# The impact of national budget cuts, tax changes and local reductions in services on disabled people and their families in Norfolk

## A report commissioned by the Norfolk Coalition of Disabled People

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**Chris Edwards**[1]

### 1. Summary

29%[2] of the 26 million households in the UK are households with at least one disabled person. Disabled people make up between 17% and 21% of the total UK population of 60 million. In Norfolk, the proportion is slightly higher at about 22% since the average age of the population in Norfolk is higher than in the UK as a whole.

This means that, of the total population in Norfolk of 850,000, about 186,000 are disabled people. Of all the 365,000 households in Norfolk, just over 100,000 contain at least one disabled person.

Since coming into power in May 2010, the Conservative-Lib Dem Coalition government has announced a series of cuts or more precisely fiscal changes since cuts in public sector expenditure have been accompanied by changes in taxes, most notably a rise in VAT.

***The purpose of this research paper is to answer the question; what effect will these changes have on disabled people in Norfolk?***

Soon after the Budget of June 2010, many commentators were concluding that disabled people and families with children would be hit hardest. The Home Secretary, Theresa May, wrote to the

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[2] . These statistics refer to the latest available, generally 2008/09 for population and the distribution of income.

Chancellor that disabled people would be disproportionately affected (see Demos Oct 2010,25)

To assess how disproportionately disabled people are likely to be affected requires answers to two questions;

- what is the distribution of income of disabled people?
- how are disabled people affected by the cuts?

## The distribution of income

**F**igures on the distribution of income of disabled and non-disabled people in the UK are summarised in table 10 on page 28. That table shows that 26% of disabled people are in the poorest fifth of all households in the UK with an average income of about £10,450 per year per household[3]. This compares with 19% for non-disabled people. A further 27% of disabled people are in then next poorest quintile with an average income of £15,800 per year per household.

The average income of a household with a disabled person is about a fifth lower than that of other households. This income gap is greater in the UK than in rich countries generally. Yet it is clear that for disabled people to have the same standard of living as non-disabled people, their income should be *greater not less* than that of non-disabled people. How much greater depends on the barriers to impaired people that society removes to prevent impairment becoming converted into disability.

### *What will be the effect on disabled people of the recently-announced cuts in public expenditure (including cuts in benefits) and rise in VAT?*

A Demos report of October 2010 has estimated the loss in income to disabled people of working age from the change in benefits. This is estimated at £9.2 billion over five years. Disabled people of working age who are on disability benefits in the UK total 3.5 million so that the loss to each claimant will average £2,630 over five years or about £526 per claimant per year. The poorest half of all disabled people have an average income per person of about

3 . The £10,450 income is an 'equivalised' income for a couple with no children. This is an approximation to the average income for a household in the UK of 2.3 persons.

£125 per person per week. For each claimant of working age, a loss of £526 per year is equal to a massive loss of 8% of income *each year.*

It can reasonably be assumed that, in Norfolk, of the disabled people of working age (90,000), the half who are on disability benefits (45,000) would suffer this loss.

In addition Norfolk County Council is proposing that budget cuts of £136 million will be made over the next three years (2011/12 to 2013/14 inclusive). We estimate that about £45 million of these cuts will directly and exclusively affect disabled people. Table 6 shows that 31,500 people in Norfolk have more-or-less free access to care services. If we assume that the whole of the £45 million falls on these people (73% of whom are over 65 years old), the cost per person will be £1428 or £476 per person per year. If we further add on their share of the other £91 mn cuts of the Norfolk County Council, they will lose over £500 in cuts to support services.

In addition to these cuts in benefits, the spending power of disabled people in Norfolk will be cut by the rise in VAT. This is estimated to be equivalent to a loss for the poorest half of disabled people of about 2% of income (IFS August 2010, slide 7).

These – the benefit cuts to disabled people of working age, the cuts in NCC's budget affecting the disabled and the rise in VAT - are only part of the cuts. We need to add to these the cuts in other departmental budgets and the loss in benefits to disabled people of non-working age. Horton and Reed have attempted to model *all* the fiscal changes and the fitting of their results to the income distribution of disabled people is shown in table 13 on page 34.

From that table we can see that the estimated fall in the standard of living of the poorest half of disabled people is about 9% in 2014/15. This is for one year! The fall in their standard of living over the next four years would be more than a third. The conclusion from this is that the fall in the standard of living for the poorest half of disabled people in Norfolk – about 100,000 - will be devastating, again about 9% in 2014/15 and at least a third over the next four years.

This is bad enough. In addition there is a significant probability that the cuts will be counter-productive. They will be counter-productive inasmuch as the cuts in social care are likely to lead to 'bed-blocking' in hospitals like the Norfolk and Norwich University Hospital.

They are also likely to be counter-productive inasmuch as the cuts may well bring about stagnation in the economy, if not the recurrence of a recession. In this case, unemployment will rise, as will welfare payments to the unemployed (even if they are cut in unit terms). In this event the economy could be launched on a downward spiral of a reduction in GDP, leading to greater unemployment, further loss of GDP and so on, leading to the deficit not being cut.

There were and still are alternative ways of reducing the deficit which would be equalising and which would cause far less damage to the economy. The paper sets these out. The conclusion is that the fiscal changes introduced by the coalition government will hammer the most vulnerable and poorest group in society – disabled people.

## 1. Disabled people…..

### … in Norfolk

According to the last census in 2001, 19.4% of the Norfolk population (or 158,000) had a disability (defined here as having a limiting long term illness) compared to 18.2% for England and Wales (NCoDP 2008,2). There do not seem to be more up-to-date figures available for Norfolk.

The higher proportion of disabled people in Norfolk than in England and Wales in 2001 seems to have been mainly because the population in Norfolk was older than the average and still is. In 2009, Norfolk had relatively more people of state pensionable age (over 65 for men and over 60 for women) than did England as a whole.

The population in Norfolk in 2009 was 853,000[4] (NI, August 2010,1 – accessed on 28 November 2010). Of these, the number of people of state pensionable age (SPA) was 209,000, or 24.6% of the total. In England the proportion for the same year (2009) was 19.1% (NI website, accessed on 18 Nov 2010).

It is likely that disabled people in Norfolk in 2009 were at least 20% of the total population compared to the 19.4% figure for 2001. A 20% figure would put the number of disabled people in Norfolk at 171,000, but before we stick with this, it is worth looking at the figures for the UK as a whole.

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[4] All the figures in this report are rounded off to 3 digits except where greater precision is warranted.

**…. in the UK**

| Table 1 - The number of disabled people and total population in the UK | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| **Sources >** | **Year of** | **Million** ------------------------------------------------------ | | | |
| | **estimate (i)** | **children** | **of working** | **SPA** | **Total** |
| **Number of disabled people** | | | **age** | | |
| ODI 2010 | 2004/05 | 0.7 | 4.8 | 4.6 | 10.1 |
| ODI 2010 | 2008/09 | 0.7 | 5.0 | 5.1 | 10.8 |
| Demos, Oct. 2010, 19 | 2009? | | 7.0 | | 12.7? |
| HBAI 2010, 39 | 2008/09 | 0.8 | 5.1 | 5.3 | 11.1 |
| **Total population** | | | | | |
| ONS 2010 | 2004 | 11.6 | 37.1 | 11.1 | 59.8 |
| ONS 2010 | 2009 | 11.6 | 38.2 | 12.0 | 61.8 |
| **Disabled/total population (%)** | | | | | |
| | 2004 | 6 | 13 | 41 | 17 |
| | 2009 | 6 | 13-18 | 43 | 17-21 |

Estimates of the number of disabled people in the UK are shown in table 1.

We can see from table 1 that the proportion of the total population in the UK which was disabled in 2009 was, according to the Office for Disability Issues (ODI), about 17%. From the 2001 Census, we have seen that the percentage for England and Wales was 18.2%, so that the ODI figures seem to be on the low side. The ODI source states that *"Everyone in this group would meet the definition of disability in the Disability Discrimination Act (DDA); however these estimates do not reflect the total number of people covered by the DDA"* (ODI website, accessed on Dec 11 2010). The ODI figures are based on the Family Resources Survey.

As the table above shows, the Demos report gives a much higher figure for the disabled population of working age than does the Office for Disability Issues (ODI). The Demos report stated that *"statistics show there are 7 million disabled people in the UK of working age (though not all are entitled to or claiming disability benefits)*" (Demos Oct 2010, 19). In fact Demos estimates that 3.5 mn (half of the 7 mn total) are on disability benefits.

In a recent Life Opportunities Survey carried out between June 2009 and March 2010 and based on a sample of 18,000 people, the Office for National Statistics found that 29% of the adults had an impairment (ONS Dec 2010, 1).

Here we assume a total derived from combining the Demos estimate for disabled people of working age with the ODI figures for disabled people in other age groups. As a result we get a total for disabled people, in 2009, of 12.7 mn or about 20.6% of the total UK population of 61.8 million.

**….and in Norfolk again**

The table below shows the population for Norfolk of various ages compared to the UK.

| **Table 2 - The population of Norfolk and the UK (2009)** | | | | |
|---|---|---|---|---|
| | | | | |
| **Sources >** | **Million -----------------------------------------------------** | | | |
| | **children** | **of working age** | **SPA** | **Total** |
| **Population** | | | | |
| Norfolk | 0.14 | 0.50 | 0.21 | 0.85 |
| UK | 11.6 | 38.2 | 12.0 | 61.8 |
| **% of total** | | | | |
| Norfolk | 16.5 | 58.8 | 24.7 | 100 |
| UK | 18.8 | 61.8 | 19.4 | 100 |
| | | | | |
| Source; ONS 2010 (website) | | | | |

If we apply the percentages of disabled people for the UK to each age group (with the higher Demos figure for those of working age), then we would have the following number (in 000) of disabled people; children, 8; of working age 90; SPA 88. This gives a total of 186,000 disabled people in Norfolk in 2009 or 22% of the Norfolk population.

We have seen from the differences between the Demos and ONS estimates and the ODI figures that there are considerable doubts about the number of disabled people. This is not surprising given the ways in which disability can be, and is defined. Before moving on to look at the cuts imposed by the new Government, we look at these definitions since the different approaches to disability reflect the very different ways in which policies on disability are framed.

