
**CUTS
ARE
NOT
THE
CURE**



CUTS ARE NOT THE CURE

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Government spending cuts will damage public services and put more than a million out of work.

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The poorer you are, the more you lose. But ministers say there is no alternative. They have two key targets:

to get rid of all of the deficit in just four years

to do so with four pounds of spending cuts for every pound of tax rises.

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But these are political choices, not economic necessity. There are alternatives.

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Of course the recession did huge damage to our economy. But these deep, rapid cuts are not the best way to solve our problems, and may well make them worse.

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No-one voted for them. They are a false economy.

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WHY THE DEFICIT IS BIG

Ministers throw around scary numbers about the deficit. But they are being used to frighten people, not explain the problem.

The basic issues are not complicated.

The deficit is simply the gap between what government spends each year and what it receives in tax.

The crash caused by irresponsible banks sent the world into recession. People lost their jobs and company profits were hit.

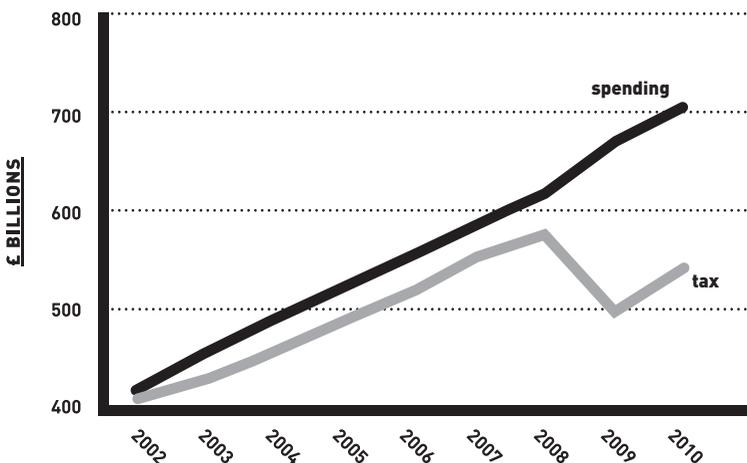
Recessions cause deficits. Spending on unemployment goes up and the income

from tax falls as companies fail or lose business. Our deficit is due to a dramatic fall in tax income since the recession struck – just look at the graph on page 5.

When there's a deficit, governments borrow to make up the difference. This makes the national debt bigger. All countries have a debt – there is nothing dangerous about that. In good years governments pay some of it back.

So is there really such a big debt crisis that we have to pay it back now, even though the economy is so weak?

The deficit grew because tax income fell



UK government income and spending 2002–2012

HOW MUCH SHOULD WE WORRY?

A big deficit and a growing debt are inevitable in recession. In time we need to get them down. But that does not mean that the government's chosen methods or rapid timescale make sense.

Our debt is not out of control. It has been much higher in the past, and is lower than it was during most years of the twentieth century.

“We have just gone through a severe recession and there is still a lot of uncertainty about the housing market and the level of economic activity over next few years. Unemployment is high and job vacancies few. By taking the action that the Chancellor outlined in his statement, this situation might well become worse.

“The Chancellor is hitting areas that suffer most in recession. Several welfare benefits are to be cut. But they provide support when jobs are scarce and household incomes are falling.

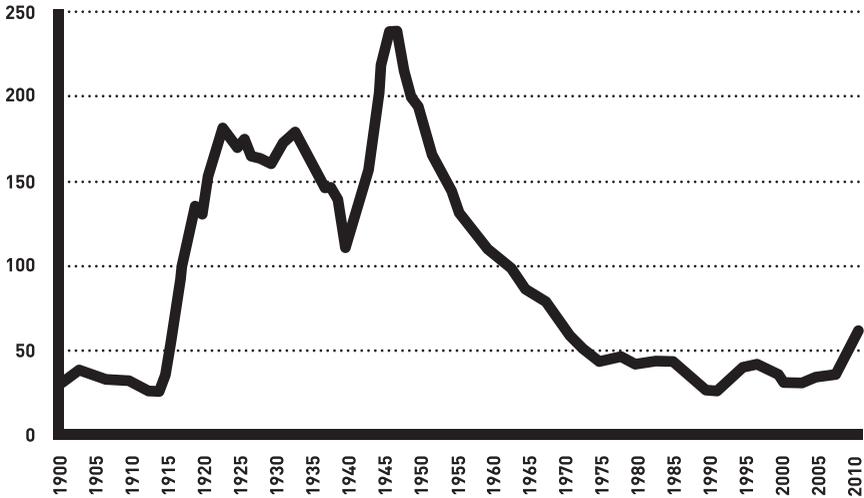
“The cuts are projected to add another half to one million people to the dole. This will make it a lot more difficult for the unemployed to find jobs. It is situations like these that welfare benefits play their most valuable role.

