measures that will see contributions-based Employment and Support Allowance (ESA) limited to one year for the vast majority of recipients, who fall into the 'work-related activity group' (WRAG) of those assessed as being closer to the labour market. These claimants will then be moved onto income-based benefits, paid at a lower rate. As happens with income-based Jobseeker's Allowance (JSA), those with savings or other sources of income may be excluded from benefits. This represents a substantial increase in the reach of means-testing. Combined with proposed restrictions on Housing Benefit and tax credits, there is a danger that these changes will increase the risk of poverty faced by vulnerable groups.

More generally, the focus of proposed reforms on individuals' behaviour – and on the need for policy 'to generate positive behavioural effects' (DWP, 2010a: 10) – arguably reflects an analysis that places the blame for worklessness solely on individuals' characteristics and choices. The logical conclusion of such an analysis is the need for increased compulsion on claimants. Accordingly, proposed reforms promise to demand more activity of ESA WRAG members by way of 'work preparation', while also suggesting strengthened sanctions for these and other benefit claimants failing

to participate in work-related activity. Indeed, one of the most striking features of the Universal Credit White Paper is the description of an elaborate sanctions regime that proposes, among other things: the suspension of all benefit payments for as long as JSA or ESA claimants refuse various, defined work-related activities; further restrictions involving the withdrawal of benefits for one to twelve weeks from sanctioned claimants *after* they re-engage with work-related activities, presumably as some sort of additional punitive measure; and a three-year benefit suspension for JSA claimants refusing work-related activity on three occasions. These proposed changes represent a committed attempt to increase conditionality and compulsion in the state's relationship with benefit claimants.

Finally, the CSR and Universal Credit White Paper provide relatively little detail about the Coalition's plans for active labour market policies under the proposed 'Work Programme'. What we do know is that virtually all Work Programme services will be contracted-out, with a handful of large providers 'paid by results'. There is a risk that wholesale contracting-out will embed problems of 'creaming and parking' that have marred previous outsourced services (Hudson et al., 2010). Ministers have, to some extent, acknowledged this, and it is hoped that mooted differential funding models, which reward providers more for helping the more disadvantaged, will help to address creaming and parking problems (HoC, 2010).

In short, the reforms attached to the CSR largely fail to break free of the 'Work First' approach that has come to define UK employment policy. It is an approach that assumes that worklessness is a product of individuals' failings; seeks to direct people towards any work, irrespective of the quality of outcomes; and deploys restrictions on access to benefits and sanctions in order to achieve its aims. There is a substantial evidence base demonstrating the limitations of the Work First model.

### CONCLUSIONS

The Coalition Government's policy, as defined in the CSR and other recent proposals, reflects a strong degree of

continuity with the approach adopted by its Labour predecessor. The new government appears to have retained and strengthened a Work First model of active labour market policy, defined by: increasingly punitive approaches to conditionality and compulsion; the tightening of access to working-age benefits; and contracted-out services that prioritise fitting the workless into any job available. The Labour Government of 1997-2010 consistently failed to link active labour market policies to a coherent strategy on solving the demand-side of the employment equation – the relative lack of decent quality job opportunities in depressed regions and localities. This problem has not been solved by the Coalition. And crucially, the CSR's emphasis on deficit reduction over continuing macro-economic stimulus, and specifically cuts to the public sector workforce, risks undermining overall demand, and driving up unemployment in relatively disadvantaged regions. There is a real danger that this will result in the greater waste of human capital that comes with prolonged high levels of long-term unemployment, and even greater risk of poverty and disadvantage among already vulnerable groups and communities.

Effective policy alternatives would need to address these problems. There is a need

for an integrated approach to the supply-side and demand-side of employment policy – high quality training and in-work support for those further from the labour market; and spatially targeted programmes to encourage jobs growth in the regions and communities hardest hit by the recession and its aftermath. Work First labour market programmes seek to drive unemployed people into any job available. Such strategies tend to report substantial deadweight effects, and fail to help those most in need. Given the pressures on public budgets, and limited job opportunities in many local labour markets, Work First is a poor use of resources, and it is important that the Work Programme is not defined by these principles. Finally, moves towards benefits simplification are welcome, but a truly radical reform agenda would acknowledge that the low level at which payments are set constitutes a barrier to work in itself. As I have argued elsewhere, 'we need to move beyond the false dichotomy of debates on balancing rights to "passive" benefits and responsibilities to participate in "active" employability programmes... the reality is that an effective benefits system that lifts people out of poverty while directing them towards support and training is in itself activating and empowering' (Lindsay, 2010: 135).

## COMPULSORY EDUCATION

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SHARON GEWIRTZ AND MEG MAGUIRE, KING'S COLLEGE LONDON

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**C**ompared to other sectors, compulsory education has fared relatively well in the Comprehensive Spending Review (CSR). According to official pronouncements, the schools budget will see a 0.1 per cent real term increase in each year of the review period (amounting to £3.6 billion of additional spending), whilst savings in other areas will enable an overall reduction in education spending of 3 per cent by 2014/15. These savings include a projected 60 per cent real term reduction in capital spending over the

period, the reduction of the Department for Education's administrative budget by a third and the ending of the Education Maintenance Allowance (EMA). £2.5 billion of the additional £3.6 billion going to schools has been earmarked for delivery of a 'pupil premium' (PP) to support the education of disadvantaged pupils. The remaining £1.1 billion of additional funding is designed to cover projected increases in pupil numbers. In addition, head teachers will be expected to 'release' a further £1 billion through procurement and 'back

*office' savings. However, school budgets will no longer be ring-fenced which means dedicated funding for targeted initiatives such as one-to-one tuition, every child matters, extended schools and ethnic minority achievement will end. To reiterate, these figures are based on official pronouncements; the Institute for Fiscal Studies (IFS) calculates that in fact overall school funding per pupil will see a real term decrease of 0.6 per cent a year and that 60 per cent of primary and 87 per cent of secondary school pupils are attending schools where spending will fall in real terms (Daily Telegraph, 2010).*

At this stage any assessment of the impact of these plans must be tentative as so much remains uncertain. For example, the details of the allocation of the PP, and of the anticipated restructuring of special needs provision are yet to be announced, we obviously don't yet know the spending plans of individual head teachers, and we have yet to see how the proposed 26 per cent reduction in local authority (LA) funding will affect the educational support available to schools.

### PROTECTION

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The relative protection that has been afforded the compulsory education sector is clearly to be welcomed. Also to be welcomed are the basic principles underlying these plans – to protect frontline services and the most disadvantaged pupils, cut red tape and give schools and head teachers greater freedom to determine spending priorities and innovate (providing that some thought is given to protecting the balance of provision and access within local areas). However, in the public debate surrounding the review a number of concerns have been aired which need to be taken seriously.

Many of the proposed cuts not directly related to the compulsory school sector will have implications for schools and pupils. For example, library closures will reduce access to books, ICT facilities and places for children to do their homework. Benefits cuts will mean that some children will have to move home and therefore in some cases move schools or travel longer distances to school. Cuts to pre-school provision will mean that many primary schools will be

working with young children who are less well prepared for formal school. Cuts in breakfast clubs and after school activities will negatively impact on the least well off young people and families who most depend on these services, whilst families on higher incomes will be able to compensate 'their schools' for any losses to the budget through fund-raising activities. School sports have been significantly supported through School Sport Partnerships which have been axed as part of the CSR. Cuts to the arts will see fewer children visiting theatres and art galleries and participating in other arts-related activities. Hence the wider curriculum in many schools is likely to be impoverished.