## 2. What is disability? Two very different approaches…

The definition of disability in the Disability Discrimination Act (DDA) of 1995 was given as; *"a disabled person is a person who has a physical or mental impairment which has a substantial or long term adverse effect on their ability to carry out normal day-to-day activities"* (Demos Oct 2010, 19). The DDA 2005 amended this to include those people with cancer, HIV infection and multiple sclerosis (Demos Oct 2010, 19).

The Disability Discrimination Act (DDA),2005 requires all 'public authorities' to produce a Disability Equality Scheme (DES) setting out how they will meet their duty in the Act to promote disability equality. In its DES document, the Great Yarmouth DES document states that that disability "c*overs a wide range of physical, sensory and mental disabilities, including chronic mental health problems, learning difficulties, HIV, cancer, multiple sclerosis and mental health service users. It is important to understand that not everyone who is disabled has a visible or easily recognisable disability"* (GY, 2006).

The Demos report states the key points in the definition of disabled people are that the effects of the impairment in question are both substantial and long-term (Demos Oct 2010, 19).

This all seems to be quite straightforward but as soon as a look is taken at the policies on disability, two very different approaches become clear. One is a medical model - the other a social model. These two quite different approaches are clearly set out on pages 6 and 7 of the Great Yarmouth DES, as follows;

- "*The **Medical Model of Disability**. Under this model of disability, disabled people's inability to join in society is seen as a direct result of having an impairment and not as the result of features of our society which can be changed. The medical model of disability sees the disabled person as the problem. The emphasis is on dependence, backed up by the stereotypes of disability that call forth pity, fear and patronising attitudes. Usually the focus is on the impairment, rather than the needs of the person".*

- "*The **Social Model of Disability**. By contrast, the social model has been devised by disabled people who feel that the medical model does not provide an adequate explanation for their exclusion from mainstream society - because their experiences have shown them that in reality most of their problems are not caused by their impairments, but by the way society is organised. Society is shown to disable people who have impairments because the way it has been set up prevents disabled people from taking part in every day life. It follows that if disabled people are to be able to join in mainstream society, the way society is organised must be changed. Removing the barriers which exclude (disabled) people who have impairments can bring about this change"*

The Great Yarmouth document then goes on to list environmental, systematic (due, for example, to segregated services) and attitudinal barriers.

The social model of disability has been heralded by some as *"one of the most significant intellectual and political developments of the last ten years";* indeed it has transformed the meaning of disability itself (see Demos Oct 2010, 45). The social model dates from the 1970s and is reflected in the United Nations Convention on Human Rights. In the Convention on the Rights of Persons with Disabilities (adopted December 2006), it recognises that disability *"is an evolving concept and results from the interaction between persons with impairments and attitudinal and environmental barriers that hinders their full and effective participation in society on an equal basis with others"* (http://www.un.org/disabilities/documents/convention/convoptprot-e.pdf accessed on November 28, 2010)

It is not surprising that these two differing approaches can give rise to two very different sets of policies. As a December 2010 report by Demos pointed out, it may be that the government could reduce disability poverty more effectively and for larger numbers of people, by reducing disability costs rather than focusing exclusively on increasing income (Demos Dec 2010, 27).

Support services for disabled people, removing barriers to mobility and providing cash benefits - all of these are linked. Together they can prevent an impairment becoming a harsh disability and as a recent report by the Audit Commission on young carers pointed out, a combination of support services and welfare payments can more than pay for themselves over a lifetime (Audit Commission August 2010, 9 and 14)

**3. The Conservative-Liberal Democrat coalition and the cuts**

Following the General Election held in the UK on 6 May 2010[5], the Conservative and Liberal-Democrat parties formed a coalition. An agreement between the two parties was agreed on May 11, 2010. This agreed that *"deficit reduction .. is the most urgent issue facing Britain"* and that *"… the main burden of deficit reduction [be] borne by reduced spending rather than increased taxes"* and that *"… a full Spending Review should be held, reporting this Autumn"* (Con-Lib May 2010).

Between then and now (January 2011), there have been a number of policy announcements – the Budget in June, the Comprehensive Spending Review of October and the welfare reform in November

In June 2010, the Budget stated that the most urgent task facing the UK is to implement an accelerated plan to reduce the deficit. Given this, the Budget planned for 'additional consolidation' of £40 bn a year by 2014/15 consisting of spending cuts of £32 bn and tax increases (mainly VAT) of £8 bn a year. As part of the spending reductions, the Budget announced £11bn of 'welfare reform savings' and a two-year pay freeze in public sector pay (except for those earning less than £21,000 per year) (Treasury June 2010, 2).

**Comprehensive Spending Review (CSR)**; the CSR of October 2010 announced cuts in real terms of 8.3% of departmental current budgets over the four years from 2010/11 to 2014/15 (Treasury Oct 2010, 10). In addition, Departmental Capital Budgets (these are about 16% of the current expenditure in 2010/11) are being cut by 29% in real terms.

If we focus on current, rather than capital expenditure, the major (with annual baseline Budgets of more than £5bn) Departmental

[5] . In the election, the Conservative Party won in 307 seats and the Liberal Democrats in 57 giving these two parties a combined majority of the 650 seats

Budgets which are hit hardest (by more than 10% in real terms) are Local Government (minus 27%), Transport (minus 21%), Business, Innovation and Skills (minus 25%) and Home Office and Justice (both with minus 23%) (Treasury, Oct 2010, 10).

As we will see, the departmental cut which is likely to affect disabled people in Norfolk most severely is the cut in the Local Governnment budget. In May 2010, the Government had announced a cut in local authority grants of £1.2 bn (Guardian website, 24 May 2010 accessed on Dec 13) but in the CSR of Oct. 2010, much greater cuts were imposed in the grants to Local Authorities over the next four years (from 2010/11 to 2014/15). Total grants from the Government to Local Authorities were cut from 28.5 bn in 2010/11 to £22.9 bn in 2014/15. This cut of £5.6 mn represents a cut in cash terms of 19.6% but a cut in real terms of 28%. As we have seen, the latter compares to an average cut across all Departmental Budgets of 8.3% (LGA website accessed on Dec 13, 2010).

**Welfare reform;** Ian Duncan Smith (Work and Pensions Secretary) has proposed a 'universal credit' replacing JSA, ESA and Housing Benefit (Demos Oct 2010, 11) and a White Paper on this was published on November 11 2010 with reforms due to come into force in 2013. The central idea is that as incomes rise there should be a single net benefit or tax designed to ensure that people are always better off working. The facts advanced to support the theory are that; there are 5 million claims for jobless benefits; that welfare spending has risen by 40% in real terms over the last decade; and that the present system of taxes and benefits has disincentives built into the structure.

These are true but the government's claims that the welfare system is broken and the welfare spending is out of control are far from true. As Paul Gregg shows (Gregg 2010), the real picture that emerges for the welfare system is one of long-term declines in *both* the number of claims and in total spending as a share of GDP (Gregg 2010, 15 – see also IFS Nov 2010, section 4).

Furthermore, Gregg points out, a single system will be difficult to introduce, since some benefits – housing benefit, council tax benefit, the higher value of benefits for disability than for jobseekers, disability living allowance and attendance – are additional costs that only apply to some claimants. So the idea that there can be one single system (essentially one Basic Income Grant or BIG) is attractive, at first sight, but the BIG would have to so high that it would be extremely expensive and therefore out of the question at present – particularly for this government. As Gregg puts it; "*The simpler the new system is the more it results in large numbers of losers even with substantial extra costs to the Treasury. The more complex it is, the less radical a reform it represents and the less attractive it becomes".* As a result, he points out; "*it is not surprising that the government plans to start with only new claims"* (Gregg 2010, 16).

Following the statement of cuts in the Budget and then more cuts in the CSR, the strategy of the Cameron/Clegg government is clear; *"… get the bad stuff over in 2010 and 2011 so that sunlit uplands can be seen in 2013 and 2014"* (Travers, Dec 9 2010). As Travers goes on to say, this strategy is brave but to the point of being foolhardy. Even the right-wing *Economist* concluded that George Osborne has not got the overall fiscal stance right (*Economist,* 2 Oct 2010).

The effects of these cuts on disabled people will be severe as discussed in the following sections. The next one looks at the benefit cuts on disabled people of working age. Then section 5 looks at the spending cuts of the NCC and section 6 at the likely indirect effects of the cuts through their effects on unemployment levels.

## 4. The benefit cuts on disabled people

Most of the information in this section comes from the Demos 2010 report entitled *Destination Unknown.* The authors of the report were Claudia Wood and Eugene Grant and a conclusion attached to the report for the Charity, Scope is that *"the losses of incomes [to disabled people] over the course of this Parliament will amount to £9 billion".*

The Demos report assesses the various cuts in benefits and then evaluates their effects on particular disabled groups using real-life case studies.

On page 57 of the report, the cuts most likely to impact on disabled people are summarised as;

- A cap of £500 a week on the total benefits that a family can receive, based on the median income of a working family, a cap on the Local Housing Allowance (LHA) to particular properties and a cut in Housing Benefits (HB) by 10% for JSA claimants who have received the benefit for more than 12 months;
- A change in the basis for uprating benefits – including Incapacity Benefit (IB), Disability Living Allowance (DLA), Carer's Allowance (CA) and Housing Benefit (HB) – by using the Consumer Price Index (CPI) instead of the Retail Price Index (RPI).
- A reassessment of all 2.5 million Incapacity Benefit claimants using the highly contested Work Capability Assessment (WCA), with the aim of around 23% being found fit to work and moved to Job Seekers Allowance (JSA), with its associated conditions and penalties (including a 10% reduction in Housing Benefit if on JSA for more than a year);
- To reassess all claimants of DLA using a medical assessment similar to the WCA. Here it is important to note that another disability benefit (CA) is connected to DLA eligibility which means that many households are likely to lose both benefits if they fail the medical assessment;
- To realign the Support for Mortgage Interest (SMI) payments.

Since *Destination Unknown* was published, there have been further changes. In December 2010, The Minister for Disabled People (Maria Miller) stated that the DLA will be known as Personal Independence Payment (PIP) and will continue to be paid to people in and out of work (Demos, Dec 2010, 18) . The Minister stated that the reform of this benefit *"needs to follow a social rather than medical model based on a person's needs and the barriers they face rather than their individual disability"* (press release from the DWP of 6 Dec 2010).

