The Anarchist Library
Anti-Copyright

Anarcho
A cold economy encrusted by a half-baked ideology
April 2, 2012

Retrieved on 24th April 2021 from anarchism.pageabode.com

theanarchistlibrary.org

A cold economy encrusted by a half-baked ideology

Anarcho

April 2, 2012

Who can dare suggest we are not all in it together? Cuts are being inflicted across all classes – the elite and companies get tax cuts, working class people get wage and benefit cuts. Even better, the Tories in their drive for fairness have given the many the opportunity usually afforded the wealthy few – by waiting until a pasty is lukewarm we can all participate in tax avoidance!

Just to prove we are all in it together, the London free-rag *The Evening Standard* provided an impact analysis of the budget for those unfortunate enough to read it. Obviously seeking a representative cross-section of society, we discovered how a "Young Professional" (£1.6m business turnover), a "High Earner" (£150-200k income), a "Working Family" (£50k income and £300k business turnover), a "Struggling Small Business" (£250k business turnover), a "Young Entrepreneur" (anticipated £780k business turnover) and a "Jobseeker" (who refuses Jobseekers Allowance!) viewed Osborne's budget for the top 5%. Unsurprisingly, they were quite okay with it.

Then there is the "Law and Order" aspect – Osborne complains he had to abolish the 50p tax-band because higher earners avoided it. His solution to this avoidance and fraud is to reward these people with a 5p tax-rate cut. We doubt that such generosity of spirit will be applied to benefit fraud, for example. Still, Osborne proclaimed that he found tax avoidance "morally repugnant" and reassured the masses that he would get more money from the rich by cracking down on their tricks. Which raises the obvious question of why they could not do that with a 50p-rate? Still, it did allow Osborne to try and portray a tax-cut as bashing the rich (by getting the wealthy to pay the tax they should have paid anyway!).

So one rule for the elite, another for us. Or, more correctly, the Golden Rule – those with the Gold make the Rules (although you may have to pay for a very expensive dinner occasionally). As for the other 95% of the population, well, we are clearly are of no consequence – and have most definitely been put in it together.

Osborne proclaimed this budget was one which "supports working families and helps those looking for work." We should worry – his last one was framed as a "budget for growth" and subsequent growth figures have plummeted and forecasts revised repeatedly downwards.

Osborne has on occasion noted that the IMF supported his policies rather than Labour's austerity-lite. This ignores that the IMF were clueless on how much these policies would damage our economy. It has slashed its UK growth forecasts for 2011 from 2% at the start of 2011 to 1.7% (April 2011) to 1.5% (June 2011) to 1.1% in September 2011. Worse, the last quarter figures of GDP growth saw the fall in UK output in the final three months of 2011 revised down even more (from -0.2% to -0.3%) so the economy expanded by just 0.7% in 2011 – less than in the US, Germany, France and even Italy. September last year also saw the IMF reduce its forecast for 2012 from 2.3% to 1.6% before being slashed to a paltry 0.6% in January 2012.

equipment and goods. There are always people who need the over-produced goods and so the market adds to uncertainty as there is a difference between the over-production of goods and the over-production of commodities. If more goods were produced in an anarcho-communist society this may signify a waste of resources but it would not, as under capitalism, produce a crisis situation as well!

It is question begging in the extreme to argue that if (thanks to a recession) workers can no longer buy food then is it an "efficient" allocation of resources that they starve. Houses can be built, infrastructure improved, ecological project pursued, hospitals and schools built/renovated because people need them. Can such schemes really be considered a waste of resources simply because they would never have made a capitalist a profit? Does it not show the stupidity of our economic system and our masters that this is dismissed in favour of making things *worse* (for the many)?

Given the state of the world, it has lead many people to conclude we are in an economic crisis. That is not the case – it is only a crisis if the ruling class is affected (hence the short-lived interest in Keynes and Minsky – even Marx! – back in 2008). If the rich remain rich, or get richer, then the pain and suffering of the working class is of no concern – it is business as usual. Or, from a working class perspective, capitalism itself is the crisis. Our task is to make it a crisis for the ruling class by our resistance.

who consumes the product of their own labour and means of production. In short, a "capitalist" economy with no profits, labour market, classes, money or, in fact, people with different tastes and interests. Needless to say, in this unreal (indeed, surreal) model based on production-consumption units which can sustain themselves without the need to enter the (non-existent) labour market nor (non-existent) money there can be no unemployment.