Currently LA schools work together in groups or 'families' of schools. They are supported by local advisors, who know their schools intimately, facilitate the sharing of best practice and support innovation. Cuts to LAs will result in these and other services to schools being threatened, including mental health and language support. Such cuts will make it harder for schools to offer the range of support services to staff, parents and pupils that help to make a difference in disadvantaged settings. Where services are deemed essential, schools will have to look increasingly to private edu-businesses and educational consultancies that are run for profit and not democratically accountable.

### MARKETISATION

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In parallel with the proposed cuts, the Government is advancing the marketisation agenda via the expansion of the academies programme and the introduction of new 'free schools' and 'university technical colleges'. Yet, as much research has demonstrated, school markets advantage those families best placed to engage with choice and diversity in provision and leave children who are socio-economically disadvantaged, particularly those with special needs, more likely to attend underfunded 'sink' schools. Especially in the context of an overall reduction in funding and cuts to welfare provisions, further marketisation is much more likely to widen than narrow the gap in educational attainment between socio-economic groups (Lupton, 2010; Perry and Francis, 2010). The PP can be seen

as an attempt to compensate for this, and any effort to direct funding towards disadvantaged children is a positive development. However, according to the IFS (Chowdry and Sibieta, 2010), although the PP will be 'broadly progressive', under the proposed model the PP for schools in more disadvantaged areas will be smaller than for similarly disadvantaged schools in more affluent areas. Moreover, if the numbers of unemployed adults rise, as they look set to do, the funding for the PP as more pupils become eligible for this support may not be sufficient; and, although the PP may go towards helping schools to compensate children from low-income families, there is no guarantee that the money will be used directly to benefit these pupils, the same constituency that is likely to be disproportionately disadvantaged by cuts elsewhere.

With Michael Gove, we believe that every child should have access to challenging and exciting teaching. However, job losses, pay freezes and erosion to pensions, coupled with the introduction of yet more policy initiatives, may seriously erode teacher morale. Those teachers working to make a difference to the lives of children in settings where many of the things that enrich education provision will be removed as a consequence of wider cuts will find it hard to supplement these losses.

*We are grateful to Alan Cribb, Becky Francis, Jeremy Hodgen and Louise Archer for their helpful comments on an earlier draft of this paper.*

## ALTERNATIVES

There are alternative cuts that could be made which would be less harmful. A halt to the introduction of free schools, university technical colleges, and the imposition of new curriculum content and synthetic phonics teaching would free up more cash for head teachers to invest in frontline services and to support the continuation of LA support services, particularly for vulnerable children. This would be consistent with the Government's aim of freeing teachers from constraint so as to unleash their creative potential. It would also be consistent with the research evidence which shows that local innovations tend to be at least as effective as grand schemes of national change, a fact that has prompted Professor Margaret Brown (2010) to call for a 10 year moratorium on central initiatives. In addition, we would recommend serious consideration be given to ending our costly national testing system which the Coalition Government is proposing to extend, albeit in a revised form. Research shows that assessment designed for large-scale statistical comparison of schools is ill suited to the promotion of learning. This does not rule out the use of testing for accountability purposes, but this could be based on light sampling techniques rather than on the state-mandated universal system currently in place (Gewirtz and Cribb, 2007).

## HIGHER EDUCATION

### CLAIRE CALLENDER, BIRKBECK COLLEGE AND INSTITUTE OF EDUCATION, UNIVERSITY OF LONDON

**T**he 25 per cent reduction by 2014-15 of the Department for Business, Innovation and Skills' (BIS) resource budget will hit higher education (HE) most of all. 65 per cent of these savings will be delivered by reforming the funding of higher and further education (BIS, 2010). *The impact of the Comprehensive Spending*

*Review (CSR) on HE is inextricably linked to the Browne review of HE funding (Independent Review of Higher Education Funding and Student Finance, 2010) and the Coalition Government's response to it. Browne proposes radical reforms affecting the character and purpose of HE.*

Following Browne's recommendations, the Government is withdrawing the funds it gives universities for teaching most of its undergraduate courses but will continue to subsidise science, technology, engineering, and mathematics (STEM) courses at a reduced level. The lost income stream will be replaced by higher tuition fees raised from £3,290 to a maximum of £9,000 from 2012/13. Students will be able to repay their fees on graduation via income-contingent student loans, which will remain heavily subsidised by the Government. In future, therefore, the majority of arts, humanities, and social science courses will receive no direct government funding and will be financed purely by tuition fees.

This means the overall HE resource budget, excluding research funding, will be cut by 40 per cent or £2.9 billion and reduced to £4.2 billion by 2014-15 (BIS, 2010). However, this £4.2 billion will have to cover £150 million committed to a 'National Scholarship Fund', as well as spending on student grants (but not student loans). Consequently, teaching funds to universities will be reduced by about 80 per cent by 2014-15.

Wisely, the Government has maintained and ring-fenced the UK's annual research budget of £4.6 billion a year in cash terms until 2014-15, representing a 9 per cent cut in real terms. However, it is likely that a greater share of research funds will be channelled into STEM subjects, again at the expense of the arts, humanities, and social sciences.

The cuts facing HE form part of more longstanding HE policy agendas associated with its expansion. The first policy thrust has been to shift the costs of HE away from government and taxpayers so that more of them are borne by students and/or their parents. Underpinning this 'cost-sharing' agenda (Johnstone and Marcucci, 2010) are the private returns to HE, and the notion that those who benefit financially from HE should pay for HE. Indeed, all major reforms of student funding introduced since 1990 have sought to restructure the balance of private and public contributions to HE.

## USER CHOICE

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The second agenda has been the quest to create a market or quasi-market in HE. User choice and provider competition were central to the Labour Government's reform of public services, including in HE. The Coalition is attempting to complete this unfinished agenda. Their cost-cutting reforms aim to increase competition between universities through variable tuition fees, and by giving students what is, in effect, an educational voucher in the form of student loans – loans akin to hire purchase agreements. So students enjoy the benefits of HE, free of charge, while studying, but pay for them later. Consequently, the bulk of universities' money will follow the choices of students, including those of part-time students who for the first time will qualify for tuition fee loans, which is a welcome development. Theoretically, consumer demand will determine what is offered by universities. Students will have greater choice as new providers including private universities and Further Education (FE) Colleges enter the market and compete by driving up teaching quality and driving down price through efficiency gains.

It is questionable though if choice and competition alone will drive up quality and drive down price. First, students have always been able to choose where to study, but their choices rarely follow the logic of economic orthodoxy and are unlikely to do so in the future. Secondly, all universities now charge the maximum tuition fee and it will be in their interests to do so in the future. They will need to charge a minimum of £7,000 just to recoup their lost government funding (IFS, 2010). Over time, it is likely that there will be little or no variability in fees. Thirdly, currently universities' income for teaching depends on their success in recruiting students. The mechanisms now used for funding teaching, however, provide both financial stability for the sector and a brake on public expenditure. Both would be at risk in a true HE market. In reality, so long as the Government funds HE – be it through teaching grants to universities or financial support to students – it will have to control student numbers. Universities will not be free to enrol as many students as they wish, and student choice will be constrained.

It remains to be seen if these reforms will reduce either public expenditure or public borrowing. In cash terms, public expenditure will increase in this Parliament and into the next, following the introduction of the new system of student support. In the long term, the reforms probably will cost more than they save (Thompson and Berkhradnia, 2010). Public borrowing will look as if it has fallen because government teaching grants to universities count as public borrowing, but loans to students do not.

