

Boomtime in Poundland: Has Austerity Worked?

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With the UK economy finally reaching its pre-crisis peak, many are claiming austerity has been vindicated. We explain why this is nonsense – the critics of austerity have been proven right while austerity has failed in its own terms.

“There was an interesting article about this in *The Wall Street Journal* a couple of days ago comparing Mexico and Brazil. It said that Mexico is an ‘economic miracle’ – the numbers all look fine, the macroeconomic statistics are great, the growth rate is going up, inflation is down – just perfect, they’re following all the rules. It points out that there’s only one problem: The population is suffering badly. The poverty rate is going up – it was always terrible but it’s getting much worse. Starvation is getting worse, people don’t have jobs; the population is suffering bitterly but it’s called an ‘economic miracle.’ Well, there’s nothing surprising about that. When Brazil was the darling of the international investors, Brazil’s generals said, ‘The economy is doing fine – it’s just the people who aren’t.’”

– “Debt, Drugs and Democracy: Noam Chomsky interviewed by Maria Luisa Mendonca”, *NACLA Report on the Americas*, Jul/Aug 1999

Ah, the joy of low expectations! Where would the ConDems be without it? What else allows the Coalition to proclaim that austerity has been vindicated because growth appears to be back, wages (finally) outstripping inflation by 0.1% in April 2014 and the deficit cut by a third. Get out the Champaign, Osborne has secured what he aimed for: a Tory majority, sorry, rescuing the economy for hardworking families...

Before popping the cork on the Champaign (*Lidl* store-brand, naturally), let us place a few things into the *Memory Hole*.

Let us forget that this 0.1% wage increase above inflation was for one month and existed only if you use the lowest measure of inflation (RPI) and include bonuses – otherwise real wages dropped. In fact, wages were actually slightly lower in April 2014 than in December 2013. Real wages have fallen year-on-year to be over 10% lower than in 2008.

Let us forget that while the 0.1% wage increase was championed in the right-wing media as signifying the end of the cost of living crisis, the next set figures showing a return to the new normal of real-wage falls was quietly mentioned in passing. As were all the other reports, including that of wage growth at 0.6%, a third of inflation, in September.

Let us forget that in 2010 the deficit was meant to be nearly eliminated by now. Osborne back then proclaimed a “formal mandate” in which “the structural current deficit should be in balance in the final year of the five-year forecast period, which is 2015–16”. January 2013 saw Osborne boasting that he had “reduced the deficit by a quarter in just two years” but back in 2010 he had attacked the Labour Chancellor’s plan to cut the deficit-to-GDP ratio by a quarter in two years. He used 2013’s Autumn Statement to proudly proclaim that the UK will (hopefully!) no longer have a budget deficit by 2018–9: a mere four years behind schedule.

Let us forget that the economy should have been growing robustly rather than limping past its pre-recession peak. In 2010, the economy grew more than the *Office of Budget Responsibility* (OBR) expected (1.7% against 1.2%). This reflected the impact of the previous Labour government’s Keynesian-lite policies but the ConDems happily took the credit). Then they started implementing their policies and growth plummeted as shown by the OBR forecasts made the

month after the Tories failed to win the General Election and the actual figures: 2.3% (1.1%) in 2011, 2.8% (0.3%) in 2012, and 2.9% (1.7%) in 2013.

Let us forget that instead of the cumulative 7.1% forecast, the economy grew by less than half that (3.2%). Yes, the economy may have exceeded its previous peak in early 2014 (being a massive 0.2% bigger than 7 years previously!) but this is two years later than the 2010 plan.

Let us forget that wage growth predictions were equally out – 1.2% against 0.8% in reality in 2012 and 2.9% (-1.1%) in 2013. Real wages have been dropping consistently since 2010 – the longest period of falls since at least 1964 – and while in 2010 it was 2013 when real wages were forecast to reach their pre-recession level, now it is 2018.

Let us forget that that GDP per capita is not expected to exceed its pre-crisis peak until 2017 or 2018.

Let us forget how the benefits of that (slow) growth have been distributed.

Let us forget that Osborne's self-contradictory attempts to explain low-growth in Austerity Britain by the problems in the Eurozone caused by it embracing Austerity – as recommended by the ConDems – were only convincing to the party faithful.

Let us forget that this is the longest recovery in living memory. The 1974 slump took three years for the economy to finally return to its pre-recession level. Thatcher's Monetarist slump of the early 1980s took four years. The burst resulting from Lawson's boom of the late 1980s took two-and-a-half years. This time it has taken over six years. Worse, other, similar, economies reached their pre-crisis peak years before Britain – including despised France!

