

**Cutting public sector jobs: more than just a déjà vu moment**  
(Dr Frank Eich)

The role of government in society, the size of the public sector workforce and the long-term affordability of their pension promise (much of it in the form of unfunded defined benefits) are increasingly coming under scrutiny, with the new Government indicating severe cuts ahead. Some commentators are warning of ideologically-driven reductions, which could give the UK a double-dip recession, others are pointing out that the substantial fiscal deficit leaves few other options and argue that a smaller state would in any case lead to a stronger and healthier economy.

It seems that we have been here before. In the early 1990s – after more than a decade of Conservative government and at the peak of the previous recession - public sector employment stood at around 6m (22¼ per cent of total employment). Faced with a fiscal deficit of nearly 8 per cent of GDP, the then government embarked on an ambitious consolidation programme. By 1997, when the Labour Party was elected into office, public sector employment had dropped by more than 770,000 to less than 5.2m. The pain to British society was, however, relatively modest as nearly 1.7m new jobs were created in the private sector over the same time, comfortably offsetting any cutbacks in the public sector.

The resultant squeeze on public services left many voters discontented though, opening the way for the Labour Party to win the 1997 general election on the promise of better public services, especially in the areas of education and health care. Between 1998 and 2005 public sector employment crept up again to 5.9m (19¾ per cent of total employment); then fell slightly before jumping to 6.1m as the Royal Bank of Scotland and Lloyds Banking groups were reclassified as public sector entities following the government's bailout of the financial institutions.

Could today be a déjà vu moment then, with the new Conservative-led government just having to repeat what its predecessor did nearly two decades ago? Unfortunately the challenge will, if anything, be more severe. Not only are there question marks over whether the private sector will pick up in the same way as it did in the 1990s to absorb the likely redundancies in the public sector (worries of a jobless recovery loom large), much of recent public sector employment growth was also in areas which richer and ageing societies care about a lot: education and health care. Around three quarters of the increase in public sector employment during Labour's years in office was in these two areas. Reflecting the power of the grey vote, the new government has already stated that it intends to increase real spending on the NHS in every year of this parliament. We will have to wait for the Spending Review in the autumn to see how deep the education budget will be cut. As long as these functions are predominately performed and financed by the state, there will be a tendency for public sector employment in these areas to creep up. This suggests that with the elderly representing an ever larger part of society, this and future governments will have to run ever faster just to stand still and really have to rethink the role of the state in the future. It will also not make dealing with the future build up of public sector pension promises any easier.