### PUBLIC GOOD OR PRIVATE INVESTMENT?

The ideological and political ramifications of the reforms are just as significant as their economic consequences. Implicit in this strategy is a radical revision of the purpose of HE. Up until now, HE has been seen by governments as a public good, articulated through educational and academic judgments, and financed mainly by public funds. HE's mission has increasingly been aligned to the economic health and well being of the nation. Consequently, HE has been considered as an appropriate investment for the state on behalf of its citizens, irrespective of subject discipline. Now large sways of HE are no longer to be perceived as a public good but as a private investment. Humanities, arts, and social sciences, unlike STEM subjects and research, apparently have no public utility. Yet, our political leaders have enjoyed and transferred the benefits of the arts, humanities and social sciences - only one member of the Cabinet studied science as an undergraduate and well over a quarter studied PPE. According to UNESCO, the creative and cultural industries are the UK's fastest growing sector, and the UK is the world's biggest single exporter of 'cultural goods' (British Academy, 2010). Effectively, however, these non-STEM subjects have been privatised, putting their future at risk outside of elite universities.

This is indeed radical change; one heretofore unthought-of, even in the United States. The shift of the public financing of institutions to the public funding of student support, arguably, is

not cost sharing; it is cost transfer and cost cutting on a massive scale. The advocates of cost-sharing always have argued that financial contributions from students should supplement and augment governments' contribution to HE, and never replace government revenue. The way forward is a more equitable distribution of HE costs between the beneficiaries which, like most other countries including the US, acknowledges both the private and public returns of HE.

Significantly, HE will remain free at the point of access and students will get a generous package of financial support. It is impossible, however, to know what impact, if any, higher fees and student loan debt will have on student behaviour, their HE choices, and their perceptions of the affordability of HE. Nor can we assess their effects on HE access and participation, especially for those from low-income backgrounds who are being asked to speculate financially on an imagined but uncertain future.

What unites all in government and the HE sector is the desire for a vibrant, intellectually challenging, and economically stable HE sector. But this new, very different, model of HE is one that could rock its foundations and alter its character. It appears to value only the private economic returns of HE, rather than cherishing universities as centres of teaching, learning, and knowledge creation. Some would argue it is an ideological assault on HE, others that it will deliver a better deal for students, for graduates, and for universities. Undoubtedly, these changes herald a redefinition of HE and the retreat of the state from financial responsibility for it. They boost HE's private-good functions at the expense of the public-good function and reveal a policy mind set where the public and private benefits of HE are a zero-sum game. There will be short-term fiscal savings which are needed but will these be at the expense of the longer term effects on social equity and universities as public, civic, and cultural institutions? Universities will adapt to these changes and survive these cuts but for whom, and for what?

## OVERSEAS AID

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**BOB DEACON, UNIVERSITY OF SHEFFIELD**

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**C**ertainly the Coalition Government in its Comprehensive Spending Review has to be congratulated on sticking to its commitment to increase Official Development Assistance (ODA) levels to 0.7 per cent of Gross National Income (GNI) by 2013 and enshrine it in law. Under the previous Labour Government but now under the Coalition Government the UK is one of very few countries outside the Nordic group of countries who are sticking to pledges on ODA made at the G8 in Gleneagles in 2000. In the UK, in the Department for International Development (DfID) business plan for 2011-2015 published on November 8th 2010, the vision behind this commitment is expressed as a determination 'to help reduce the inequality of opportunity we see around the world today. We believe that promoting global prosperity is both about a moral duty and in our national interest' (DfID, 2010a). It has to be noted however that for 2010-2011, 2011-2012 and 2012-2013 the spending only stays at the same level of GNI as now (0.56 per cent) leaping to 0.7 per cent in 2013-2014. This means a leap from £8.8 billion in 2012-2013 to £11.3 billion in 2013-2014! The Department's Administration budget will however be cut by 33 per cent over the period raising concerns about the ability of the department to deliver the increased aid effectively.

These funds could however be raised in other ways to avoid the concerns of some that money that could have been spent on UK social provision is being spent abroad. The proposed financial transaction tax on currency and other trading, now known as the Robin Hood tax, if levied even at a low rate would generate even greater funds to spend on international development. Moves to introduce such a tax have now reached the agenda of the G20 with even the IMF subscribing to its technical feasibility. It is possible that President Sarkozy will try to push for its introduction when the French chair the next G20 in 2011. The UK Government position at that

point will be important. However while the UK DfID Business plan for 2011-2015 discusses initiatives it will advance in global free trade and climate change mitigation, it is silent on global taxation policy.

### SPENDING INCREASED AID

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A key question becomes: what will the increased aid be spent on? Will it focus on the much needed further development of health, education and social protection services in the developing world? Here there are mixed messages. Certainly there is the much heralded initiative to increase spending on maternal health services and contraceptive provision (DfID, 2010b). Of the six Coalition Priorities number five is 'to lead international action to improve the lives of girls and women' including the empowerment and education of girls because of the perceived key role of women in advancing development.

On the other hand there is the clearly articulated view of International Development Secretary Andrew Mitchell that 'the private sector holds the key to tackling global poverty' (DfID 2010c). A new department within DfID will be created consisting of private sector and economic expertise to work for more private investment in the poorest countries. 'I want', says Mitchell, 'this department to be the place that lives and breaths the new DfID culture of private sector lead development'. The Commonwealth Development Corporation (CDC) will be reformed to make investments in countries (DfID 2010d), and consultation on CDC reform began on November 5<sup>th</sup>. As part of its wealth creation goal (Strategic Priority number 3 in the DfID 2011-2015 business plan), DfID will promote an African Free Trade Area and work with the G20 to agree duty-free access for Least Developed Countries. As desirable as some of these policies may be, it is as if the lessons of the twenty years of the UN Development Programme's Human Development Reports (UH HDR), that trade and private sector

led growth needs to be accompanied by redistributive and public sector investment measures, have been forgotten or perhaps not even read by the new Ministerial team (see UN HDR, 2010).

Also of concern is the shifting of priorities towards international security issues. In line with the Strategic Defence and Security Review, spending to support fragile states and conflict affected states will increase from 22 per cent to 30 per cent of ODA by 2014-2015. However the concern of some that the Foreign and Commonwealth Office or the Ministry of Defence might have been given some of these ODA funds to spend directly has not been realised.

**VALUE FOR MONEY**

In keeping with the Coalition’s spirit of ensuring value for money and cost effectiveness there are a number of DfID plans and activities which might have implications for what and how UK aid is delivered. The Multilateral Aid Review is underway and due to report in early 2011. It is designed to ensure that DfID supports only those multilateral organisations that deliver value for money. Organisations that fail to meet these criteria will have their money stopped. It remains to be seen how

DfID and the Multilateral Organisations Performance Assessment Network (MOPAN) will judge these agencies but a concern is that some UN agencies (whose perceived ineffectiveness is already a result of under-funding) may have their funding reduced in favour of Multilateral banking agencies such as the World Bank.

In a similar vein the UK’s own aid projects are to be evaluated on a value for money basis by a new independent commission. This is to be chaired by the former President of the Institute of Chartered Accountants, Graham Ward (DfID, 2010e). The Commission will review 20 projects a year and report to Parliament and publish its findings on its own web site.