Let's look at each of the above five sets of changes (discussed in Demos) in a bit more detail so that we can begin to see what the £9.2 billion of income losses for disabled people of working age consist of.

**First,** the cap on benefits. From April 2013 the government will cap household benefit payments at around £500 per week for a couple and lone parent households and around £350 per week for single adult households so that no family can receive more in welfare than median net earnings for working households. But all households with someone claiming DLA will be exempt from this measure. Housing benefits (LHA) will be capped from April 2011 (but not for social housing tenants) and from April 2013 people who have received 12 months or more of JSA will have a 10% reduction in their housing benefit. The latter will particularly affect disabled people since they take longer to get jobs (Demos Oct 2010, 55). Demos estimates that at least 24,000 disabled people – moved to JSA from IB – will be affected each year. Members of this group are each predicted to face losses of £471 per year (Demos Oct 2010, 56).

**Second,** the replacement of the RPI by the CPI. This is scheduled to come into force with the next indexation in April 2011. The effect is considerable, since the CPI tends to rise more slowly than the RPI. Why is this? The details are in Box 1.

**Box 1 CPI and RPI – what's the difference?**

The CPI uses essentially the same basic price data as the RPI but differs from it in some important respects. The differences include:
• *population base:* the CPI covers a broader population than the RPI
• *item coverage:* the most significant is that the CPI excludes a number of items relating to housing costs (such as mortgage interest payments and council tax). But there are also some services covered by the CPI – such as charges for financial services – which are not in the RPI
• *index methodology – formula:* the CPI uses the geometric mean whereas the RPI uses the arithmetic mean to combine prices at the first stage of aggregation
• *item coding:* the CPI structure follows a standard international classification system whereas the RPI has its own unique system (ONS August 2010, 19)

How important are each of these? Let's look at the year to June 2010 where the difference was 1.8% (the CPI rose by 3.2% while the RPI rose by 5.0%). Almost half of this (about 0.84%) was due to the different formula (arithmetic mean for changes in RPI components, geometric mean for CPI components) and about 40% (0.71%) was due to housing components (council tax, mortgage interest, house depreciation, etc excluded from the CPI).

It is estimated that the change will cut government expenditure by about £6 billion a year by 2015 (Demos Oct 2010, 12, 34), but this estimate seems to have been based on a 1.5% difference whereas the average over the past ten years (2001-2010 inclusive) has been less than this – at 0.7% pa.

As shown in Box 1, the principal reason for the slower rise in the CPI is the different formula used (geometric rather than arithmetic mean). Box 2 gives a simple illustration of the difference between using a geometric mean and an arithmetic mean.

**Box 2 The difference in calculating the CPI and the RPI**

Assume that the index consists of two items. Assume further that the price of one rises by 25% and the price of the other falls by 20%. The arithmetic mean of these changes will be (125+80)/2 = 102.5 – in other words prices have risen by 2.5% on average. This is the price rise as measured by the retail price index. By contrast the CPI measures it through taking the geometric mean. In this example it would be the square root of (125*80) or the square root of 10,000 = 100. Using the Consumer Price Index, there would be no change in prices at all (see page 2 of ONS Information Note on *"Differences between the RPI and CPI Measures of Inflation"* accessed in December 2010). For more on CPI and RPI, see IFS Aug 2010, section 5

We will see the importance of this switch between CPI and RPI at the end of this section when we look at the case studies in the Demos report.

**Third,** the reassessment of IB. An Employment Support Allowance (ESA) replaced IB in October 2008 immediately for new claimants with existing claimants being reassessed. During a 13 week assessment process, individuals receive ESA at its basic rate (equal to JSA for their age). Towards the end of the 13 week period, they undergo a Work Capability Assessment (WCA) and are split into a support group and a work related activity group (WRAG). The latter who are assessed as fit for work receive a lower rate of ESA.

The weekly rates for ESA and IB in September 2010 are set out on page 32 of Demos Oct 2010. Demos points out that IB was estimated to cost around £12.5 bn in 2006/07 (page 31) and that there has been a sharp rise in the number of people claiming incapacity benefits – from 0.7 mn in 1979 to 2.5 mn today – but it has been alleged that under the Margaret Thatcher government many people were reallocated to IB so as to keep the unemployment rate down (Demos Oct 2010, 33). (Note that the figure for those on IB in February 2010, given in a recent Institute for Fiscal Studies (IFS) report on the benefit system is 1.9 mn (IFS Nov 2010, 49))

The WCA has been widely criticised since it was introduced in October 2008 and the ESA is the most frequently appealed benefit in the UK with 40% of appeals being successful (see Demos Oct 2010, 38,39). As Paul Gregg (one of the architects of the ESA system) has pointed out, incorrectly assessing individuals as fit for work could well end costing the government more money than saving it (Demos Oct 2010, 38).

Furthermore "*in addition to the potential flaws of using the WCA to reassess current IB claimants and move them to JSA, there is also the possibility that disabled people will be at a greater disadvantage when it comes to complying with the JSA conditionality criterion – signing in at a Jobcentre Plus office very fortnight, and being prepared to be called into a Jobcentre Plus office at any time should advisers think a claimant is not properly adhering to their Jobseeker's Agreement"* (Demos Oct 2010,39).

**Fourth,** the re-assessment of claimants to DLA. The DLA is the only benefit which compensates for the additional costs of living with a disability and is not means tested. It was introduced by the Government in 1992 and disabled people can claim it even if employed since it is designed to cover the extra costs associated with disability. DLA is divided into two components – care and mobility – each with different levels of payment. The elements are decided separately from one another, so that a person can be on different levels of payment for each component. On average it is paid at the rate of £70 pw and accounts for a large part of the government's annual welfare expenditure (Demos Oct 2010, 41). The IFS report states that in February 2010 there were 3.1 mn claimants to DLA and that expenditure in 2009/10 was £11.5 bn (IFS Nov 2010, 49)

Demos points out that reducing the spending on DLA is central to the government's welfare reforms, and there are two ways in which the government intends to do it; one is the change in indexation already referred to and the second is the reassessment of all claimants. The government have said that they will introduce a medical assessment for DLA from 2013 and the government expects this to result in a reduction of £1 billion by 2014/15 (Demos Oct 2010, 44).

The DLA explicitly recognises the conversion disadvantage of disability – the extra costs of living with a disability. This was recognised by Andrew Lansley (now the Health Secretary) when in opposition – but now some in the Coalition government have been misrepresenting the DLA as a benefit for those without work and have referred to it under the heading of welfare dependency (Demos Oct 2010, 46, 47).

According to the Demos report, the 1.8 million people of *working age* who claim DLA have come out as big losers from the budget (Demos Oct 2010, 41). The effect is to create an inflexible and punitive welfare-to-work system at a time when unemployment is likely to be rising.

Often linked with the DLA is a Carer's Allowance. This is a taxable benefit payable to people aged 16 and over who provide care to disabled people in their own homes. To be eligible for CA, a carer must earn no more than £100 per week and spend at least 35 hours a week caring for a disabled person who receives a benefit for the extra costs of disability such as DLA (middle or higher rate, care component) or attendance allowances. There are estimated to be 5.7 million unpaid carers in the UK who care for sick or disabled family and friends and 4.6 million of these do not work (Demos Oct 2010, 69). Recent estimates by the National Audit Office estimate the value of such care to be £23 billion a year although the cost to the government in the form of allowances in 2009/10 was a fraction of this, namely £1.5 bn (IFS Nov 2010, 49).

The CA benefits are low compared to other countries in the EU and the indexation change will reduce a carer's allowance. Furthermore CA can only be claimed if the person being cared for receives the middle or higher rate of the care component of DLA. In February 2010, of the 3.1 mn total claimants, about 1.8 mn were in the highest and middle care groups (IFS Nov 2010, 57). Those disabled people needing care who fail the WCA test are likely to suffer from a 'double dip' in income; their rate of DLA will either be reduced or removed – and their carer's CA along with it (Demos Oct 2010, 50, 51)

**Fifth,** the support for mortgage interest (SMI). SMI is a benefit that provides people claiming certain means-tested benefits (such as JSA, ESA and Income Support payments) with help to meet mortgage interest payments. But the rate at which this is supported will be cut by about 40%. This is estimated to save £60 mn over the course of the current parliament and the National Housing Federation warned that this could lead to some 64,000 disabled people going into arrears with their payments (Demos Oct 2010, 54). This cut to SMI comes on top of the lower (CPI) indexation of LHA and the capping of LHA – together these are estimated to be cut by over £500 mn a year by 2014 (Demos Oct 2010, 54).

Thus the effect of the cuts in benefits for disabled people of working age is enormous. The second half of the Demos report looked at these effects through case studies. Details are given on pages 61-82 of the report but table 3 attempts to summarise them.

| Table 3; The four Demos case studies | | | | |
|---|---|---|---|---|
| | | | | |
| | Loss in income (£ for the five years from 2011 to 2015) | Reason for loss | No of people affected (000) | Loss in total (£mn) |
| Disabled person (L) with parents as carers | 3044 | mostly RPI/CPI | 171 | 521 |
| Disabled person (P) with partner (as carer but with moderate disabilities) | 3143 | mostly RPI/CPI | 516 | 1622 |
| A single disabled person (E) on ESA | 1295 | RPI/CPI | 98 | 127 |
| | | (plus possible further loss from DLA due to reassessment) | | |
| A single disabled person (C) on IB | 8715 | RPI/CPI | 114 | 994 |
| | | (plus assumed further loss in shift from IB to JSA as a result of reassessment | | |
| **Total** | | | **899** | **3263** |
| | | | | |
| Source Demos Oct 2010, pp 15, 16 and 88 | | | | |

These losses are dramatic but as the Demos report concludes; *"perhaps more interesting than these headline figures is the qualitative information our interviewees shared. Some were willing but unable to find employment; all felt they were just scraping by financially and frustrated by their situation.* ***None seemed to need incentives to work in the form of a financial penalty"*** (Demos Oct 2010, 87,88; my emphasis)

Demos ended its report with five recommendations;

- abandon plans to use the Work Capability Assessment as a model which to base DLA reassessments. In its place, research and develop a tool to measure and calculate the additional costs of living with a disability.
- reform the Work Capability Assessment for claimants of ESA and those who will go on to claim the incapacity component of the universal credit to assess a range of capabilities.
- establish a 'work-ready' ESA group for the majority of reassessed Incapacity Benefit claimants found fit to work before the introduction of the universal credit, rather than moving them on to JSA. The work ready group would claim the same level of benefit as JSA but would not be subject to the same conditionality and penalty regime. Following the

introduction of the universal credit in 2013, 'work-ready' and 'work-able' groups should remain part of the credit's incapacity component.

