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Budget will hit the poor hardest, say economists

Paul Waugh, Joe Murphy and Nicholas Cecil
24.06.10

The Budget may hit the poor harder than the rich, tax experts warned today.

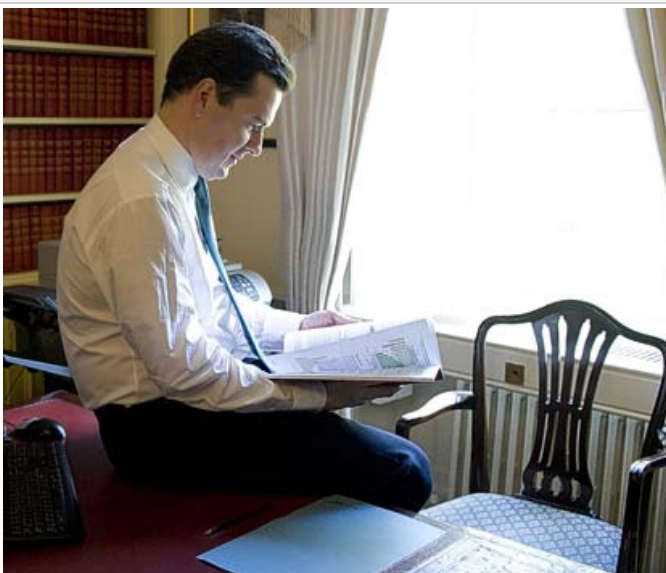
The respected [Institute for Fiscal Studies](#) also warned that Britain is facing "the longest, deepest and most sustained" period of public services spending cuts since the Second World War.

Significantly, it casts serious doubt on attempts by [Chancellor George Osborne](#) and [Deputy Prime Minister Nick Clegg](#) to portray their economic plan as "progressive".

The independent economists accused the coalition of using a specific time scale — 2012/13 — and plans already in the pipeline from [Labour](#) to justify its claims.

[Robert Chote](#), director of the IFS, said: "The Budget looks less progressive, indeed somewhat regressive, when you take out the effect of measures that were inherited from the previous government — when you look further into the future than 2012/13 and when you include some other measures which the Treasury has chosen not to model.

"Perhaps the most important omission in any distributional analysis of this sort is the impact of the looming cuts to public services which are likely to hit poorer households significantly harder than richer households."



Warning: Chancellor George Osborne in his office. He has invited voters and civil servants to submit their own ideas for savings

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Paul Waugh, Deputy Political Editor, on Twitter

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The IFS said that the Government's £113 billion deficit reduction package would mean that the cut in central government public services spending as a share of national income would more than reverse the entire increase seen under Labour.

Mr Chote said: "We are looking at the longest, deepest and most sustained period of cuts in public services spending at least since the Second World War."

The conclusions by the IFS will almost certainly harden Liberal Democrat opposition to the Budget with a number of MPs and peers already voicing deep concerns.

But Mr Osborne was congratulated by the economic think tank for the transparency of the Budget, which contrasts with criticism of former [Prime Minister Gordon Brown](#) for hiding unpopular measures in the small print of the Red Book.

Most government departments face painful cuts of 25 per cent. But the IFS said that if the health and overseas aid budget were not protected this figure could be reduced to 14 per cent.

It also challenged Mr Osborne's claim the VAT rise was "unavoidable", highlighting that some taxes had been cut, including raising the threshold at which people start paying the basic rate of income tax — a Lib-Dem plan.

The think tank welcomed the cut in the headline corporation tax rate but said the changes to capital gains tax were a missed opportunity to "move to a more coherent treatment of saving in the tax system".

The IFS also warned that if cuts of 10 per cent rather than 35 were made in schools and defence budgets then other departments including transport, home office and the housing budget could have to be slashed 33 per cent.

Mr Osborne said today that if the welfare budget could be reduced beyond the £11 billion outlined yesterday, the pressure on departments could be eased and the cuts reduced.

How big-spending departments could be made to save

Defence

Budget: £36 billion

Massive defence cuts are a certainty, hitting troop numbers, ships and new aircraft. An order for 200 new Joint Strike Fighters could be cut in half, despite billions spent developing them. A full Strategic Defence Review is certain to recommend deep cuts to the £10 billion capital budget, despite the Chancellor saying that he recognises the "particular pressures" on the military. A report last year said the Army could be cut by a fifth. That looks unthinkable while soldiers are fighting in [Afghanistan](#) but if a timetable to quit the war was established, the cuts could be unrestrained. The coalition has agreed to keep the Trident nuclear defences but savings could be achieved.