The future of ODA is a mixed bag then. Certainly more money spent overseas with some desirable initiatives but the ideological context of private sector, cost effectiveness and international security within which it is to be spent raises some causes for concern. The job of facilitating international development and providing health, education and social protection services to the world’s poor would be made a whole lot easier if only the world would start taxing global financial activities, currency trading and bank profiteering!

**SCOTLAND, THE CSR AND PUBLIC SECTOR CUTS**

**GERRY MOONEY, THE OPEN UNIVERSITY IN SCOTLAND**

**2**0,000 people marched in Edinburgh on October 23, 2010 protesting against the UK Government’s spending cuts. Drawn from across Scotland, those participating in this Scottish Trades Union Congress organised event listened to Green MSP (Member of the Scottish Parliament) Patrick Harvie announcing that:

‘Just over 30 years ago Margaret Thatcher embarked on an economic experiment that destroyed a large part of the Scottish economy and tore the heart out of many of our communities. We were told then that

there was no other way. Scotland has yet to recover from that experiment and here we are again – another Tory government conducting an ideological experiment that will wreck havoc on the communities of Scotland.’

Scottish National Party (SNP) speakers also spoke of the impact of UK Government spending cuts on ‘Scotland’. Harvie’s comments here could of course be taken to apply to other parts of the UK which will also be badly affected by UK Government policy. Yet it is not difficult to see also here



the suggestion that in some way the UK Government has no remit in Scotland, no popular or political mandate. The 2010 UK general election once again resulted in a sharply polarised political landscape that serves to distinguish Scotland from the rest of the UK. The Tories, holding on to their one Scottish seat, performed very poorly with 16 per cent of the vote. Their UK Coalition partners won 11 seats and 19 per cent of the vote. The SNP gained 6 seats and for them a disappointing 20 per cent of the vote – and the Labour Party won 41 seats and 42 per cent of votes cast.

### SCOTLAND AND 'FAIRNESS'

That this is significant should not be underestimated by those outwith Scotland. It reinforces a view that is widespread across Scotland that, as in the 1980s, the political composition of the UK government does not reflect Scottish preferences, that the Coalition partners were roundly rejected in Scotland in the May 2010 elections, and that workers and communities across Scotland are now being subjected to a wide ranging assault on public services and jobs by a government which, for some, is 'anti-Scottish'! That this is taking place across the UK does little to calm down the latent nationalism, which spreads well beyond the SNP and informs many shades of political opinion and public sentiment in Scotland. It adds a particularly 'Scottish' dimension to the already heated and developing UK-wide debate around 'fairness'!

It is 'Scotland' that is being badly hit; 'Scotland' that is suffering, paying the price for the economic crisis, and so on. *'Scotland has come together in the past against the decisions of a Conservative Government and it is time to work together again'*, said Kenny MacAskill, SNP MSP and Minister in the current Scottish Government at the Edinburgh demonstration highlighted above. Of course such rhetoric ignores completely that the UK Government bailed out the main Scottish clearing banks, keeping them afloat (or that the SNP themselves were in favour of 'light-touch' regulation of financial institutions, not least in Scotland!) – and in the process throws into question the economic case for Scottish independence. That in some way 'we' in Scotland 'are all in this together', fighting the good fight against

an anti-Scottish UK Government is popular political rhetoric and plays well across sizeable sections of Scottish society. The realities are somewhat different. Scotland remains a relatively wealthy country, but with high levels of poverty and an income gap between rich and poor that has grown steadily since devolution was introduced in 1999. Life expectancy in parts of Glasgow is repeatedly shown to be the lowest in Western Europe; low wages, unemployment and insecure employment are the scourge of many areas across the country.

As in other areas of the UK, it is all too evident where the cuts are going to fall and in Scotland, as in London, that doesn't mean fall on the bankers, financial institutions and other institutions of wealth and privilege. Scotland's public sector workforce is in the front line of the impending cuts. There are over 500,000 public sector workers in Scotland (and another 104,000 in reserved public sector departments such as the civil service), just over a quarter of the entire workforce – a higher proportion than in England. In some areas, for instance Dundee and parts of West Central Scotland, the proportion of public sector workers is considerably higher and there are many areas where the local authority, education sector or NHS are the largest single employers.

What makes the Scottish situation more complex is that most of the public services that are targeted for cuts are under the direct control of the Scottish Government. The main social policy making areas are devolved matters. It is the Scottish Government that will have to implement cuts, make the decisions where cuts will fall and which has already imposed a pay freeze for public sector workers. The Scottish budget comes entirely from the UK parliament. Chancellor George Osborne has already announced that the £30 billion Scottish budget will be cut by around £1 billion per year in real terms for 4 years. By 2015 the expectation is that the Scottish budget will be back at the level of 2005 and over 100,000 job losses have been predicted by this time also.

On November 17 2010, Scottish Finance Minister John Swinney presented the Scottish Budget to Parliament. The key

aspect of this was the announcement of cuts of around £1.3 billion for 2011-12 in an overall budget of just over £28 billion. Housing and prisons were the two areas most affected by this, suffering cuts of 195 and 22 per cent respectively but £200 million of cuts were announced for the Scottish Funding Council (which finances further and higher education). In addition a pay freeze for public sector workers, health spending ring-fenced and a freeze on council tax for two years were other headline measures. As might be expected the impact in terms of job losses is somewhat contested – with Scotland’s main public sector unions estimating that over 50,000 jobs might go as a result of these measures. Again reflecting other parts of the UK, it is mainly women workers who will most affected by these cuts, with women accounting for almost 44 per cent of the public sector workforce north of the border.

On November 14 2010 the *Sunday Herald’s* editorial called for a Scottish budget ‘driven by social justice’ and the finance secretary Swinney referred to the measures he announced, especially the desire to minimise job losses and freezing council tax, as ‘part of a social contract’ with Scotland. It is very difficult to interpret this Scottish Budget as an exercise in social justice, however defined.

### FISCAL AUTONOMY

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There are other major issues thrown up by the UK CSR and the Scottish Budget. After ten years of budget increases under devolution, the Scottish Government finds itself in a very different position today. There are growing and developing arguments about how Scotland should be financed in the immediate future. The UK Coalition Government is moving ahead with plans to give the Scottish Parliament more control over fiscal powers. The forthcoming Scotland Bill plans to increase the proportion of revenue raised by the Holyrood Parliament with a corresponding decrease in the level of funding from Westminster, a move rejected by the SNP as working to decrease Scottish Government’s overall income. ‘Fiscal autonomy’ is rapidly becoming a new political fault line in Scotland with the SNP demanding more control over finances and

taxation.

These developments also throw up major questions about the future of some of the those key Scottish social policies around which Scottish devolution has been built including free personal care and the funding of further and higher education. How can Scotland continue to fund free personal care and free tuition for students while at the same time continuing with plans to abolish all prescription charges in 2011? The funding of Scotland’s universities in particular is becoming a major political issue, not least given the plans already announced by the UK Government for the financing of higher education in England. Scottish public attitudes continually show considerable support for public services and opposition to private and for-profit systems of delivery. But as councils feel the squeeze in budgets there have been announcements by several local authorities that they will contract out/privatise key services – leaving service users with poorer quality services and workers with poorer wages and conditions – for those who will still have jobs that is.