So as with Thatcher's deep slump of the early 1980s, it is hard to tell whether this is deliberate sabotage boost ruling class interests (then, by rising unemployment to break the unions) or a product of ideological blindness (then, the quaint belief in Monetarism). Probably both, mixed in with usual Tory hatred of the working class. Either way, we are paying the cost of *their* crisis and the system *they* run.

While imposing Austerity will make matters worse, confusing the fears of the 1970s crisis when the working class was too strong for the system with a crisis with its roots in its weakness, the roots of the problem still remain within the contradictory nature of capitalism as an economic system.

In a crisis we see the contradiction between use value and exchange value come to a head. Workers are no less productive than when the crisis started, the goods and services they create are no less needed than before. The means of production are just as productive as they were. Both are just as capable as before of affording for everyone a decent standard of living. Even though people are homeless, housing stands empty. Even though people need goods, production is stopped. Even though people want jobs, workplaces are closed.

This suggests that the efficient allocation of resources promised by capitalism becomes meaningless if its reality is a cycle where consumers go without essential goods due to scarcity and high prices followed by businesses going bust because of over-production and low prices. This process ruins large numbers of people's lives, not to mention wasting vast stocks of productive

The Office for Budget Responsibility (OBR), whose forecasts are used by the Treasury, has been just as bad as the IMF at predicting the consequences of austerity. This "independent" body was constituted in shadow form by the Tories in opposition in 2009 and was formally created in May 2010 when its Chair and four members were appointed by the Chancellor. Surprisingly its forecasts seem to mirror the hopes of the ConDems and are revised downwards when reality cannot be denied. In December 2010 it slashed its growth outlook, expecting growth of just 0.9% in 2011 and an even weaker 0.7% 2012, compared with a previous forecast of 2.5%. So much for Osborne's claims it would provide accurate estimates.

The revision downwards of the 4th quarter of 2011 growth figures as usual took the City "by surprise" – have these people not been paying attention? In the real world (where you get fired for being consistently crap at your job), 2011 saw real household incomes fall by 1.2% – the biggest drop since 1977. The *Institute for Fiscal Studies* (IFS) has analysed the changes implemented by the coalition and have proven that the richest 10% have done better than the poorest 40% of households.

The banks have ignored Project Merlin, showing that those who caused this crisis are still in charge. This was the agreement between the Government and four of the major high street banks to lend £190bn to businesses during 2011 – including £76bn to small firms – and curb bonuses. Unbelievable as it may sound, huge bonuses are still being paid (you don't want the geniuses who caused this crisis to leave and destroy some other economy, would you?). The budget, tellingly, pronounced that the government will take £20bn of taxpayers' cash and use it for loans to small businesses. So our money is being given to big banks, with minimum public oversight, to lend simply because they refused to meet their previous agreement.

Why not create a *Bank of the People*? No, for last year's bargain-basement sale of Northern Rock shows that ministers are not bothered about making a big loss, as long as they can privatise.

What of the deficit? Surely these policies are reducing government borrowing, their ostensible rationale? Alas, no. Net public sector borrowing in February was £15.2bn, up from February 2011's £8.9bn last February and nearly double the forecast £8bn. Osborne has not been slack, though, as he has ensured that his plans are on course and borrowing has come in below targets – by revising these targets upwards by £112bn in November. The failure to generate growth means the government is borrowing billions more than planned, necessitating further cuts. Oh, the irony given this standard indicator of fiscal health was used to justify austerity in the first place.

Simply put, the economy has been flat-lining of activity since the third quarter of 2010 – essentially since ConDem policies started to be applied. Claims that jobs slashed in the public sector would be replaced by jobs in the private sector were just as false as their claim that austerity would not harm growth. Sadly, the "confidence fairy" (as neo-classical Keynesian economist Paul Krugman calls it) did not materialise – austerity has not given lenders "confidence" in the UK economy so boosting investment, quite the reverse. Worse, the IFS has said that 75% of the ConDem austerity programme was still to come, including 88% of the benefit cuts and 94% of the reductions in departmental spending.

The ConDem record on economic management has been pathetic – growth, employment, investment, Britain's credit rating are all worse. Rather than be humbled by any of this, Osborne and Cameron have taken the opportunity to implement yet more wet dreams of the Tory-right like some sort of 1980s tribute act.