- make 'work ready' and 'work able' claimants automatically eligible for appropriate elements for the Work Choice support scheme and Access to Work.
- capitalise Housing Benefit to help more disabled people to own their own home.

**Demos claims that following these recommendations, the government is likely to reap greater financial returns over a longer period of time in place of quick-win reductions.** The aim should be to enable disabled people to secure and maintain employment over time rather than engage in a costly low pay-no pay cycle (Demos Oct 2010, 18).

In addition to the above, the CSR announced that the mobility component of the DLA will be taken away from those in registered care. This will represent something like £50 per week for those in registered care (see an article by Grant Carson of Glasgow Centre for Inclusive Living, 2010, and Guy Parckar in the Guardian/commentisfree website accessed on Jan 1 2010)

## 5. The cuts of Norfolk County Council and disabled people

The previous section has shown that the effect of the cuts in benefits on disabled people of working age will be very damaging. But, as argued earlier, support services for disabled people are as important as cash benefits.

In addition, for the population as a whole, it is worth noting that the benefits in kind from state services (education, health, transport, housing etc) are far more important than cash benefits. This is particularly true for the poorest 20% of households, as shown in research by Tim Horton (Fabian society) and Howard Reed (formerly chief economist at the IPPR) (Horton and Reed 2010). For these households, benefits in kind at about £17,000 per year are almost twice as big as their average net income of about £9,100.

In the same research, Horton and Reed estimate the effect of the spending cuts other than the tax and benefit measures. They show that for the poorest fifth of households, the cuts in the departmental spending cuts are almost four times the losses due to tax and benefit measures whereas for the richest fifth of households the spending cuts are less important than the taxes and benefit measures.

This is the effect on households in general, not the effect on disabled people. We come back to the latter in section 7.

But here we look at the effects of cuts in the Local Government allocation in the CSR and how these Local Government cuts affect the Norfolk County Council's (NCC) activities.

The NCC has stated that as a result of the cuts, it faces a budget gap of at least £155 mn over the next three years unless it acts to change things. This £155 mn deficit is stated to be the result of a £60 mn cut in funding from Central Government plus a £95 mn increase in pressures from inflation and increasing demand for services. The government has announced Formula Grants to the NCC of £257 mn for 2011/12 and one of £240 mn for 2012/13. The grant for 2011/12 is a reduction of £29.5 mn (or 10.3%) on the 2010/11 figure and the cut in 2012/13 represents a further cut of 6.7%. The Government is yet to announce detailed figures for 2013/14 and 2014/15. These will be subject to a review of the local government finance system (emails from Harvey Bullen of the NCC to Chris Edwards dated 31 December 2010). However, in spite of not knowing the Formula Grant for 2013/14, the NCC is planning further cuts in that year.

The NCC has claimed that its grants have been cut by 'damping' in recent years and that, if account is taken of this, its grant for 2011/12 should be cut by £9.5 and not by £29.5 mn. (*Eastern Daily Press,* Jan 5 2010). However as a result of the cuts in the Formula Grant announced to date(together with a freeze on Council Tax), the NCC has proposed cuts in net expenditure of £136 mn over the next three years (2011/12 to 2013/14). These cuts have been proposed as part of a 'Big Conversation' (public consultation).

Eric Pickles, the Secretary of State for Local Government has stated that Councils should not find it necessary to cut front line services – at least until other action has been explored such as the sharing of management services with other Councils. When asked about this, the response from the NCC is that it is always seeking opportunities to reduce costs by working with others. Recent examples include working with Great Yarmouth Borough Council to provide their IT function and the creation of Norfolk Law (joint working between the NCC and some of the District Councils) (emails from Harvey Bullen of the NCC to Chris Edwards dated 31 December 2010). Clearly, though, these examples are not sufficient to prevent the massive cuts in front-line services which are being proposed.

An enquiry was made about the use of the NCC's reserves in the present situation. The answer was *"The level of reserves and their proposed use will be taken into account when setting the 2011/12 budget and consideration will also be given to the future financial issues the Council is facing"* (emails from Harvey Bullen of NCC to Chris Edwards).

The proposed cuts of £136 million in its expenditure over the three years (2011/12, 2012/13 and 2013/14) (see NCC Oct 2010) are summarised in Table 4 below

| **Table 4 - The proposed cuts in Norfolk County Council's Budget** | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| | | **Total budget** | **--- proposed cuts in budget -----------** | | | | **% of cuts** |
| **Category** | | **(2010/11)** | **2011/12** | **2012/13** | **2013/14** | **Total** | **to 2010/11** |
| | | | | | | | **budget** |
| **A** | Adult social services | 235.0 | 20.2 | 23.3 | 9.1 | 52.6 | **22** |
| **B** | Children's services | 172.6 | 16.0 | 13.4 | 9.7 | 39.1 | **23** |
| **C** | Cultural services | 17.7 | 0.9 | 0.9 | 0.8 | 2.6 | **15** |
| **D** | Customer services | | 0.3 | 0.2 | 0 | 0.5 | |
| **E** | Environmental devt | 36.5 | 2.3 | 1.4 | 1.5 | 5.2 | **14** |
| **F** | Fire and rescue | 31.5 | 1.1 | 1.5 | 1.4 | 4.0 | **13** |
| **G** | Resources | | 5.0 | 2 | 1.4 | 8.4 | |
| **H** | Travel and transport | 71.3 | 6.1 | 6.7 | 10.8 | 23.6 | **33** |
| | Others (unallocated) | 14.6 | | | | | |
| | **Total** | **579.2** | **51.9** | **49.4** | **34.7** | **136.0** | |
| | | | | | | | |
| Sources; Budget for 2010/11 from Appendix 2 of NCC 2010-13; Proposed Cuts from NCC 2011-14 | | | | | | | |

As stated earlier, these budget proposals are due to be submitted along with an equality impact assessment report to the Council's Cabinet for consideration on 24 January 2011 (NCC, 9 Dec 2010). This assessment will form part of the NCC's evaluation of the proposal.

It is clear that the cuts will affect 'front-line services', but it is difficult to say precisely how these cuts in front-line services will affect disabled people in Norfolk. Out of the total cuts of £136 mn, we estimate that at least a third will almost exclusively affect disabled people. The cuts particularly affecting disabled people are shown in table 5 below.

From table 4 it can be seen that the proposed cuts in adult social services total £52.6 mn which is a reduction of 22% in the 2011/12 budget. And of this cut of £52.6 mn., about £41 mn are estimated to particularly affect disabled people, as shown in table 5.

**Table 5 - Details of the proposed cuts particularly affecting disabled people in Norfolk**

| | | Total budget | --- proposed cuts in budget ----------- | | | | % of cuts |
|---|---|---|---|---|---|---|---|
| **Code** | Description | **(2010/11)** | **2011/12** | **2012/13** | **2013/14** | **Total** | **to 2010/11 budget** |
| **Cuts affecting disabled people** | | | | | | | |
| **A10** | Remove the subsidy for community meals | 1.20 | 1.20 | | | 1.20 | **100** |
| **A11** | Day services provision | 11.3 | | 7.70 | | 7.70 | **68** |
| **A12** | Day services transport | 6.70 | | 6.10 | | 6.10 | **91** |
| **A13** | Independent living for people with mental health problems | na | 0.50 | 0.50 | 0.50 | 1.50 | **na** |
| **A14** | Move to critical levels | na | 1.40 | | | 1.40 | **na** |
| **A15** | Reduce the sensory support service | 1.10 | 1.10 | | | 1.10 | **100** |
| **A17** | End the HIV/AIDS service | 0.13 | 0.06 | | | 0.06 | **46** |
| **A18** | Mental health services | 17.90 | 1.61 | | | 1.61 | **9** |
| **A19** | Learning difficulty services | 0.66 | 0.41 | | | 0.41 | **62** |
| **A21** | Equipment service | 3.70 | 1.20 | | | 1.20 | **32** |
| **A22** | Prevention services | 41.50 | 6.00 | 5.50 | 6.50 | 18.00 | **43** |
| **A23** | Charges for social care | na | 0.50 | | | 0.50 | **na** |
| **Total in Adult Social Services** | | **236.0** | **13.98** | **19.80** | **7.00** | **40.78** | **17** |
| **B6** | **Special education needs** | | **0.63** | **0.63** | **0.63** | **1.89** | |
| **H11** | **Reshaping public transport** | | **1.00** | **1.00** | | **2.00** | |
| **Total of all cuts affecting disabled people** | | | **15.61** | **21.43** | **7.63** | **44.67** | |

Sources; Proposed Cuts from NCC 2011-14; advice on effects from staff at NCoDP; FOI letter from David White, Chief Executive of the NCC to Mark Harrison Dec 7, 2010

It is clear that in absolute terms, the two biggest cuts are in the provision of, (A11) and transport (A12) for day services and in cuts in prevention services (A22). These cuts account for a total of £31.8 mn or more than 70% of the total of cuts which we estimate exclusively affect disabled people.

A11 is a Council proposal to stop being a direct provider of day services from 2012/13 and A12 is a proposal to stop providing subsidised transport for day services. The Council states that about 4,500 people use Council assessed and funded day care each year (NCC Nov/Dec 2010, 2).

The proposed reduction in funding for mental health services amounts to 9% of the 2010/11 budget and the reduction in A19 amounts to almost two-thirds of the budget.

A22 is a proposal to reduce the amount of spending on prevention and well-being services. Such services include; assistive technology, Swift Response services and other services the Council buys through voluntary organisations (NCC Nov/Dec 2010, 4). The reduction of £18 mn over three years is from a total of £41.5 mn – a massive reduction of 43%. A service affected would be the Supporting People programme which *"provides housing support to help people live as independently as possible*" (NCC Nov/Dec 2010, 5). The National Housing Federation (representing social housing providers in England) point out that not only has the CSR cut the Supporting People funding by 12% but the fund is no longer ring-fenced (*Observer, 26 Dec 2010).*

The move to critical levels (A14 in the above table) would cut £1.4 mn in 2011/12. The proposal is to; *"restrict the service eligibility under the Fair Access to Care (FACS) guidance*[6] *to critical only for all new and existing service users"* (NCC Nov/Dec 2010, 2). The current provision is to those with substantial *and* critical needs.