Already some key SNP policies have gone by the wayside as the recent economic crisis deepens, for instance in relation to school class sizes and plans to build a new generation of council housing. The SNP Government has championed itself as the protectors of ‘Scottish social democracy’, advocating and to some limited extent implementing the kinds of policies that many would see as classic ‘old Labourist’. At the same time though it has been committed to a neoliberal economic agenda based on promoting economic growth and Scotland as a competitive and lean ‘Celtic Lion’ economy.

### POOR WILL SUFFER MOST

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In addition to the devolved areas, however, there are the reserved areas of public spending – in the main welfare benefits. It is estimated that that the reduction in welfare spending in Scotland by 2014-2015 will amount to around £1.7 billion. It is the poorest sections of Scottish society which will suffer most from the assault on public services, and of course from welfare cuts, those living in some of the most deprived communities to be found

anywhere in the UK. In Glasgow over one-third of households have no member in paid work and with a high proportion of the population dependent on social welfare, Glasgow's council leader has called the impending cuts 'social vandalism'.

That Scotland is 'in this together', both in terms of impacts and resistance, is a myth – but a potent and powerful myth at that, and one that it sure to be given considerable play in the run up to the next Scottish parliament elections due for May 2011. It is expected that the elections will be a straight two way fight between the Labour Party (which has strengthened its position as the most popular party in the past year) and the SNP with the Liberal Democrats expected to fair badly – and the Tories struggling to hold on to the limited vote and number of seats it already has, thanks primarily to the system of proportional representation that elects the parliament. And the main political fault line is, as in 2007, likely to revolve around

independence, the SNP position of course – or 'more' devolution, the preferred position of the three main unionist parties.

The Scottish elections, together with those in Wales and Northern Ireland will provide the first real and substantive opportunity for voters, at least some of them, to show what they think of UK Government policies too. Devolved parliament elections are not isolated from UK wide issues. The SNP terms the cuts 'London Cuts' while the Scottish Labour Party attacks the SNP for implementing 'Tory cuts'! As in other parts of the UK, in the meantime across Scotland anti-cuts groups have been established, trades unions, service user and campaigning groups are mobilising in opposition to UK Government policies. While the banks and financial institutions of Edinburgh and elsewhere, a world far removed from the disadvantaged communities of Scotland, continue to generate wealth for a few. 'All in this together'? Hardly!

## A VIEW FROM NORTHERN IRELAND

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**DEREK BIRRELL AND ANN-MARIE GRAY, UNIVERSITY OF ULSTER**

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**T**he *Comprehensive Spending Review (CSR) budget allocation has resulted in a total budget reduction of £4 billion in real terms across the Spending Review period. As in Scotland and Wales, Northern Ireland's funding comes mainly through the Barnett formula. The recurrent expenditure would reduce by some 8 per cent by 2014-15, less than has been anticipated but still challenging. The outcome for capital expenditure was more severe with reductions of some 37 per cent by 2014-15, similar to capital reductions in Scotland and Wales.*

Although social security is constitutionally a devolved matter, it has been the practice to maintain parity in benefits with Great Britain and the devolved legislation, and the Northern Ireland Act 1998 requires Northern Ireland to maintain a single

system of social security, child support and pensions. The UK Treasury funding of social security lies outside the block expenditure and is categorised as annually managed expenditure. Northern Ireland has also benefited from what might be called Barnett by-pass allocations. This has included special allocations and access to the UK Reserve for the devolution of policing and justice and related matters such as such as EU Peace Monies. The St Andrews Agreement to restore devolution in 2007 had also agreed extra financial assistance, including £18 billion capital funding over ten years.

### EXISTING CUTS AND POSITION

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The Northern Ireland Government departments have already been making cuts following previous efficiency drives. A

June 2010 emergency budget resulted in a reduction of £128 million. Some of the consequences of this can be identified, for example, the number of civil servants between 2005 and 2010 has reduced by 3,258. Treasury statistical analysis shows that health expenditure per head in Northern Ireland fell compared to the rest of the UK. Thus for 2009-10 the figures per head were Northern Ireland £1,891; Scotland £2,066 Wales £1,956 and England £1,896 (HM Treasury, 2010b). The other part of the efficiency drive was reflected in a policy of creating very large or totally centralised quangos. Health and social care trusts are among the largest health related bodies in the UK and the proposed single Education and Skills Authority was described as the largest local education authority in Europe. Economic savings arising from such restructuring were calculated but issues of local responsiveness, value for money, service modernisation, and public participation were rarely considered.

#### PARTY DISAGREEMENT OVER NEW BUDGET

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While the outcome of the CSR in terms of the recurrent budget was better than anticipated it has still proved difficult for the parties in Northern Ireland's mandatory coalition to reach agreement. In December 2010 the Northern Ireland Executive published a draft budget for the period 2011-2015 but this did not contain detailed departmental spending plans (DFP, 2010). There has been a particular impasse between the two main parties - the Democratic Unionist Party (DUP) and Sinn Fein. Sinn Fein's public position has been that 'Tory cuts should be opposed'. A number of departmental ministers, including those for health and education have not drawn up a list of cuts. The DUP First Minister, Mr Peter Robinson, has expressed the view that the cuts are going too far too fast and taking such an amount out of capital spending would be a barrier to economic recovery (Robinson, 2010). The DUP finance minister has taken the view that there is no alternative to accepting the cuts (Wilson, 2010). Impasses in decision-making by the Northern Ireland Executive are not new or unusual. The Executive is not bound by the principle of collective responsibility and there is also a cross-party veto mechanism. Consequently

it has experienced great difficulty in reaching decisions on key social policy topics including the implementation of the anti-poverty strategy, a new community relations strategy, academic selection and transfer to secondary school, a new equality bill, a human rights bill and an early years strategy.

#### NATURE OF THE DEBATE

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The prolonged debate on the response to the cuts has centred around four areas. Firstly, the primary focus of the Programme for Government 2008-2011 is on growing the private economy and supporting new businesses. This approach is reflected in views expressed by the Finance Minister that investment in the economic infrastructure must have priority over investment in the social infrastructure. This focus can be said to misunderstand the nature of devolution where social policy makes up the main powers devolved, represents some 75 per cent of devolved expenditure and makes up the majority of the devolved legislative output. Economic policy, fiscal policy, and income tax are all the responsibility of the UK Government. This includes corporation tax around which there has been a major campaign by business bodies and some economists for NI to have a lower rate to increase competitiveness with the Republic of Ireland. However, such a reduction would lead the Treasury to reduce Northern Ireland's block grant with immediate adverse consequences for expenditure on social services.

Secondly, there has been an agenda aimed at reducing public sector provision whether by outsourcing more services to the private sector, reducing services or advocating more means-testing. This campaign has been directed at some of the provisions introduced by the devolved administration, such as free prescriptions and free travel for the over sixties. Not all politicians are sympathetic with this campaign, but in general Northern Ireland has not introduced major policy innovations such as the free personal care, abolition of tuition fees and more comprehensive early years provision introduced by the Scottish Executive. Thirdly, there is a debate about new sources of income to boost public expenditure. This has focused

on the major devolved source of income, local taxes, i.e. rates in Northern Ireland and the continuation of a partial freeze on domestic and non-domestic rates, plus the possible introduction of specific water charges or taxation. Fourthly, it has been argued that the Northern Ireland allocation should take into account the peace process and the continuing needs of post-conflict reconstruction. Practically this means the prioritisation of expenditure towards maintaining security, addressing higher levels of social need, promoting regeneration, taking account of the high dependency on the public sector, coping with community divisions and encouraging political participation and inclusion – in effect all the ‘glue’ that holds together the peace process and political settlement.