Foreign Office

Budget: £2 billion

The high life enjoyed by British diplomats abroad faces the axe. The Foreign Office already has a £55 million efficiency programme which includes spending less on consultants, closer working with other departments, increasing the sell-off of embassy space and cutting low-priority programmes. But [Foreign Secretary William Hague](#) may have to make cuts 10 times as big. Slashing the Foreign Office wine cellar would be a symbolic move. However, achieving the necessary savings could mean closing or dramatically scaling back embassies and selling residences. Hundreds of posts could be cut and funds taken from initiatives such as counter-terrorism work.

Health

Budget: £101 billion

NHS spending is to rise every year under the coalition agreement. But while the budget will not be cut by 25 per cent, [Health Secretary Andrew Lansley](#) has moved swiftly to impose deep efficiency savings of at least £20 billion over three years to channel funds into frontline services. Administration in the health service is being cut by a third, and Mr Lansley is demanding that management costs in primary care trusts and strategic health authorities be slashed by nearly half. Thousands of jobs could go. The drugs bill is also being targeted and hospitals will be forced to be more efficient.

Education

Budget: £68.7 billion

Gordon Brown's plan to rebuild or renovate every secondary school in England is expected to be the main casualty. [Education Secretary Michael Gove](#) believes it is not necessary to spend a fortune on new buildings to teach children well. He could save £55 billion by scrapping the scheme, which has been hit by delays and rising costs. The £235 million allocated by Labour for new community play areas could also be trimmed. Ministers have promised not to cut front-line teachers' jobs but school support staff could be vulnerable. More jobs are certain to

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go at the Department for Education, less will be spent on consultants and advertising, and school quangos are likely to face cuts.

Business, Innovation and Skills

Budget: £19.2 billion

Cuts to university funding and schemes that support industry are likely. The future of Labour's network of regional development agencies looks bleak.

Student fees could double to £7,000 a year, but the [Liberal Democrats](#) would be unhappy and universities claim student numbers would tumble by half.

The department has already been ordered to shave £836 million from its budget by axing a string of projects, but that hardly scratches the surface of the 25 per cent cuts demanded by George Osborne. Universities were told last month they must save £200 million this year, on top of past savings totalling about £1 billion.

Home Affairs

Budget: £20?billion

Fewer police, court closures, cuts to legal aid and a potential reduction in the number of people being sent to prison are among the ways in which the Home Office and Ministry of Justice will seek to slash their budgets, which together add up to nearly £20 billion.

Some police stations will close and civil servants' jobs in Whitehall will be cut. Funding reductions for counter-terrorism projects are also likely and quangos such as the [National Policing Improvement Agency](#) could be trimmed or scrapped. The Government's pledge to curb immigration will make it harder to implement cuts at the [UK Border Agency](#) and the Identity and Passport Service.

Work & Pensions

Budget: £180?billion

The biggest spending government department is a prime target for the biggest cuts. One radical way to save cash over the long term would be to raise the pension age not just to 66 but to 67. More immediately, big cuts in Jobseekers' Allowance rates and payment periods could force more people to actively look for work. Incapacity benefit rates could be cut or frozen. Restricting council tax benefit to the elderly or cutting its rate could also yield billions. Tighter means-testing would save large sums. At present, 25 per cent of Incapacity Benefit (£1.5 billion) and 40 per cent of Disability Living Allowance (£4.2?billion) goes to those on above average incomes.

Local Government

Budget: £35?billion

Critics suspect that the Government will try to palm off the political pain of the cuts on to local councils. Already, many town halls are cutting staff but the redundancies are likely to increase to unprecedented levels, particularly as the Government wants to freeze council tax. Local government is likely to come under pressure to outsource services or hand them to voluntary groups. Leisure services, residential care and public libraries are thought to be in the firing line. Charges could be introduced for other services such as recycling and home help. Staff pensions and benefits face a squeeze. A radical shift to local pay bargaining could save large sums.



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This budget shows that Osbourne, Cameron and Clegg et al are economically illiterate. With this budget, the public sector will shrink forcing unemployment up in both sectors, people will not spend as they will not have the money, the private sector will not invest as they won't see the point and exports will be difficult as Europe and America are similarly effected. Result guaranteed double dip recession. This will pave the way for the Conservative to privatise the health service, schools and everything else. We know the results. Look at how shambolic the public utilities are as well as the trains. Is that what you really want. As for the Lib Dem leadership, shame on you. Nick Clegg, you are a charlatan and Vince Cable, you are a poodle. I thought you were better than

this!

- **Bleeding Heart Liberal, London, 23/06/2010 19:14**

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What about cancelling the pay rise that MPs gave themselves in the last parliament. Most people in the public sector have already experienced a pay freeze but not MPs. To raise VAT, freeze public sector pay for 3 years means that public sector workers, most of whom are not well paid, will, along with pensioners and the disabled, be hit the hardest, whilst MPs and bankers carry on living comfortably.