The Council estimates that, following the restriction, around 36% of home care users or around 3,000 people would no longer be eligible (NCC Nov/Dec 2010, 2). And yet the figures in the FoI document of 9 Dec 2010 suggest that more than 8,000 people are in the 'substantial' category (even if we do not include a share of the large proportion of unknown cases) (see Table 6).

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[6]. The FACS was introduced in 2003 to address inconsistencies across the country about who gets support, in order to provide a fairer and more transparent system for the allocation of social care services (D. of H., Feb 2010). It came into being following a High Court Judgement (known as the Gloucestershire Judgement) which ruled that Councils could consider their resource base when determining who was eligible for social care services but must be clear about prioritising those in greatest need (D of H 25 Feb 2010)

| Table 6 Eligibility in Norfolk (April 2009 to March 2010) | | | | |
|---|---|---|---|---|
| | | | | |
| **Description** | **Total service users (000)-----------------** | | | **% of** |
| | **….aged 18-64** | **…..aged 65+** | **Total** | **total** |
| | | | | |
| 1. Critical | 2.6 | 11.3 | 13.9 | 44 |
| 2. Substantial | 2.0 | 6.1 | 8.1 | 26 |
| 3. Moderate (prevention) | 0.1 | 0.4 | 0.5 | 2 |
| 4. Moderate | negligible | 0.1 | 0.1 | 0 |
| 5. Low | negligible | neg. | neg. | 0 |
| Unknown | 3.6 | 5.3 | 8.9 | 28 |
| **Total** | **8.3** | **23.2** | **31.5** | **100** |
| | | | | |
| Source; NCC 9 Dec 2010 | | | | |

It is difficult to see how the NCC will be able to do a competent impact assessment of the cuts when 8,900 out of 31,500 people who are eligible for free/subsidised care services are in an ‘unknown’ category.

It can be seen from the earlier table 4 that the proposed cuts in adult social services will be 22% over three years. And yet the King’s Fund has predicted that social care budgets would need to *increase* by 3.5% pa to keep up with ongoing demographic pressures (Demos, Oct 2010, 25). Furthermore research by the British Medical Journal questions the economic sense of cutting support to welfare (which is a source of prevention and protection of the health of the nation) while safeguarding health services (that deal with consequences of ill health (quoted in the Child Poverty Action Group’s submission on the spending review 2010).

Can these cuts of the Norfolk County Council be challenged legally? Possibly, but one case has been unsuccessful. On 4 Nov 2010, the Guardian reported that the Appeal Court had ruled that in order to save money it is legal for Kensington and Chelsea Council to change the form of its services, even though the circumstances of the person using the services remained the same (Guardian 4 Nov 2010 website accessed on 11 Dec 2010).

A request was made to the Norfolk County Council by Mark Harrison on 11 November 2010 asking for details of the legal advice which the Council had received about raising the service eligibility to critical. In a reply dated 7 Dec 2010, the Council refused to release such details claiming exemption under section 42 of the Freedom of Information Act 2000.

In November 2010, it was announced by the Equality and Human Rights Commission that it was starting *"…a process to carry out a formal, independent assessment of the extent to which the Treasury has met its legal obligations to consider the impact on protected groups of decisions contained in the Spending Review. The assessment is to be conducted under powers granted to the Commission under section 31 of the 2006 Equality Act"* (media release from the Equality and Human Rights Commission, November 25 2010)

## 6. Another recession? The indirect effect of the cuts on disabled people

Section 4 of this report discussed the cuts in benefits for disabled people and section 5 the proposed cuts in expenditures by Norfolk County Council.

We come back to these in the next section but before doing so, it is necessary to look at the indirect effects of the cuts in terms of jobs. These are even more difficult to predict and estimate but may well be even larger in their impact than the direct effects of the cuts.

The cuts in benefits and the planned reform of the benefit system are designed (say Ministers) to increase the incentives for work, but as Richard Hawkes, Chief Executive of Scope states in his foreword to the Demos report;

> *"Sustainable employment is key to the success of the coalition's plans for revolutionising welfare. Removing disincentives to work is one aspect of this, but in a climate of public sector job losses, marked regional variations in unemployment, and fierce competition for few jobs, the assumption that disabled people will make a smooth and painless transition into sustainable work is both naïve and dangerous"* (Demos Oct 2010, Foreword)

The policy being followed by the Con-Lib Coalition Government has been attacked by a large number of economists. The government in the emergency budget of June 22 2010 (Treasury June 2010) announced the target of eliminating the structural deficit over the next five years. Public sector borrowing is planned to fall from £149bn in 2010/11 to £37 bn in 2015/16 and three quarters of the reduction is planned to come from spending cuts and a quarter from tax rises.

However it is precisely because of the speed of the deficit cuts and their pattern or mixture that it is quite possible that the budget deficit will *not* in fact be eliminated. This is because *"that elimination is predicated on quite implausible and overly optimistic forecasts of the behaviour of the private sector…"* (Sawyer 2010, 1). Another prominent economist (Tony Dolphin) has argued that the government's approach places a huge amount of faith in one particular economic view; namely that private spending is being held back by worries about the scale of government borrowing. He says that George Osborne believes that a promise to eliminate the structural current budget deficit over the next four years will encourage households to spend and companies to invest, and that this extra activity will offset contraction in the public sector (Dolphin Oct 2010, 2)

These views need further explanation. For the economy to grow, we need income-generating demand to expand since one person's expenditure is another person's income. If you are a builder and don't buy bread, the baker won't have the income to get you to repair or paint his bakery. People may *want* to spend money and demand goods - but they have to have the income for that demand to be *effective.* That effective demand can come from household consumption, government consumption, investment (public and private) or net exports (exports minus imports).

Let's look at each of these. The forecast of the Office for Budget Responsibility (OBR) is that between 2010 and 2015, government consumption will be cut by 30%. Household consumption is forecast (optimistically) to rise by just under 10%. Combined, these will *increase* by 4.5% - yes, increase because of the relatively large size of household consumption (almost three times that of government consumption). But this combined increase is less than 1% a year and the forecast is for national income to grow by 14%.

It is clear that the bulk of the increase in effective demand has to come from investment and from net exports.

Let's look at each of these. First, investment. This (public plus private investment) is forecast to rise by 44% over the five years. A rise of this magnitude would take investment to more than 19% of GDP which is higher than the average (at 16.8%) over the past decade. Furthermore since government investment is intended to fall over the next five years, private investment has to rise by *more* than 44%. And this at a time when personal consumption is growing slowly so that businesses can expect to have a slowly growing domestic market for their goods and services. Could the investment be in housing? Unlikely since house prices are likely to fall and household debt is already high. Clearly the investment has to be in anticipation of a rapid growth in net exports.

What, then, is the outlook for net exports? Over the five years, the OBR forecasts that exports will grow (at 33%) twice as fast as imports (18%). Not only is export growth in each year (at about 6%) expected to be higher than the 4% annual average for 1999-2008 but import growth in each year (at about 3.5%) is expected to be lower than the 4.9% annual average for 1999-2008. Is this possible? Yes, in the sense that between the end of 2007 and the end of November 2010, the pound has dropped by 17%[7] so that exports and import-substitutes are more profitable. Nevertheless these changes are large in the light of recent history.

Thus the forecast for the growth in the national income is seen to rely very heavily on what are historically, highly unusual increases in private investment and net exports. As far as the latter is concerned, the latest figures are not encouraging since in October 2010, the UK's external current account deficit rose slightly (by £0.1 bn) on the September figure so that there is no immediate evidence of a rise in effective demand from that source (Guardian 10 Dec 2010).

Table 7 gives the figures for income–generating expenditure for 2009, the predicted figures for 2010 and the Treasury forecast for 2015

| **Table 7 Income-generating expenditures; UK; 2009-2015** | | | | |
|---|---|---|---|---|
| | | | | |
| **Description** | **Actual** | **Predicted** | **Forecast** | **% change** |
| | **2009 (£bn)** | **2010 (£bn)** | **2015 (£bn)** | **2010-2015** |
| | | | | |
| Household consumption | 825 | 828 | 909 | 10 |
| Government consumption | 289 | 294 | 264 | -10 |
| Investment | 182 | 197 | 282 | 44 |
| Exports | 323 | 337 | 449 | 18 |
| Less imports | 353 | 373 | 439 | 14 |
| | | | | |
| **GDP at market prices** | **1267** | **1279** | **1462** | **14** |
| | | | | |
| Source; Table 1 in Sawyer 2010 (based on OBR tables) | | | | |
| Note; totals may not sum due to rounding | | | | |

[7] . The real effective exchange rate index for sterling at the end of 2007 was 97.5 and at the end of November it was 80.9 (average for 2005=100) (Bank for International Settlements website accessed on 1 January 2010)

What is the upshot of all this? The conclusion is that not only are the cuts heavily biased against the poor (as we shall see in section 7), but the cuts are highly unlikely to achieve their objective of eliminating the deficit. The gamble is that by shrinking the state, the private sector will gain sufficient space to become the engine of economic recovery. However the likelihood is that growth will be so much lower than its potential, that the loss of national income will be close to £100 bn or about 7% of national income (Irvin et al 2010, 4). This is what Irvin et al mean by "a £100 bn gamble".

However as Irvin et al point out, even this could be too optimistic. The Coalition government plans to reduce the deficit from £155 bn in 2010 to £115 bn next year. This is a cut of £40 bn or 3% of Gross Domestic Product (GDP). Cutting the deficit in such a sharp way could trigger a double dip recession or what Keynes referred to as the death spiral where tax revenues decline rapidly, unemployment rises rapidly and so too do the welfare benefits, in spite of being cut in unit terms (Irvin et al 2010, 11). Such a death spiral is highly likely as the UK is not alone in pursuing fiscal austerity. Much of the Eurozone (which is a particularly important market for British exports) is on a deflationary course so it is easy to see how the cuts will initiate a death spiral in the UK.