### MEETING NEED IN THE CONTEXT OF THE CSR

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The failure of the Executive to take decisions on key areas of policy and slow progress on others means that the context in which cuts will be implemented is very different in NI. In relation to a number of policy areas including early years, childcare, social care and poverty reduction NI lags behind the rest of the UK. Cuts to the welfare budget and radical changes to entitlement and conditionality have particular implications for the most marginalized individuals, who faced considerable challenges even when the economy was growing. The increasing precariousness of employment only adds to a range of long standing and well evidenced obstacles to labour market participation (Gray and Horgan, 2009). These include low pay, poor quality jobs, low levels of educational qualifications and skills among the unemployed, the lack of structural support such as childcare and public transport and high levels of disability and limiting long term illness. The most recent labour market report (DETI, 2010) shows that NI’s employment rate remains well below the UK average and is the lowest of the twelve UK regions. In the past year the Northern Ireland claimant count increased by nine per cent compared to a fall of ten per cent across the UK. Over 45 per cent of those unemployed have been so for a year or more. Of the 24,000 newly unemployed in Northern Ireland last year over 37 per cent were aged between 18 and 24 and 19 per cent of 16-24 year

olds are not in employment, education or training (NI Assembly, 2009). This set of circumstances means that the Coalition Government’s plans to reduce the cost of social security by a series of measures to get more people into work, reducing entitlement to benefit and reducing benefit levels will have an adverse impact. The problem of lack of jobs and the number of poor quality jobs will be exacerbated by anticipated additional cuts in public sector employment. PriceWaterhouse Coopers (2010) estimate that jobs losses in NI as a result of the Spending Review will be in the region of 35,000 – 6 per cent of total jobs in the region. The SDLP Minister for Social Development has stated that the price of responding to the CSR will be ‘up front benefit cuts’ and has voiced his objection to many of the proposals (UTV 2010).

If the proposals in the DWP White Paper on Social Security (DWP, 2010b) are implemented in Northern Ireland, the failure of the Executive to agree and implement a childcare strategy means that parents will be subject to the harsher conditionality without the structural support in place in the rest of the UK. Childcare is on average scarcer than elsewhere in the UK. The Labour Government’s Extended Schools policy with wrap-around childcare was not rolled out in Northern Ireland and there is no strategy for extended schools. The recent consultative document on a new Early Years Strategy for Northern Ireland does not consider childcare (Department of Education, 2010). The measures in the latest social security changes, such as the reduction in the childcare element of Working Tax Credit from 80 per cent to 70 per cent of costs, will impact heavily on families already struggling to pay for childcare.

The social care system in Northern Ireland is already under considerable pressure. Much of NI’s spending on social care continues to be on institutional care and there has been a failure to develop sufficient capacity in the domiciliary care sector. The personalisation agenda, which has been at the core of social care developments in Britain for a number of years, has not been progressed or invested in and the social care sector faces being further squeezed as the CSR is implemented. There is now evidence that the availability of nursing

homes places is becoming increasingly limited as a result of funding issues (BBC Northern Ireland, 2010).

### WHAT SHOULD HAPPEN

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Decisions need to be made about what the core services are for the devolved administration and which areas are priorities in terms of need. There is evidence of some new debates emerging. For example, tuition fees for higher education have been in line with those in England. However, there appears to be a reluctance to copy the latest policy on tuition fees proposed in England, although some increase is likely. There are major dangers in focusing on costs alone without considering quality of provision, modernisation of services and delivery mechanisms. The Barnett Formula is a further guide to what action should be followed. The Barnett consequential explain the details of planned expenditure increases in England which convert into the Barnett allocations. The reason why NI has more money than expected through the Barnett Formula is the ring-fencing of health, and increased expenditure on education and adult social care in England. Northern Ireland should broadly follow this guideline. Although the devolved administrations have discretion over expenditure, the Barnett Formula has an underlying principle that maintains expenditure roughly proportional between the four countries of the UK. More efficient

delivery and administrative systems could be introduced in NI through applying the principles relating to 'fit for purpose' in devolved governance, with more joined up government at the centre, between devolved departments, the very large quango sector and local government.

Welfare to work requires work. The figures above highlight the reality of the Northern Ireland labour market. The geographical concentration of economic inactivity and long term sickness and disability correlates strongly with areas most affected by the conflict. There is little prospect of measures proposed by DWP in the November White Paper (DWP, 2010d) having a positive impact. The devolved powers allow for divergent policy in NI and there is precedent for this (for example, the payment of childcare expenses to family members for lone parents on statutory employment programmes). The question is whether NI ministers are prepared to take such an approach.

In practice the likely outcome in NI will be a negotiated position between the two main political parties which may identify a few priority areas, for example part of health but not social care, but also largely reflect a 'salami' slicing approach whereby all 12 government departments receive a similar cut. Ultimately, politicians will have to justify departure from the Barnett consequential and the resulting implications of this.

## TOWARDS AN ALTERNATIVE

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### ALL IN THIS TOGETHER? REFLECTIONS ON WEALTH, THE WEALTHY AND FAIRNESS

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**T**he Comprehensive Spending Review (CSR) in October 2010 announced major cuts in public expenditure which look set to hit the poorest hardest. With the exception of students there was little immediate resistance to the announced cuts but a fair degree of fatalism about their 'inevitability'. But there is an alternative. The last thirty years have been extremely good ones for the wealthiest in our society and if we are 'all in it together' then there is definitely much more scope to ask wealthier groups to make more of a contribution. Britain is one of the wealthiest countries in the world but this wealth is very unevenly distributed. The top ten per cent of the population received a greater share of total income than the whole of the bottom half in 2002-3 (Hills, 2004). And the top 10 per cent owned 100 times more in terms of personal wealth than the bottom 10 per cent in 2006-8 (Hills, 2010). There is a particular concentration of income and wealth at the very top with the richest 1 per cent of the population receiving about 13 per cent of all income and about 23 per cent of all wealth (Paxton and Taylor, 2002; Atkinson and Salverda, 2003). Wealthy groups benefitted greatly from tax cuts in the 1980s and it is now time to ask them to contribute a fairer share towards a welfare state which they themselves benefit from, along with others in society.

But the CSR had relatively little to say about wealth and the wealthy. One of the rare exceptions to this was a reference to reducing tax avoidance in the banking sector: The CSR said that:

*The Government will continue to monitor tax receipts from the banking sector. As part of this, the Government expects the*

*banking sector to comply with both the letter and the spirit of the law and not to engage in or promote tax avoidance. (Inland Revenue, 2010: 30)*

This is a very softly-softly approach, particularly when compared with the Government's hard line policies towards those on benefit, where people who do not take up job offers could lose their benefits for up to three years.

#### HARD RHETORIC, SOFT POLICY

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The CSR also confirmed that the Government would not be continuing with Labour's one-off bonus tax but would, instead, introduce a banking levy. Few concrete details were provided but the CSR suggested that the levy would generate around £2.5 billion per year, rather less than the £3.5 billion raised by the bonus tax last year. Bankers' bonuses in Britain in 2009 were £7.3 billion and expected to also be about £7 billion in 2010, significantly lower than the £11 billion paid out at the height of the boom in 2007 (BBC, 2010b) but still a considerable sum of money going to a relative handful of people at a time of major welfare cuts. Nick Clegg, leader of the Liberal Democrats and Deputy Prime Minister said, at the Liberal Democrat conference in September 2010, that the Government would introduce a super-tax if bankers failed to show restraint on bonuses (Guardian, 2010b).