“Capital spending is being cut too. Yet it creates jobs at a time when they are most needed. Overall, the Chancellor is putting the economy through some unnecessary risks because of his fear of sovereign risk, which does not appear justified. And his unwillingness to further tax the well off is inevitably necessitating more cuts to benefits just when the jobless will need them the most.”

CHRISTOPHER PISSARIDES

is a the most recent economics Nobel Prize winner and a Professor at the London School of Economics

**Our debt has grown in the recession
but is much lower than in the past**



UK government debt as a proportion of GDP

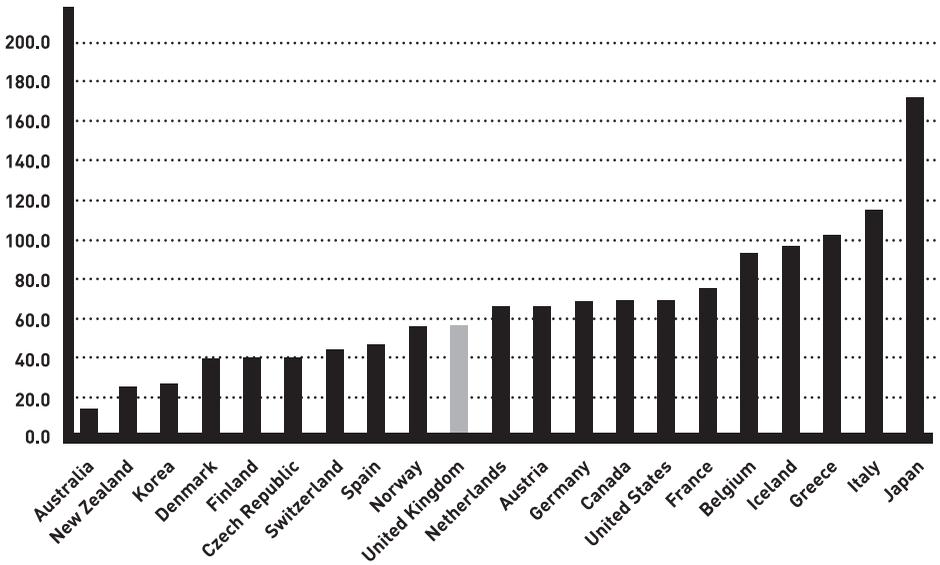
“Both the new British budget announced on Wednesday and the rhetoric that accompanied the announcement might have come straight from the desk of Andrew Mellon, the Treasury secretary who told President Herbert Hoover to fight the Depression by liquidating the farmers, liquidating the workers, and driving down wages.

Or if you prefer more British precedents, it echoes the Snowden budget of 1931, which tried to restore confidence but ended up deepening the economic crisis.”

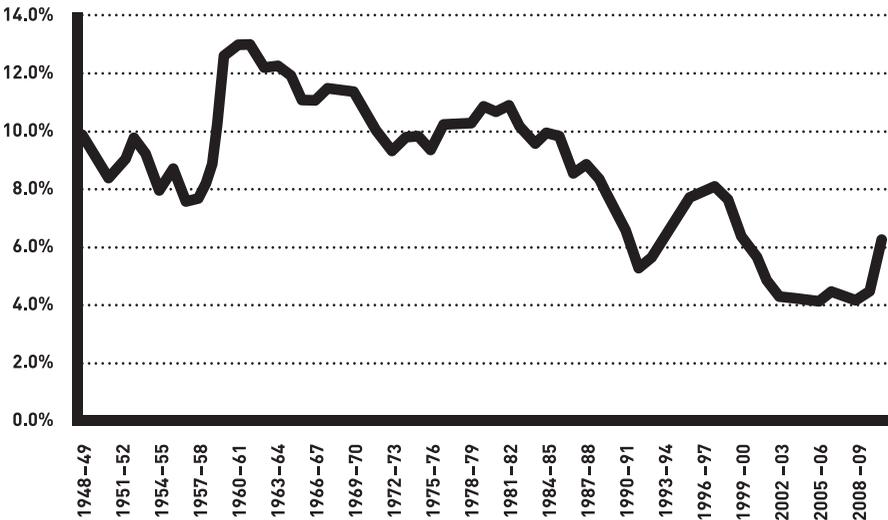
PAUL KRUGMAN

is a US economist and a Nobel Prize winner

Our debt is lower than in many other countries including France, Germany, Canada and the United States.