The Treasury estimates that the austerity budget will result in the loss of 1.3 million jobs across the economy over the next five years with a compensatory creation of 2.5 million jobs in the private sector (Irvin et al 2010, 12, 13). But as John Philpott chief economist at the Chartered Institute for Personnel and Development stated; "*There is not a hope in hell of this happening"* (cited in Irvin et al 2010, 13)

As Vince Cable said in February 2010 when in opposition;

> *"Slashing spending now could push the economy back into recession and inflict further structural damage on the UK that will make it harder to sustain our credit rating. He [George Osborne] fails to appreciate that what the markets are looking for is a credible plan to reduce the deficit, not a willingness to slash regardless of economic conditions"* (quoted in Irvin et al, 2010, 14).

It is clear that this set of Coalition Government policies is a political project masquerading as economic policy. The mistakes of the Blair and Brown governments in not regulating the banking sector do not justify the deep cuts agenda of the Coalition Government (Irvin et al 2010, 5). Indeed, the Government risks remaking the mistakes of the 1930's when two years after the start of the Great Depression, a budding recovery was aborted through fiscal tightening.

It should be noted that according to an average of 26 forecasts for the UK economy, GDP growth between the end of 2010 and 2011 will rise by 1.9% (Treasury Dec 2010, 3). The range is from 0.9% to 3.1%. However these seem to be too optimistic. The assessment of this paper is that there is a very high probability of a fall in GDP and of a sharp rise in unemployment over the next year to 18 months.

A rise in unemployment would not be a surprising outcome under a Conservative government or, in this case, one dominated by Conservatives. As table 8 shows, the rate of unemployment has tended to be higher (since 1970) under Conservative than under Labour governments.

**Table 8 Unemployment in the UK; 1970-2009**

| | Unempl. rate (%) | | Unempl. rate (%) | | Unempl. rate (%) | | Unempl. rate (%) |
|---|---|---|---|---|---|---|---|
| 1970 | | 1980 | 6.8 | 1990 | 7.1 | 2000 | 5.4 |
| 1971 | 4.1 | 1981 | 9.6 | 1991 | 8.9 | 2001 | 5.1 |
| 1972 | 4.3 | 1982 | 10.7 | 1992 | 9.9 | 2002 | 5.2 |
| 1973 | 3.7 | 1983 | 11.5 | 1993 | 10.4 | 2003 | 5.0 |
| 1974 | 3.7 | 1984 | 11.8 | 1994 | 9.5 | 2004 | 4.8 |
| 1975 | 4.5 | 1985 | 11.4 | 1995 | 8.6 | 2005 | 4.8 |
| 1976 | 5.4 | 1986 | 11.3 | 1996 | 8.1 | 2006 | 5.4 |
| 1977 | 5.6 | 1987 | 10.4 | 1997 | 6.9 | 2007 | 5.3 |
| 1978 | 5.5 | 1988 | 8.6 | 1998 | 6.2 | 2008 | 5.7 |
| 1979 | 5.4 | 1989 | 7.2 | 1999 | 6.0 | 2009 | 7.7 |
| **average** | **4.7** | | **10.3** | | **8.3** | | **5.4** |
| | | | | | | | |
| | **By government** | | | | | | **Ave.(%)** |
| | June 1970 to February 1974 - Heath - Conservative | | | | | | 4.0 |
| | February 1974 to May 1979 - Wilson/Callaghan - Labour | | | | | | 5.0 |
| | May 1979 to May 1997 - Thatcher/Major - Conservative | | | | | | 9.2 |
| | May 1997 to May 2010 - Blair/Brown - Labour | | | | | | 5.7 |
| | | | | | | | |
| Source; Econstats.com | | | | | | | |

In 2010 jobs are already more scarce with the unemployment rate up to just below 8%, the highest since 1996 and the number of people claiming JSA for at least 12 months more than doubled from 118,000 in December 2007 to 243,000 in December 2010. The total of long-term unemployed (including those not claiming JSA) in October 2010 was 839,000, the highest level since 1997 (Guardian 22 Dec 2010). Furthermore, as argued above, this is likely to get worse than better.

Not only has employment growth since the end of 2007 been slow, but the jobs created have been mostly part-time ones. Between the end of 2007 and the end of 2009, the UK's real GDP fell by 6% and by the third quarter of 2010, GDP was still about 4% below the end of 2007. Total employment in the third quarter of 2010 was still about 1% *below* the level of the end of 2007, but *full-time* employment was still more than 3% below the third quarter of 2010. Any increase in employment was in *part-time* jobs which by September 2010 were 6% above the level at the end of 2007 (ONS 2010, "GDP and the Labour Market" accessed online on 16 Dec 2010).

What are the likely effects of a higher rate of unemployment on disabled people? The short answer is we don't know. We do know that the employment rate of disabled people is around 48% compared with 78% for non-disabled people. This gap of 30% has come down a bit since 2002 when it was 36% (ODI website)[8]. However there are said to be 1.3 million disabled people (19% to 24% of disabled people of working age) who say they are available for work and who want to work (Demos Oct 2010, 19). At every level of qualification, the proportion of people with a work-limiting disability who lack, but want, paid work is much greater than those without a disability (MPSE 2010)

So with *growing* unemployment, the prospects of getting a job are not good for disabled people.

[8]. Estimates of the employment rates for disabled people of working age vary between a Demos estimate of 50% and an estimate in DWP 2008, 100 of 43% compared with figures of 80% and 74% of non-disabled people giving gaps between the two of 30% and 31%. In the mid-2000s, the average employment rate for disabled people in the rich (OECD) countries was 40% compared with an average for non-disabled people of 75% (OECD 2009, 11).

As a result, the assumption that disabled people will make a smooth and painless transition into sustainable work is both naïve and dangerous (Demos, Oct 2010, Foreword). Ian Duncan Smith (the Works and Pensions Secretary) described those individuals who are genuinely sick or disabled as having nothing to fear. However Demos describes this as a statement of unconditional dependency with no mention of the opportunities that could be provided to enable this group to build their capabilities and contribute to society by other means (Demos Oct 2010, 28)

In summary, disabled people are entering an age of austerity from a starting point well behind that of the majority of their non-disabled counterparts (Demos Oct 2010, 29). The Demos report points out that the recession of 2007 to 2009 had a bad effect on disabled people with the number of disabled people without any savings at all increasing by 6%. This brought the proportion of disabled people without any savings whatsoever up to about half, compared with 20% for the whole population (Demos Oct 2010, 23).

Thus a move back into recession would be extremely damaging for disabled people. A 1% drop in GDP represents a loss of about £13 billion and given the pattern of policies, it is likely that more than half of this would fall on the poorest half of households in which disabled people fall.

## 7 Bringing it all together – the effects of the cuts on disabled people

In its 2010 election manifesto, the Labour party proposed cuts of two-thirds spending and one-third taxes. By contrast the Coalition Government's budget has proposed 77% comes from spending and 23% from taxes (Irvin et al 2010, 20). The aim of the Coalition Government is to get public sector net debt down to 67% of GDP in 2015/16. This seems to be unnecessarily drastic since it compares with a prediction for the USA in 2015/16 of 100% and with a current figure for Japan of nearly 200% (Irvin et al 2010, 20).

The focus of the Coalition Government on getting back to a relatively low debt/GDP percentage, coupled with a preference for cuts in public spending and rises in indirect rather than direct taxes means that this will be a very painful process for the poorest sections of the population.

We come back in the last section to ask whether the cuts are necessary and at the alternatives. Here we look at the effects of the cuts and tax/benefit changes on disabled people.

Soon after the Budget, many commentators were concluding that disabled people and families with children would be hit hardest. The Home Secretary, Theresa May, wrote to the Chancellor that disabled people would be disproportionately affected (see Demos 2010,25)

To assess how disproportionately requires answers to two questions;

- what is the distribution of income of disabled people?
- how are disabled people affected by the cuts?

Here we try to answer these questions by looking at the UK population and then at the end of this section we look at the likely impact on the disabled people in Norfolk.

**What is the distribution of income of disabled people?**

As we have seen, there is a wide range of estimates for the number of disabled people in the UK. Here we assume a total of 12.7 mn or 21% of the total population. The number of people living in households with a disabled person or persons is about 17.2 mn. or about 29% of the total population (see table 9 below)

| **Table 9 People in Households with disabled person(s); 2008/09** | | | | |
|---|---|---|---|---|
| | **In receipt of disability benefits (mn)** | **Not in receipt of disability benefits (mn)** | **Total** | **% in poorest 40% of incomes** |
| No disabled adult, one or more disabled child(ren) | 0.5 | 1.1 | 1.6 | 52 |
| One or more disabled adult, no disabled child | 4.9 | 9.7 | 14.6 | 52 |
| One or more disabled adult, one or more disabled child(ren) | 1.0 | 0.4 | 1.4 | 69 |
| **Totals** | **6.4** | **11.2** | **17.6** | |
| Source; HBAI 2010, 40 | | | | |

## What are their incomes?

The best source for the distribution of incomes for disabled people is the Household Below Average Incomes (HBAI) statistics of the Department for Work and Pensions (DWP). The latest figures are for 2008/09 and published in 2010. Table 10 below summarises these figures.

| **Table 10 The Distribution of Income of Individuals (before housing costs) in the UK; 2008/09** | | | | |
|---|---|---|---|---|
| | **Median** | **Percentages in each quintile ----------------** | | |
| | **income** | **Disabled** | **Non-disabled** | **All** |
| | **(£ pw)** | **individuals** | **individuals** | |
| Poorest fifth (bottom quintile) | 201 | 26 | 19 | 20 |
| Second quintile | 304 | 27 | 18 | 20 |
| Third quintile | 407 | 22 | 19 | 20 |
| Fourth quintile | 545 | 16 | 21 | 20 |
| Rishest fifth (Fifth quintile) | 844 | 9 | 23 | 20 |
| | | | | |
| **Median/Totals (%)** | **407** | **100** | **100** | **100** |
| **Totals (mn)** | | **11.1** | **49.1** | **60.2** |
| **Median income (£ per week - estimated)** | | **342** | **424** | **407** |
| Source; HBAI 2010, 14, 38 | | | | |
| Note; the median income is not per individual but is 'equivalised' for a couple with no children (HBAI 2010, 3) | | | | |

From table 10, we can see that the median income of disabled people was £342 per week compared with a median for non-disabled of £424 per week. This means that the average income of disabled people was about 81% that of the non-disabled.