Needless to say, ideology is at work. Good news (although this gets rarer by the day) validates the ConDem's policies and so austerity continues while bad news shows that austerity is needed more than ever. Thus we see the wonderful sight of Osborne in 2010 proclaiming the decision by one of the rating agency S&P to take the UK off negative watch as a vote of confidence in his handling of the economy while in 2012 the decision by Moody's, a rival

from the base money created in the first round of QE in America: the $1.2 trillion created did not enter the economy but was held by the banks as excess reserves. The bail-outs failed because this was not the cause of the crisis. The money would have achieved far more had it simply been given to the public.

Here in the UK, where unemployment stands at a 17-year high of 2.7 million (or a staggering 6.3 million if the "underemployed" are included), Osborne continues to proclaim that "the British government has run out of money." Really? Perhaps he should have a word with Mervyn King. Over the past three years, the Bank of England governor has, with a mere tap on his keyboard, authorised the creation of £325bn of new money, out of thin air, through a process of "quantitative easing" (QE). This, however, has so far been used only to bail out the bankers. Why not use it to bail out millions of jobless Britons?

The median annual salary in Britain is £26,000 which means that the £50 billion of the latest QE would hire over 1,900,000 workers for a year. Over all, the Bank of England has pumped £325 billion into QE, enough to employee nearly 2 million works for four and a half years. Meanwhile, unemployment is at a 17-year high of 2.7 million. Do not hold your breath for *our* bail-out – unless we fight for it!

Let us not forget the role of mainstream economics, which has always sought to rationalise and justify capitalism and the wealth and power of the capitalist class. Hence its theory of interest is premised on the rich suffer by deferring consumption and so should be rewarded. Hence its theory of unemployment is premised that on lacking a job simply shows that a person prefers leisure to work. Hence its response to a crisis is the assumption that the worse thing a firm could experience in slump is people buying its products.

As strange as it may seem, the "scientific" models of neo-classical economics used to justify these austerity measures are based on an "economy" with a single-firm which is owned by a single-person atic and are rooted in the ideology of the elite – and their class interests.

Policies like cutting wages and benefits are always wheeled out by the ruling elite (and their parties) during recessions. This ignores that the rise in unemployment is caused, in part, by a collapse in spending. They seek to increase the fraction of national income in favour of capital yet they ignore (for obvious reasons) that the distribution of income has been skewed towards capital from the dawn of the neo-liberal era in 1980. They also ignore that this redistribution upwards provided the financial markets with the means to gamble – which eventually produced the current crisis – as well as the rising debt burden for working people (required to make ends meet in the face of stagnating incomes) which was its catalyst.

Why? Simply because the ruling class know that when growth eventually returns the balance between wages and profits will be further skewed in favour of the latter. So they are using a crisis caused by neo-liberalism to bolster the neo-liberal agenda.

For example, back in 2009 when Osborne was shadow Chancellor he proclaimed that the "very fact the Treasury is speculating about printing money shows Gordon Brown has led Britain to the brink of bankruptcy" and that 'quantitative easing' (or "printing money" as he put it) was "the last resort of desperate governments when all other policies have failed." It was, he stressed, necessary because of the "complete failure" of Labour's other measures to tackle the recession: "I don't think anyone should be pleased that we have reached this point. It is an admission of failure and carries considerable risk." Moving forward to October 2011, quantitative easing now became an "appropriate tool" given the gathering economic gloom. Still, to be fair, it was the *first* resort of *his* desperate government.

As with neo-liberalism in general, the assumption seems to be that the money will "trickle-down" into the real economy. It was false for the last 30-odd years and is still false – as can be seen

agency of S&P, to put Britain's AAA credit on negative watch was also a ringing endorsement of his austerity strategy.

So the response to the problems caused by austerity is yet more austerity! This is the triumph of ideology over experience as we can see the results of austerity. Ireland slipped back into the official definition of a recession – two consecutive periods of economic contraction. The last quarter of 2011 saw a 0.2% fall in GDP while the third quarter saw a 1.1% drop. Worse, the fourth quarter of 2011 saw its GNP (probably a better measure of real national output due to Ireland being a haven for transnational corporations) slump by a massive 2.2%.