The costs of servicing the national debt are lower than in almost every year between the end of World War 2 and the 1997 election.



“Britain is embarking on a highly risky experiment. More likely than not, it will add one more data point to the well-established result that austerity in the midst of a downturn lowers GDP and increases unemployment, and excessive austerity can have long-lasting effects.”

JOSEPH STIGLITZ

is a US economist and Nobel Prize winner

Unlike some other countries:

The UK government has no difficulty borrowing.

The loans have much longer pay-back periods.

Most UK government debt is held in the UK by pension schemes and similar bodies, not speculators or foreign banks.

Closing the deficit in four years, mainly through cuts, is a political choice. The crash has done huge damage, but we don't have to put it right so quickly.

Yes, our debt is going up and is higher than it was before the election.

But it's still lower than it's been for many years this century, and is lower than in many other similar countries.

Yes, it's costing more to pay back our debt and it's going up.

But it is lower than most years since the second world war. Just 6p in every pound of spending went on paying off debt last year, and that compares to 8p in 1996.

“Some argue that we have no right to bequeath higher debt to future generations. But why would it be wise to bequeath a smaller economy to posterity, instead?”

MARTIN WOLF

is the chief economics writer of the Financial Times and is a frequent critic of government policy

NATIONS ARE NOT HOUSEHOLDS

When ministers say they have to cut back, just like anyone with a big credit card bill, they sound convincing. But nations are not like households. This was the mistake that brought us the great depression in the 1930s.

When a consumer cuts back, they don't have to worry about the wider impact of their reduced spending. But when governments make cuts it depresses the economy. That slows the recovery that will deliver the extra tax income that will close the deficit.

And even if the country was like a household, we're an underemployed household with millions on the dole or working fewer hours than they want. The best way to pay off a credit card bill is to get a job.

“What I can tell you is any cabinet minister, if I win the election, who comes to me and says: ‘Here are my plans’ and they involve frontline reductions they’ll be sent straight back to their department to go away and think again.”

DAVID CAMERON

May 2 2010

WHAT IS THE ALTERNATIVE?

It is not a simple choice between how much you save through cuts and how much you get from new taxes.

The biggest contribution will come from the increased tax automatically generated by a growing economy.

But the government's timetable does not give the economy time to grow. That is why they need to take so much money out of the economy so quickly.

These deep, rapid cuts will slow the economy and reduce the tax take. With some saying more than a million will lose their jobs due to the cuts, there will be extra benefit costs too.

So cuts are not the cure.

Policies that stimulate growth are the real alternative to deep cuts. We need to give growth time to stimulate tax revenues.

Banks must lend to business again, and we need to invest in low-carbon technology.

Spending and benefit cuts hit the low-paid and those on middle incomes. The rich hardly notice them, even though the recession was made in bank boardrooms. While growth is top priority, ministers should choose tax over cuts.

Tax avoidance by big companies and the super-rich is more than £40bn a year.

A Robin Hood tax on financial transactions could raise £20bn a year.

“George Osborne’s Comprehensive Spending Review is the biggest — and riskiest — macroeconomic experiment undertaken by any advanced country in living memory.”

DAVID BLANCHFLOWER

is a former member of the Bank of England’s Monetary Policy Committee, and Professor of Economics at Dartmouth College, New Hampshire and professor at the University of Stirling

FALSE ECONOMY

FALSE ECONOMY

WHY CUTS ARE THE WRONG CURE 

False Economy is a new website for everyone concerned about the impact of the government's spending cuts on their community, their family or their job – and wants to do something about it.

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It links up Britain's unions, local campaign groups and online activists.

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Contribute your stories about the cuts and explain their impact on you.

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You can visit it at falseeconomy.org.uk

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Link up with local campaigns.

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Watch Sam West explain the alternative and read more about why the cuts are the wrong cure.

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Register to be kept up to date with the campaign.

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MARCH FOR THE ALTERNATIVE: JOBS•GROWTH•JUSTICE

SAY **NO** TO
UNFAIR AND UNNECESSARY
SPENDING CUTS

BACK THE ALTERNATIVE

- a Robin Hood tax on the banks
- closing tax loopholes
- policies for jobs and green growth

SATURDAY 26
MARCH 2011

Assemble at 11am on Victoria Embankment,
between Temple Place and Blackfriars,
to march to a rally in Hyde Park

more details at
www.tuc.org.uk/march
join the campaign at
www.falseeconomy.org.uk



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