This median income is the 'equivalised' income for 2 adults without any children[9]. In 2008/09, the average size of household was 2.3

[9]. The HBAI states that "in order to allow comparisons of living standards between different household types, income is adjusted to take into account variations in the size and composition of the household in a process known as **equivalisation**. This adjustment reflects the common sense notion that a household of several people requires a higher income than a single person in order for both households to enjoy a comparable standard of living". (HBAI 2010, 3 my emphasis). The benchmark used for equivalisation is a couple with no children. It is interesting to note that the adjustments made for size and composition of the household do not include disability. "This means that the position in the income distribution [of disabled people] may be somewhat upwardly biased" (HBAI 2010,35)

persons so the median (*non-equivalised*) income was probably a little above £424 but here we assume that the equivalised income approximates to the household income.

So far, we have seen that the median income of a household *with* a disabled person is about a fifth below the median income of households *without* a disabled person. This is a significantly greater gap than the 12% gap for the rich (OECD) countries (OECD 2009, 7).

Having looked at the average we now look at the distribution of income.

From table 10, we can see that more than half (53%) of disabled people are in the poorest 40% of the population and that three-quarters are in the poorest 60%. Given the lower median income of disabled people, this is not surprising. Nor is it surprising that 23% of individuals in families with at least one disabled person live in relative income poverty compared to 16% of individuals in families with no disabled member (ODI website accessed on 10 Dec 2010)[10]. In the Demos Oct 2010 report, the proportion of disabled working age population who live in low-income households[11] (that is, live in 'poverty') was double - at 36% - of the poverty rate (18%) for their non-disabled counterparts.

It is clear that 'disabled households' are significantly poorer than 'non-disabled households' and yet if they are compensated for their impairment, they should have a *higher* income to get the same standard of living. According to the DWP 2008, over half of disabled people incurred extra expenses as a result of their impairment (DWP 2008, 145) and when the extra costs of living associated with an impairment are included, the poverty rate of households with disabled people rises from 36% to 47% (Demos Dec 2010, 16).

What are these extra costs necessary to give a disabled person the same standard of living as a non-disabled person? As you

[10] . These figures are for 2008/09. Households in relative income poverty refers to those households receiving less than 60% of median disposable income.

[11]. Low income households are again those with incomes of less than 60% of the UK median incomes (after housing costs) (MPSE 2008, 66). For the figures for 1994 to 2005 see Palmer 2006, 3.

might expect, the extra costs vary enormously (Demos Dec 2010, 16), but in a Rowntree report of 2004, the weekly amounts required by disabled people were in all cases £200 above the maximum benefits. In other words, even assuming that disabled people were on maximum benefits, their incomes were, in 2004, about £200 per week below the amount required for them to ensure an acceptable, equitable quality of life (Rowntree, Oct 2004, Findings).

Table 10 showed that the 'equivalised' median income of disabled people was (in 2008/09) about £82 per week below that of non-disabled people. This is something like £40 per person per week lower - and yet we have seen that their income should be something like £200 per week higher to compensate for their impairment. In other words, disabled people are about £240 per week short of an 'equivalent-standard-of-living' income.

In spite of this, the present government is cutting expenditure in such a way and raising taxes in such a regressive way that the cuts and increased VAT will be particularly painful to poorer (and therefore disabled) people. This is what we look at in the next section

**The effects of the cuts**

Here we adopt two approaches to measuring the impact of the cuts;

- The first is a detailed approach looking at the Demos report on the benefit cuts for disabled people and looking at the effects of the proposed cuts in the NCC's budget over the next three years. The attraction of this approach is that we are looking at the effects in detail. The disadvantage is that we are not looking at all aspects of what is sometimes referred to as 'fiscal consolidation' (such as the rise in VAT and *all* the cuts in departmental budgets)

- The second approach is a more comprehensive approach which attempts to model all the changes.

First we look at the detailed approach, then the modelling approach and then we try to draw the pieces together.

**The detailed approach.**

The Demos report was summarised in section 4. The losses to disabled people from the changes in benefits are estimated in that report at £9.2 bn over five years. The report focussed on 7 mn disabled people of working age, half of whom (3.5 mn) are on disability benefits[12].

Since the loss of £9.2 bn applies over a five year period to 3.5 million disabled people of working age, the loss per year is £1.84 bn. or about £526 per claimant per year. From the HBAI (2010) we know that over half of disabled people of working age are in the poorest 40% of the population (HBAI 2010, 38). The median income of this group is about £250 per week. This is equal to an income per *person* per year of about £6,500. A loss of £526 per year for them would be equal to a massive loss of 8% per year. It is worth noting that this loss of 8% of income per year for the poorest half of disabled people (of working age on benefits) is for *each* of five years.

Note that here we are assuming that the incidence of the loss falls equally across all disabled people of working age who are on benefits. For the richest 11 per cent of the disabled people of working age who are in the top fifth of income (HBAI 2010, 38), the loss of £526 is equal to about 2% of their median income per person.

There is no reason to think that the effects of the benefit cuts would be very different for the 186,000 disabled people in Norfolk. However this is not the end of the misery, for not only is the there a threat to the incomes of disabled people, but support services coming from the Norfolk County Council are also being cut.

We have seen that the expenditure cuts of the Norfolk County Council proposed for the next three years total £136 mn. We have estimated that £45 mn of these cuts will particularly affect the 'disabled people' in Norfolk and that most of these cuts are cuts in adult social services. We estimate the number of disabled people in Norfolk to be about 186,000. How are they likely to be affected?

[12] . According to HBAI 2010 (pages 38 and 40), 5.8 mn or 52% of the disabled population of 11.1 mn were receiving disability benefits in 2008/09.

They will suffer directly from the cuts of £45 mn and also suffer a 22% share of the other £91 mn of cuts since 22% of the total population of Norfolk consists of disabled people. This means that the 186,000 disabled people in Norfolk will suffer cuts of £45 mn plus £20 mn or about £350 per person over *each* of the next three years.

However the cuts are likely to be *more* severe for a *smaller* number of disabled people, namely the 31,500 listed in table 4. These are the people who are receiving free or highly subsidised care services. It is likely that the cuts of £45 mn listed in table 5 will *exclusively* affect these people in which case the cost per person will be £1428 over three years or about £476 per year. Add on to this group's share of the other cuts of £91 mn over three years (or £30 mn per year) and we have a total *annual* cut for each person in this group of over £500

These are cuts in support services for a group whose average income is very low. They are almost certainly among the poorest 40% of UK households. As we have seen, nationally the average (median equivalised) income for the poorest 40% of all households is about £250 per week or about £125 per person per week or about £6,500 per *person* per year. The average income in Norfolk is at least 10% below the average for England[13] in which case the average income for the poorest 40% of Norfolk people is probably no more than £5,850 per person per year.

It is difficult to be more precise about these losses, but we feel confident in saying that it is disabled people on this sort of income who are about to suffer cuts in support services from Norfolk County Council of more than 20% over the next three years.

## The modelling approach

The above is a detailed examination of the benefit cuts to disabled people of working age in the UK and the effect of the County Council's proposed cuts on disabled people in Norfolk. Now we turn to a more general (but less detailed) approach which models the cuts in benefits and departmental budgets and the rise in taxes

[13] . This is estimated from income distribution figures for Norfolk and England for 2009 given in the Norfolk Insight website accessed on Nov 18 2010

(most notably the rise in VAT to a rate of 20% implemented on January 4 2011) across income groups.

The Institute for Fiscal Studies has carried out a study of the cuts in benefits and rise in taxes across the income groups. It shows that the distributional impact of welfare measures announced in the Spending Review are clearly regressive with the largest losses (as a percentage of income) falling on the poorest income groups (IFS Oct. 2010, slide 4). Looking at *all* the tax and benefit measures to be in place by 2014/15, The IFS shows that, relative to income, the effect is clearly regressive across the lowest 90% of income earners with the poorest 10% of households suffering the biggest loss (of more than 5% of income) (IFS Oct 2010, slide 9). Overall the richest 10% lose almost as much in income as the poorest 10% but only because of the tax changes introduced by the previous Labour Government. As the IFS puts it; *"The regressive impact is the result of reforms announced by the current Government both in the June budget and in the Spending Review"* (IFS Oct 2010, last slide)

However the IFS does not include all the changes in public expenditure in its analysis. What are these? With a succession of announcements about cuts (both before and after the Emergency Budget of June 2010) it is difficult to get a clear and complete picture of the proposed changes, but the Guardian lists the total as £81 bn by 2015 including £46 bn of cuts in departments' running costs (Guardian website accessed on Jan 1 2010). To put this into perspective, £81 bn is about 12% of total government expenditure in 2009 and a little under 6% of GDP.

There are two quite different pictures presented on the effects of these cuts, one by the Treasury and one by Horton and Reed. The two are summarised below in table 11.

| Table 11. Two very different pictures of losses from spending cuts (*excluding* cuts in benefits) (2012/13) | | | | | |
|---|---|---|---|---|---|
| **Quintile of income >** | **1(poorest)** | **2** | **3** | **4** | **5 (richest)** |
| | | | | | |
| **Value of public services (£000 pa per household)** | | | | | |
| **- CSR, Annex B** | 11.5 | 10.7 | 7.8 | 6.7 | 5.5 |
| **- Horton and Reed** | 16.9 | 18.3 | 17.3 | 14.8 | 12.8 |
| | | | | | |
| **Cuts in the value of public services as % of income + value of public services** | | | | | |
| **- CSR, Annex B** | 1.5 | 1.8 | 1.8 | 1.3 | 1.0 |
| **- Horton and Reed** | 7.9 | 6.1 | 4.8 | 3.7 | 2.2 |
| | | | | | |
| **Sources; Treasury Oct 2010, Annex B Table B.1 and chart B.6 and Horton and Reed 2010 (figures supplied by Howard Reed for quintiles)** | | | | | |
| **Note; Value of public services is called 'Benefits in Kind' by the Treasury** | | | | | |

The Treasury suggests that the effect of the changes is fairer than the analysis provided by Horton and Reed. However the Treasury's approach is misleading because only a little over half of government expenditure is allocated to income groups and the cuts in departmental spending are allocated in such a way that the cut for each income group is about the same in cash terms.

The data collected by Horton and Reed would seem to be much more reliable than that of the Treasury. Since the figures for the income distribution of disabled people to which we have had access are by quintiles, we requested the data for such groups from Howard Reed.