So Ireland has went from being Osborne's model during boom times to his model for austerity to being forgotten (unless as a dire warning of the need for austerity will skilfully avoiding mentioning its imposition of austerity). It has not recovered from its depression – technically defined as a fall in the value of real output exceeding 10% — between 2008 to 2009 when it suffered a 10.1% GDP decline and a 14.1% GNP fall. Unemployment is now at 14.2% – a shocking figure – where it has been stagnating around since the middle of 2011.

Rest assured, though, every time economic growth ticks slightly upwards the defenders of austerity proclaim it has turned the corner and shows why we must follow their lead. Over the 16 quarters from when the global recession hit in the first quarter of 2008, Ireland has turned that corner four times (i.e., it has had only 4 quarters of positive GDP growth).

Greece continues to get bailed out in return for more austerity measures – so ensuring that yet another bailout is required further down the line. Thus the recent 325 million Euros of extra austerity measures needed to complete a 3.3 billion Euro package of cuts as the price demanded for a new EU/IMF bailout will simply produce another bailout – as before. The nations leading the implementation of austerity are suffering Great Depression levels of pain. While Britain has not seen the double-digit falls in output that Greece and Ireland have nor Spain's 23% unemployment, our slump has now lasted longer than the one in the 1930s.

Ironically, Cameron rejected the new European fiscal pact simply because he had to appease his backers in the City and their horror at the mild Tobin Tax mooted for financial transactions. Given that the fiscal pact based itself on austerity, resolving to end Europe's debt crisis by setting constitutional limits on national debt levels and budget deficits (with non-compliance with the pact producing hefty fines) this would (ironically) have been a good thing (albeit done for the wrong reasons) if the Tories were not committed to austerity at home.

The evidence is clear – imposing austerity in a depressed economy does not work. Yet the ConDem's still proclaim the need for austerity to avoid turning into Greece – skilfully avoiding mention that Greece is plunging into the abyss precisely thanks to imposing austerity.

Why? Austerity measures, specifically cutting public sector jobs, benefits and wages (in general) have proven simply to make things worse – as argued here in these very pages when the crisis first broke out (*Black Flag*, no. 228). In a recession unemployment rises, people and companies cut back on spending and this causes problems for other firms. So while it may make sense for an individual firm to cut wages or staff, the aggregate effect makes the economy worse. If the government cuts its own spending then the result is further drop in total spending which further depresses the economy.

The mainstream approach ignores the demand effects from wage cuts. This can be seen from Osborne's desire to end national pay bargaining for public sector workers. To have any merit he would need to prove that the (relatively) higher wages of public sector are for equivalent work. Does paying nurses a (slightly) higher wage stop hairdressers hiring assistants or restaurants waiters and chiefs? Doubtful. Yet if those nurses have their pay frozen/cut will they be likely to spend as much money on local businesses such

as restaurants, shops and services? So public sector employment impacts on private employment in the opposite way than Osborne suggests – the later is dependent upon the former in many areas.

Any firm in the North of England, say, will not find a shortage of unemployed workers. Their problem is selling their products and services and reducing the pay of a large section of the local workforce is not going to help. This suggests that cutting wages for public sector workers will impact negatively on the economy by *reducing* local aggregate demand for goods and services and so *increasing* uncertainty and unemployment. Firms will increase output and invest only when there is growth in demand.

Either Osborne does not understand what happens when you depress wages or he simply does not care. Probably both – after all, he has continued with the austerity plans in spite of (because of?) their negative impact on the economy. Still, it is not surprising that a cabinet full of millionaires would suggest the self-serving notion that workers in the poorer areas of Britain should be paid less.

Looking at the state of the world in the fourth year of what some have called the Great Recession, which is noticeable is that was predictable and predicted came to pass. What was neither predicted nor predictable was the ability of the right to spin a crisis produced by profit-seeking by the financial elite in the private sector into one allegedly caused by too much public spending.

Still, there have been some slight changes. The IMF seems to be belatedly recognising that its standard recommendation of harsh austerity and coercion of governments to comply has resulted in the economy going backwards whenever this is applied. As this standard IMF outcome is being inflicted upon the Western economies and so may actually impact on the ruling elites, hence the partial recognition of reality. However, this will not stop them bullying governments into imposing austerity and providing widely optimistic forecasts for GDP growth and unemployment reductions to justify it. This is because these "errors" are system-