

How to make cuts without wounding low earners **20th September, 6.15-7.30pm**

Chair: Allegra Stratton, The Guardian
Speakers: Jeremy Browne MP, Shadow Chief Secretary to the Treasury
Clive Cowdery, Resolution Foundation
Jamie Bartlett, Demos
Jonathan Cox, London Citizens

Allegra Stratton opened the fringe by explaining who low earners were according to the Foundation's definition: roughly households earning £11-27,000. There are 13 million adult low earners in the UK, some with over £35,000 worth of debt.

Clive set the scene for the discussion by explaining the Foundation was set up in 2005 to focus on improving the outcomes of low earners in a mixed economy. He argued that the government and third sector's focus had been on those at the very margins of society, the socially excluded and that there has been some great work to support this group of people. However, low earners remain overlooked: too poor to access private services but too rich to be eligible for government initiatives or third sector support.

The Foundation produced an audit in June to try and improve understanding of what life is like for this group of people. It found that low earners position has got worse since 1977, with low earners only seeing improvements since 1997. In 1997 for every £1 they paid in tax they received just £0.97 back in benefits and public services consumed. It is only in the last few years that this has improved; in 2006/7 for every £1 low earners paid in tax they received £1.06 in benefits. Low earners tend to be squeezed between private and public solutions, highly exposed in the current economic context, and are often overlooked by policymakers. Even before the downturn they were living on the edge; 78% were already in poor financial health.

Clive said that it is very important that any cuts are both careful and cautious in order to ensure that the gains of the last few years are not reversed. It will be particularly important to protect tax credits for this group. There may be scope to lower the upper threshold for tax credits but any sweeping changes to the system would seriously affect low earners.

Jonathan Cox followed Clive giving details of London Citizens' Living Wage campaign, which has been in operation since 2001. He argued that the

campaign came out of a realisation that the National Minimum Wage didn't recognise regional variations in living costs which meant that many people could not live off the current rate. London Citizens worked with some academics to derive a Living Wage which took into account a range of needs, including the need for warmth, shelter, a healthy diet and the need to live in avoidance of chronic stress. The calculation led to a London Living Wage of £7.45 per hour. So far, as a result of their campaigning activities, 29 businesses in London have signed up. He argued that tax credits and benefits remained very important though. Without these a Living Wage would need to be £9.65.

Jamie Bartlett presented some thoughts on how the government could avoid certain cuts by making existing services more efficient. His first example was the use of personalised budgets in public services, which are currently being piloted in social care. The evidence suggests that by giving individuals control over their money, they are more likely to identify the right service for them more quickly and less likely to need to combine certain services. The evidence suggests that this could save about 10% of public service costs. However, there are large transitional costs of around £500 million which would need to be paid before these long-term savings can be realised. He argued that this seemed to fit with Liberal Democrat ideologies: the social provision of services and individual choice.

Jamie's second example was preventative homelessness services in Boston where an academic followed 120 homeless people for a period of time to find out how much they were costing the state. In doing this exercise he found that the cost to the state was over £10 million. This encouraged the service providers across different departments to come together to consider the problem collectively. They agreed a collective amount that they would spend to solve the problem. In doing this they found that for one third of the cost they could put these people into homes.

Jeremy Browne MP argued that the scale of the deficit is catastrophic but that relatively speaking things could be worse. In 1945 the country experienced a more severe budgetary deficit and the position of the UK is not as bad as in Italy or Japan. He argued that the parties must show 'progressive austerity'. The Liberal Democrats are aligned with Labour in their view that it would be disastrous to start making cuts now. We must grow the economy. The time to make cuts will be from Spring/Summer 2010. He said there was scope to make changes to tax credits so that they were focussed on people at the lower end of the earnings scale and he said that the Liberal Democrats would not tax for earnings under £10,000. He argued that there was some scope for direct government intervention; the money used to fund the VAT reduction could have been ring fenced to fund paid internships so that young people from low earner households could access them.

In his comments on the speaker's presentations, Jeremy argued that personal budgets are interesting in that they empower people to shape their own lives. He also argued that the Liberal Democrats had made a case for consideration of regional differences when the National Minimum Wage was first introduced,

but that we would need to be careful of the impact of a Living wage on employment. We know that the National Minimum Wage did not affect employment in a time of economic growth but there is no evidence of what its impact will be in a downturn. He also argued that the 10p tax scandal had been one of the most regularly raised issues to him.

A number of points were raised in the discussion that followed. A point was made that it is important to think about power issues in relation to low earners, and not simply focus on them as recipients of public services. For example, organisations' models such as the co-operative model have been very effective in empowering employees to have greater control over what they are paid. Jeremy argued that there was a case for giving housing estates control over their own repairs' budget.

On the issues of personalised budgets, it was pointed out that a number of people would need budget holding assistance and that this could increase the cost. Clive agreed, arguing that Resolution Foundation's research had found that, in relation to financial health, the area that low earners are most worried about is managing their budgets.

There was quite a lot of concern about the way Local Authorities operate in that they are more likely to make cuts to services over making staff redundant. Jeremy agreed that this was a concern, stating that the primary purpose of government was to deliver good services, not to be an employer. He argued that, politically, it is a difficult thing to talk about because the public do not understand just how bad the economic deficit is because many have not felt the effects. Those who have not lost jobs yet have just noticed mortgage payments being reduced following the reduction in the base rate. Sophia Parker from Resolution Foundation argued that low earners still thought that they were not listened to, with a significant number turning to 'other' political parties like UKIP. She also said that it is important to consider a group of people who are trapped in a no-pay, low-pay cycle.

Clive pointed out that the public sector does not get bailed out by turnover in the same way that the private sector does. He also suggested that the deficit would mean cuts in the region of 25-30% of discretionary services. The government must respond by looking at what skills are needed and providing the necessary training to support people into the right jobs. Low earners need particular support as they often lack social capital that higher earners are able to draw upon. It is important that the government acts as an enabler to allow people to access opportunities. Some fringe attendees expressed concern that the government does not always enable the right things to happen because it is not in contact with local people and local needs.

Clive argued that, to some extent, the government can control the severity of the cuts by controlling how quickly it chooses to re-balance the budget. If they choose to do it in the next 3-5 years it could mean very severe cuts of low earners. He was in favour of spreading the cuts over a longer time period, providing that departments are demonstrating interim progress.

In conclusion, the members were asked if they could have one policy recommendation what would it be:

- Living wage to be rolled out
- Self-directed teams in local authorities
- Re-training and skills training offered much earlier on in unemployment
- Potential public sector pay freeze for all salaries over the Prime Minister's to bring in line

Contact details

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