The inequity of this budget is staggering.

- **bob, stratford, London, 23/06/2010 17:16**

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@ john worker, islington UK

The Lords should be abolished. The idea that a group of unelected OAPs can have a bearing on the course of this country is unjustifiable in the 21st Century. They all vote with their allegiances to the their parties in the Commons.

Democracy in this country has been eroded by the sell out to the EU. We can regain some by putting them out to grass. Especially the likes of Prescott.

- **Frank, Home Counties, England., 23/06/2010 15:02**

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"We are all in this together" and that means everybody. If certain vulnerable groups are affected by these Budget cuts, then the Tory-Lib-Dem coalition surely will be flexible enough to monitor the situation over the next few years, and put corrections into any policy making.

Nothing is 'Set in Tablets of Stone', and governments have changed policies in the past when anomalies are shown up. the Labour governerment under Brown had to do this with the "Ten pence Tax" fiasco.

- **Mad King George the Fourth, East Anglia area England UK, 23/06/2010 14:53**

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Might I suggest to Mr Osborn he look seriously at privatising the Fire Service, the cost of which could be paid from private insurance cover,.

- James Herrington Blythe, Swiss Cottage,

They used to do that in the beginning of fire fighting, James; but if you had no insurance, they let your house burn down; not that it bothered those that were insured etc, until the fire from the uninsured house set fire the insured house; then they saw the stupidity of relying on insurance alone etc.

If we ever had a great fire of London again, would the private fire service only put out those insured houses and property; leaving the uninsured ones blazing away; only to reignite the house and property fires they had already extinguished, creating a never ending roundabout of going backwards and forwards till nothing was left at all?

And when that was all over; would you actually get any insurance, from your Insurance cover?

You might have faith in insurance companies, James; but up north where they suffered floods for a couple of years; they have very little faith left in Private Insurance Companies etc.

- **mickinlondon, london, 23/06/2010 14:28**

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James Herrington Blythe (rather a good tory sounding name) suggestion that the Fire Service College in Gloucestershire should be closed as it is nothing but a club for the boys. Interesting to note that he makes no reference to the girls in the fire service and that these are the same people who risk their lives and actually rescue people.

He certainly in my view will and should support that there are 2 drinking clubs in London which should be closed down.

They are ofcourse the House of Commons and the House of Lords. The majority of whose members apparently are quite prepared to inflict pain and stress on the poor.

- worker, Islington London., 23/06/2010 14:17

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Interesting to note Mr James Herrington Blythe (there a good Tory name for you) about the Fire Service College as being nothing but a drinking club for the boys.

What does he think the House of Commons and the House of Lords are for the majority of their members?

- john worker, islington Uk, 23/06/2010 14:08

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As Head of Public Sector for 1E, I'm personally determined to do what I can towards helping the UK public sector achieve the 25% operational costs savings that it will now be forced to make. The whole ethos of the software solutions that 1E designs, develops and sells is to enable our customers to realise efficiencies through IT, with our flagship solution (NightWatchman) empowering organisations to safely negate the wasted energy consumption of PCs that are being left on unnecessarily (i.e. overnight and at the weekend). The solution doesn't impact the computer users or affect critical 24 hour operational device (such as computers in an A&E). We are the sole-awardee of the pan-government IT Power Management Framework, which (in short) means that public sector organisations qualify for significant discounts.

This will not fix all of the public sector's current financial problems; but we found that staggeringly, an average of 52% PCs are left on unnecessarily (i.e. excluding 24 hour computers). Customers who use NightWatchman achieve an average, annual, cashable saving of £22 per computer (plus a significantly reduced CO2 footprint).

NightWatchman is currently saving the public sector approximately £8.5million per year. However just 10-15% of the total PCs in the public sector use NightWatchman, so savings could rise to £80million per year if all chose to adopt it! And, all this for just turning off computers when no is using them.

- Richard Clarke, London, 23/06/2010 13:59

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Might I suggest to Mr Osborn he look seriously at privatising the Fire Service, the cost of which could be paid from private insurance cover, failing this proposal he should certainly look to closing the Fire Service College in Gloucestershire, in these hard times we can no longer afford such luxuries as this establishment, which is nothing but a drinking club for the boys.

- James Herrington Blythe, Swiss Cottage, 23/06/2010 13:22

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I'm not fearful of this not working, hopefully George has the instincts that I think he has. And he has, allowed himself room for a few mistakes! If not looking good down the line, then I don't think that it will be a case of him doing more damage for trying!

Is it safe for the public to now go away, Ha!

S.

- M, London, 23/06/2010 13:19

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