But, as with tax avoidance, the rhetoric may be hard but the policy content is soft.

While the CSR said relatively little about wealth and the wealthy, the emergency budget in June 2010 was a perfect

opportunity to ensure that different groups paid their fair share of taxes to maintain services. Once again, there was some strong rhetoric employed here. Even George Osborne, the Chancellor of the Exchequer, pointed out that: 'Some of the richest people in this country have been able to pay less tax than the people who clean for them' (Belfast Telegraph, 2010). He claimed that they had managed this partly through turning some of their income into capital and paying less tax as a result. His solution to this was to increase Capital Gains Tax, currently 18 per cent to 28 per cent for higher earners. Low and middle-income savers would continue to pay 18 per cent. But this is a very small change: Capital Gains Tax could have been increased to the same rate as income tax for all. By having a lower rate, the Government is still effectively giving tax breaks to the wealthy who can transfer income into capital. George Osborne did admit that the Government had considered introducing further tapers or indexation allowances to Capital Gains Tax instead of the flat rates, but had concluded that the complexity and administration involved would have been 'self-defeating'. Such excuses rarely deter governments from making changes to the benefit system.

The Government also backed away from a confrontation with wealthy non-doms who avoid paying tax on their overseas income. (Non-doms are people who have "non-domiciled" status. They are often from abroad or spend time abroad but live and work in the UK. They pay tax on UK earnings but not on any money generated abroad, provided they do not spend it in the UK.) There had been some expectation that the Government would introduce measures to clamp down on this group but, instead, the Government is merely to launch a review of the taxation of non-domiciled individuals. It is also considering a controversial general anti-avoidance rule (GAAR), abandoned by Labour in 1999 as unworkable (Guardian, 2010a). So, once again, firm, concrete action is lacking.

Just prior to the CSR, the Government announced some changes to Alistair Darling's previous proposals on non-state pension tax relief. This form of tax relief is a 'hidden' form of welfare which goes largely to those on higher incomes (Sinfield, 2007)

and costs the public purse about £20 billion in 2009/10 (HMRC, 2010). This is a considerable sum which would have been enough in 2007/8 to cover the entire cost of Pension Credit, winter fuel payments and free TV licences for the over 75s, still leaving enough left over to cover most of the cost of Income Support for working age adults. The Government's proposals on non-state pension tax relief are fairly modest, restricting the annual amount of tax-free income from £255,000 to £50,000 that savers can put into pensions (BBC, 2010c). The Treasury expects that this will largely affect those on income over £100,000 and hopes that the changes will eventually save it more than £4 billion a year. But it could have gone much further and either abolished non-state pension tax relief altogether or reduced it to the standard rate for all workers.

#### ALTERNATIVE POLICIES

At a time of major cuts to basic benefits and services, the Government could do much more in relation to Capital Gains Tax, tax avoidance, taxation of non-doms and non-state pension tax relief. And it could also consider a range of alternative policies. For example, the Nobel award-winning economist Sir James Mirrlees (Mirrlees et al., 2010) recently reviewed the tax system and proposed the following reforms to wealth taxes:

- Replacing council tax and stamp duty with a more progressive tax proportional to the current value of domestic property.
- Replacing inheritance tax with a more progressive and comprehensive lifetime wealth transfer tax

These are radical proposals coming from a highly eminent economist and should be taken seriously by the Government.

Alongside changes to the tax system, the Government should also find ways of curbing excessive pay at the top. David Cameron set up the Hutton Review of Fair Pay in the Public Sector (HM Treasury, 2010c) to consider whether there should be a ratio of 20:1 for pay in the public sector, though the pay gap is even greater in the private sector and should also be considered there. The ratio of 20:1 is actually much greater than the general



public consider appropriate. In various waves of the British Social Attitudes Surveys, the public consistently support a ratio of 6:1 (Heath, 2010 forthcoming).

The wealthy have benefitted greatly from tax cuts and other economic changes since the 1980s. It is time for them to make a fairer contribution to the public purse. The

Government is currently taking a very 'softly-softly' approach towards this group while at the same time taking a hard line against people on benefits. We need policies that will produce a fairer system from the start, in terms of wages policy, and then a tax policy which ensures that those who can afford to do so, contribute more.

## FROM THE POLITICS AND POLICY OF THE CUTS TO AN OUTLINE OF AN OPPOSITIONAL STRATEGY

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**T**here have been reductions in public expenditure previously, for example under the Labour Governments of the 1970s and Conservative ones of the 1980s, which were also accompanied by colourful anti-state rhetoric. However, they pale in comparison with the present Con-Dem Coalition Government's proposals contained in the Comprehensive Spending Review (CSR). These cuts, if achieved, presage the largest sustained and deepest retrenchment in public spending since the 1920s. Their scale and potential negative impact demands a concerted response from the social policy community, one which extends beyond scientific analysis to open campaigning. This will not be to everyone's taste, after all social policy is a very broad, hybrid, multidisciplinary mix but, at the very least, there should be an informed national debate about our response to the present unprecedented attacks on the welfare state. Here we set out some ideas about the key points on which this debate might be focused and outline a possible oppositional strategy for social policy.

### THE DEFICIT

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The essential starting point for an alternative policy to the cuts must be the public sector deficit and, in particular, the astonishing political transformation of a global private

financial sector crisis into a national public spending one. The discourses involved in achieving this amazing act of blame shifting are almost identical to those employed by the first Thatcher Government in the early 1980s and reflect perennial neo-liberal formulations. Back then, when facing a budget deficit, it was asserted, first, that 'there is no alternative' to public expenditure cuts because 'public expenditure is at the heart of Britain's economic difficulties' (HM Treasury, 1979:1). The current version has hardly been updated: deep and immediate cuts in public expenditure are unavoidable.

The attack on public expenditure by the Thatcher Government was justified on the spurious economic grounds that investment in the public sector 'crowds out' investment in the private sector. This thesis gained currency in the mid-1970s (Bacon and Eltis, 1976) but was exposed as being merely a revamped version of the familiar public burden of welfare idea which had no scientific basis (Walker, Ormerod and Whitty, 1977; Walker, 1982). Nonetheless it was seized upon by the Thatcher Government because it appeared to provide academic legitimacy for ideological conviction and it became an often quoted part of the conventional wisdom in favour of spending cuts. The then Chancellor of the Exchequer, Geoffrey Howe's first budget speech contains remarkable parallels with

the current Coalition Government's deficit discourse. For example, the third of his four key principles was 'the reduction in the borrowing requirement of the public sector ('the deficit' as we know it today) which leaves room for the rest of the economy to prosper' (Hansard, vol 968, 12 June 1979: 240). Today we are told, with equal certainty, that cuts in the public sector will be compensated for by growth in the private sector, although the passage of time seems to have removed the need for any scientific evidence to support this claim. Another striking parallel is that the Conservative Government's cuts discourse 30 years ago was accompanied by an appeal to 'Victorian values' such as self-help and community support. Fast forward and now we have the 'Big Society' which, while it acknowledges that there is such a thing as society, appears to have the same anti-state underpinnings.

In response to the Coalition Government's ideological assertions it is important to endeavour to recast the politics of the deficit in a more enlightened direction. This is because, on the one hand, the public sector is a crucial source of welfare and social justice. Of course it is much more than that, including a source of injustice, but this is not a simplistic defensive strategy that we are proposing. On the other hand the social costs of the deficit reduction strategy will not be shared evenly but are set to fall hardest on those most reliant on social security and public services (Brown and Levell, 2010b).