Table 12 below summarises the data for both the tax/benefit changes and the cuts in other spending.

| Table 12 Losses by income group from tax/benefit measures and other spending cuts (2014/15) | | | | | |
|---|---|---|---|---|---|
| **Quintile of income >** | **1 (poorest)** | **2** | **3** | **4** | **5 (richest)** |
| **Average net income (£pa) per household** | 9,087 | 15,690 | 22,285 | 30,643 | 58,446 |
| | | | | | |
| **Value of services received (£ pa)** | 16,871 | 18,275 | 17,315 | 14,817 | 12,780 |
| | | | | | |
| **Net income plus value of services received (£ pa)** | **25,958** | **33,965** | **39,600** | **45,460** | **71,226** |
| | | | | | |
| **Size of losses per year (£)-----** | | | | | |
| **- tax/benefit measures** | 565 | 664 | 795 | 1,257 | 2,079 |
| **- spending cuts** | 2,038 | 2,072 | 1,889 | 1,677 | 1,533 |
| **- total losses** | **2,603** | **2,736** | **2,684** | **2,934** | **3,612** |
| **Losses as % of net income plus services received** | **10.0** | **8.1** | **6.8** | **6.5** | **5.1** |
| | | | | | |
| Source; Horton and Reed, 2010 (data supplied by quintiles) | | | | | |

The effect of the cuts can be seen to be dramatic. Note that these cuts are for only one year (the tax year 2014/15). It can be seen that the poorest fifth of all households suffer losses of 10% of their income plus value of public services. The next poorest fifth suffer a loss of 8.1%

## Bringing the threads together – the effects on disabled people

We saw from table 10 that disabled people in the UK are poorer than non-disabled people. Their average household income is almost 20% lower than that of non-disabled people and a greater proportion of them are in the lower income groups. It is probable that more than half of all households with a disabled person have an average income of only about £13,000.

And yet, as we can see from table 12 above, it is these lower income groups that will bear the largest proportional losses from all the fiscal cuts.

These figures are brought together in table 13 below

| Table 13  Losses to disabled people from all fiscal changes (2014/15) | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| Quintile | 1 | 2 | 3 | 4 | 5 | All |
| | | | | | | |
| Losses as % of net income | | | | | | |
| plus services received | 10.0 | 8.1 | 6.8 | 6.5 | 5.1 | |
| | | | | | | |
| Distribution of income | | | | | | |
| of disabled people (%) | 26 | 27 | 22 | 16 | 9 | 100 |
| | | | | | | |
| Sources, tables 10 and 12 | | | | | | |

The loss to disabled people can be seen to be particularly damaging. In the time available for writing this report, it is impossible to say with any precision what the effect of the cuts will be on disabled people. However we are confident in saying that the effects will be damaging and particularly damaging for the poorest half of disabled people.

We saw earlier from the Demos Oct 2010 report that the loss from benefits (to disabled people of working age) will be 8% per year for the poorest half. We have also seen that the cuts in the NCC's budget will be particularly damaging to the poorest half of the disabled people of Norfolk. The total number of disabled people in Norfolk is 186,000 and the poorest half is therefore about 90,000. Of these something like 31,500 or just over a third will be very badly hit by the proposed cuts in adult social services. They will lose more than £500 per year in support services – and this for people who are on average incomes of less than £6,000 per year.

The more general model of the cuts estimate that the loss to the poorest half of disabled people will be between 8.1% and 10% (see table 13 above). This is the loss in 2014/15 and is for one year. Thus over the next five years, the reduction in the standard of living of the poorest half of disabled people is likely to be a least a third. This will take the form partly of a drop in incomes, partly of a reduction in support services.

As we have seen, on top of the extremely regressive effect of the 'fiscal consolidation', there is a real possibility of a double-dip recession in the next two years with a sharp rise in unemployment. The loss of jobs would cause a further loss to the disabled people in Norfolk.

Of course the Coalition Government claims that the cuts are essential implying that this is a risk that has to taken. We do not agree as we argue in the next section. The cuts are unnecessary and undesirable and there were (and still are) alternatives.

## 8. Are the cuts necessary? And what are the alternatives?

### Are the cuts necessary?

The Demos report of 2010 is fairly thorough in its analysis of benefit changes on disabled people but it includes the following quote;

> *"we recognise that the government is facing an unprecedented deficit which needs to be paid off through a series of radical welfare and departmental cuts. We are not, therefore, suggesting that disabled people should be exempt from these cuts – we must as a society all bear the burden of the recovery from recession"* (Demos Oct 2010, 16).

We do not agree with this conclusion. The government *is* facing an unprecedented deficit but it does not follow that we must *all* bear the burden. The burden was not created by the poorest half of the population – it should not be borne by the poorest half of the population. As Seamus Milne has put it; "… *2100 promises to be a year of social and economic misery, as the coalition's cuts and the heaviest costs of the bankers' crisis are loaded on to the poorest under the slogan "we're all in this together"" (*Guardian, 30 Dec 2010).

In the calendar year 2009, the UK recorded a general government deficit of £159 bn, equivalent to 11% of GDP. This is high by EU standards but by the same standards the UK has a reasonable debt-GDP ratio. The debt-GDP ratio is also low in UK historical terms being lower than at any time between 1950 and the late 1960s (Irvin et al 2010, 9, 14). Thus the flow is bad; the stock is OK. Nevertheless the running deficit is high and something has to be done, but what is being done is a grave mistake.

As Irvin et al point out, in 2010/11, the debt is 62% of GDP against 177% in 1932 with debt interest payments at 6.3% of public expenditure now, compared with 40% in 1932. Yet we are being told to take the same medicine.

As William Keegan observed in *The Observer*;

> "They (Osborne/Clegg) *have effortlessly altered the tenor of the debate from whether there should be drastic cuts at a time of relatively low economic activity to the question of how and where the cuts should be administered"* (William Keegan, *Observer*, 12 Dec 2010).

This is in spite of the fact that at least two-thirds of the increase in the structural deficit is estimated to have been the result of the financial crisis of 2008 (Irvin et al 2010, 11). The cuts as proposed are not necessary and there are other ways of reducing the deficit without risking a double-dip recession and without causing much greater inequality.

**What are the alternatives?**

There were and still are alternatives to the spending cuts. Irvin et al 2010 suggest the following;

- a 50% tax rate on gross income above £100,000 a year (at present it is 50% on £150,000 or more) – this would raise £2.3 bn
- uncap National Insurance Contributions (NICs) so that they are paid at 11% all the way up the income scale - this would raise £9.1 bn
- introduce minimum tax rates for certain levels of gross income - this would raise £14.9 bn
- increase the tax payable (higher multipliers) for houses in Council tax bands E to H – this would raise a further £4.2 bn
- minimise personal and corporate tax avoidance by requiring tax havens to disclose information fully and by changing the definition of tax residence – this would raise a further £10 bn. In the Coalition Government's agreement it was stated that *"The parties agree that tackling tax avoidance is essential for then new government, and that all efforts will be made to do so, including detailed development of Liberal Democrat proposals"* (Con-Lib May 2010, 3).
- introduce a financial transactions tax at a rate of 0.1% applicable to all sterling transactions – this would raise a

minimum of £4.2 bn and a maximum of £34 bn (assume £10 bn)[14].

Such reforms would mean that there would be no need for spending cuts since the above comes to a total of £50.7 billion extra revenue for the Treasury[15] and compares with the Coalition's proposed mixture of cuts and tax rises of £40 bn. in 2011/12. Irvin et al's proposals come to a similar reduction with their suggested restoration of the 10% tax band (£11.3 mn) offset by a suggested cut in heavy military goods (such as Trident) bringing the net effect back to about £40 bn. (Irvin et al 2010, table 1).

This pattern of tax changes is far less likely to cause a double-dip recession than the present mix of spending cuts and tax rises. It is also fairer and would go some way to reversing the inequality trend in the British economy.
One indication of increasing inequality is the increase in the ratio of the income of the richest quintile to that of the poorest. This has risen from 5.3 in 1994/95 to 6.0 in 2008/09 (HBAI 2010, 25). Over the last decade, the poorest tenth of the population have, on average, seen a fall in their real incomes after deducting housing costs. In other words, after adjusting for inflation, their incomes are slightly lower than a decade ago (poverty.org website accessed on 15 Dec 2010)

Similarly, Stewart Lansley has highlighted the reduction in the share of wages in the UK's GDP since the late 1970s and, over the same period, a growing inequality within earnings (Lansley August 2010, figures 1 and 3). As a result, to maintain living standards, households faced with a declining wage share have become increasingly indebted. The personal debt/income ratio has risen from 45% in 1980 to 157% in 2007 (Lansley Aug 2010, 4).

There is, Lansley also claims, a link between inequality, financial instability and economic cycles. He states that;

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[14]. For more on Financial Sector Taxes, see Dolphin June 2010.
15. It is assumed that the Bankers' Bonus Tax introduced by Alistair Darling in 2009 which raised £2 billion would continue to be levied. On banking bonuses, the Coalition Agreement stated that; "we agree to bring forward detailed proposals for robust action to tackle unacceptable bonuses in the financial services sector" (Con-Lib May 2010, 4).

> "*The role of inequality in fuelling financial instability has long been recognised. Keynes made it clear that because of the lower marginal propensity to consume of the rich and their propensity for speculation, wealth inequality increases the risk of financial instability and economic collapse. In his book,* The Great Crash 1929*, J K Galbraith identified the 'bad distribution of income' and its impact on the pattern of demand as the first of five factors causing the crash and the great depression"* (Lansley Aug 2010, 5).

As Galbraith put it; "*The rich cannot buy great quantities of bread. If they are to dispose of what they receive, it must be on luxuries or by way of investment in new plants and new projects. Both investment and luxury spending are subject, inevitability, to more erratic influences and to wider fluctuations than the bread and rent outlays of the £25-week workman"* (Galbraith 1992, 194, 195).

Therefore the argument is that reducing the deficit by measures which increase equality is likely to lead to greater economic stability. The measures set out by Irvin et al are just such measures whereas the measures taken by the Con-Lib government are likely to have the opposite effect.

This bias of the Con-Lib government is, perhaps, not surprising given that 16 of the 23 members of the Cabinet are *multi*-millionaires. But perhaps that's too much of an instrumentalist view.

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