There are three potentially fruitful avenues down which we may seek a recasting of the politics of the deficit. First of all, as in the early 1980s, it is important to closely scrutinize the evidence assembled for the scale and speed of the actions being taken to reduce the deficit. This will demonstrate that the main engine is an ideological necessity rather than an economic one. For example, we might question the apparently widely accepted but erroneous official assessment about the extent and significance of the deficit. Quite simply the public debt threat has been blown out of proportion: it is large but not in historical terms (250 per cent of GDP after the Second World War, never below 100 per cent from 1920 to 1960, and 70 per cent now). Nor is it excessive in comparative

terms: gross government debt averages 115 per cent in the G7 countries, including 80 per cent in France and Germany, 90 per cent in the US and 230 per cent in Japan (Cottonelli and Schaechter, 2010). The Office of Budget Responsibility (2010) notes that the measures proposed in the Labour Government's March 2010 Budget would have halved the deficit in 4 years. In response to the assertion that there is no alternative, there are in fact many; such as a 50 per cent tax rate on incomes over £100,000 (which would raise £4.7 billion per annum), closing tax loopholes (£25 billion), a tax on vacant housing (£5 billion) and a Tobin (Robin Hood) Tax (£20 billion) (Dolphin, 2010).

Secondly, a sustained focus must be on the social consequences of the Government's deficit reduction strategy and, in particular, their distributional impact on poverty and inequality. This is the route by which the assertion of 'fairness' can be cross-examined. The first detailed assessment of the Coalition's policies by the Institute for Fiscal Studies (IFS), following the emergency budget in June 2010, revealed the regressive outcome: the poorest 10 per cent of households will lose 5 per cent of their income as a result of the proposed changes between 2010 and 2014, while the top 10 per cent will lose less than 1 per cent (Brown and Levell, 2010b). The IFS reached the same negative conclusion on the CSR: by 2012/13 the impact on the net incomes of the poorest decile in the income distribution will be ten times greater than on the richest one and, overall by 2014/5, the impact on the former will be three times greater than on the latter (O'Dea, 2010). Treasury analysis of the CSR suggests progressivity, but omitted reforms likely to fall most heavily on the poor, such as those to Housing Benefit, Employment Support Allowance, Disability Living Allowance and Council Tax Benefit. In contrast to the heaviest burden of the deficit reduction strategy being imposed on the poorest people, the total pay awarded to the top executives in the FTSE 100 companies rose by 55 per cent in the year to June 2010, a period in which the FTSE 100 gained less than 20 points (IDS, 2010). In the last decade these companies lost 19 per cent of their value but their chief executives' pay increased by 160 per cent on average. The financial crisis originated

in the banking sector and it should be subjected to particularly close scrutiny. So far the heady pre-election rhetoric about squeezing bankers' bonuses has not resulted in any significant action. In fact, in the repeat of history as tragedy, it appears that it is the same groups of people who lose the most: poor working families with children and those dependent on social security benefits. In other words it is those same families who are losing Educational Maintenance Allowance, Housing and Council Tax Benefit, Working Tax Credit, Childcare Tax Credits and others. The slight increase in Child Tax Credit of less than £3 per week is but a fraction of these multiple losses.

The third focus of attention should be the deficit discourse itself. As in previous eras of strong neo-liberal political ascendancy, the present discourse is designed to perform the important political functions of both legitimisation and diversion from fundamental questions of causation and just desserts in financing the deficit. Thus, when attention is focused on the deficit as the main problem, there is less opportunity to question the role of the financial institutions in causing the global debt crisis and the need for radical reform of the international finance system. For example, the influence of the credit rating agencies, given the role by politicians of arbiters of Britain's economic strategy, must be questioned. Rather than subjecting the banks' sub-prime mortgages to close scrutiny, or due diligence, in the lead up to the financial collapse, they awarded them their highest rating – triple A. A pertinent question is why these private sector organizations, which are deeply implicated in the debt crisis, are suitable to assess this or any other country's credit worthiness. Similar questions should be directed at the deficit rhetoric. For example, the assertion that public investment will be replaced by private investment (crowding back in) does not bear scrutiny. The National Institute of Economic and Social Research (NIESR) (Barrell, 2010) concludes that government spending cuts will reduce potential growth every year from 2011 to 2015. The real driving force is a reprise of the Thatcher dogma that the public sector is too large. As the Treasury minister put it when winding up the debate on the 2010 Finance Bill, 'we cannot afford a public sector of the size to

which it has grown'. For the record, public expenditure is currently 45 per cent of GDP compared with 44 per cent in Germany, 53 per cent in France, 52 per cent in Sweden and an OECD average of 40 per cent.

### ELEMENTS OF AN OPPOSITIONAL STRATEGY

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What contribution should the social policy community be making to the case against the scale, speed and distribution of the present deficit reduction policies? Because of our discipline's close proximity to the welfare state and to the distributional consequences of social policy it is natural that it will want to play a leading role. What form might it take? In terms of content there are three critical elements.

- As outlined above, it is essential to conduct a sustained case against the present socially unjust deficit reduction strategy based on both its false claims and its negative impact on poverty and inequality. While necessary, and bread and butter to social policy analysts, this defensive stance must be combined with the framing of progressive alternatives
- A useful starting point is the universal subordination of social policy to economic policy and critiques of its particularly sharp national and global variants under neo-liberalism. This could form the basis for a more radical approach to social policy which removes it from its subordinate role (the poor person's economic policy) to a more central position. There have been various attempts to achieve this, one of the most promising of which is the social quality initiative which subsumes the economic within the social and sets practical yardsticks by which to measure the progress of society and, therefore, the effects of both economic and social policy (Beck, et al., 2001). In similar vein it is important to keep alive the alternative discourse on the purposes of growth, which had just got under way in the wake of the global debt crisis and was swamped by the deficit reduction rhetoric (Stiglitz, Sen and Fitoussi, 2009).
- The third critical element is advancing the case for social justice. The link between the Prime Minister's 'happiness' agenda and the correlation

between equality and well-being (Wilkinson and Pickett, 2009) is an obvious way into this argument. The paucity of the political debate following the Coalition Government's breach of the universal foundations of Child Benefit is a signal of our collective failure to inform the public about this central principle of the welfare state, although the politicians must bear the main responsibility. It is obvious that the case for universalism has to be re-stated for new generations. Similarly with the need for a fair and progressive tax system. These are the twin essentials for social justice both nationally and globally.

The social policy community is the best placed of all academic disciplines to advance these defensive and progressive arguments. But it is also part of the social

sciences and, therefore, will need to make common cause in this together with other cognate disciplines. This will be required also to argue against the present threat to the social sciences and arts and humanities posed by changes to tuition fees.

A broad, concerted effort is what is required to influence the public debate on the future of the welfare state. Publications such as this are necessary certainly, as well as national debates, blogs and so on. But also necessary are small scale teach-ins and debates in universities, colleges, schools and town halls, on topics such as the importance of universalism, the unequal impact of the CSR and alternative approaches to deficit reduction. If there was ever a time for the social policy community to lead a national campaign in defence of welfare and for social justice, that time is now.

*Based on our conclusion to 'Fighting Poverty, Inequality and Social Injustice'  
(edited with Adrian Sinfield), Policy Press, 2011*

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