Let us forget that British GDP is currently around 15% below its pre-recession trend.

Let us forget that the key intellectual basis for Austerity, a 2010 paper by economists Reinhart and Rogoff titled "Growth in a Time of Debt," was discovered in early 2013 to be based on Excel spreadsheet errors, unusual and highly questionable statistical methods and the omission of some data. Once these were corrected, there was no evidence to support its claim, as quoted by both the *International Monetary Fund* and the UK Treasury to justify austerity, that public debt of more than 90% of GDP sees economic growth drop off sharply.

Forget all that! Forget the lost decade produced by Austerity policies. The key thing is that growth has returned, a corner has been turned. Indeed, Osborne has proclaimed so many corners turned that he has – finally! – returned to where he started. Growth rates are similar to those inherited by the ConDem coalition when it scrapped into office.

Austerity vindicated?

Have these four years confirmed the wisdom of austerity? First we need to recap the arguments of the proponents and opponents of Austerity.

The former proclaimed the possibility – no, the inevitability – of expansive Austerity. Cuts would show "the markets" that sensible people were in charge who would reduce government borrowing and growth would return quickly and powerfully. Moreover, economic science showed that high public debt impacted negatively on the economy.

Nonsense, said the latter. Austerity during a recession would make things worse, delaying the recovery and causing more pain and suffering as it assumes that the worst thing you can do to a firm in a recession is to buy goods from it. Moreover, "economic science" concludes no such thing for while the neo-classical mainstream may conclude – as it did in the Great Depression –

that Austerity is the best policy, it did not work in the 1930s and would not work now. Reducing aggregate demand by cutting wages or reducing government services would reduce spending, increase uncertainty, reduce investment and so prolong the slump.

So what happened? Osborne inherited an expanding economy and promptly killed growth with his ideologically driven imposition of austerity.

The scale of the under performance is staggering. In June 2010 the OBR predicted that by 2014 GDP would be about 7% larger and the all-important deficit fallen by two-thirds. In reality, the economy has grown at less than a half of that rate while deficit reduction is nowhere near original projections. Back in 2010, Osborne asserted that Labour lacked “a credible plan to reduce their record deficit” yet his performance was slower than the one he denounced as a “reckless gamble”: it was meant to be £60 billion by 2013–14 while Labour aimed for £85 billion and he wishes to be lauded that it was a mere £111 billion!

Then there is the credit rating downgrade by Moody’s in February 2013. Three years previously Osborne had declared his “first benchmark is to cut the deficit more quickly to safeguard Britain’s credit rating” while in August 2009 he had proclaimed that “Britain faces the humiliating possibility of losing its international credit rating.” Come the downgrade and it was no big deal (unlike *regaining* that AAA rating!).

Of course, only a cretin would consider Moody – the agency that gave AIG an AAA rating a month before it collapsed – as worth listening to. Yet this is precisely what Osborne did.

Remember, also, that the 2010 OBR forecast already had their estimates of austerity embodied within it as its director noted in March 2013 when forced to publicly correct Cameron: “For the avoidance of doubt, I think it is important to point out that every forecast published by the OBR since the June 2010 Budget has incorporated the widely held assumption that tax increases and spending cuts reduce economic growth in the short term.”

In short, “Plan A” has not worked in its own terms. Its negative impact on growth has been much greater than expected. Thus it was economic illiteracy (and party affiliation!) that drove the *Financial Times* to publish a leader in September 2013 entitled “Osborne wins the battle on austerity.” This ignored the awkward fact that the critics argued that austerity meant *delaying* the recovery, not that it would never happen. Osborne – or the FT – claiming that “Britain’s economic plan is working” is like a rambler who ignored advice on the shortest path to follow in favour of a long, tortuous one proclaiming his success by finally stumbling upon his destination a long time after those who heeded it.

Has Austerity been vindicated? By the standards Osborne *himself* set out in his “unavoidable budget” in June 2010 the answer is a simple and resounding “no”.

Yes, the economy is now performing better than the forecasts but only because of the awkward fact that the forecasts were repeatedly revised in response to the “unexpected” flat-lining of the real economy caused (as predicted!) by Osborne’s austerity policies (for example, public borrowing was expected to be £60 billion by 2013/14 but this was revised up to £120 billion by the OBR in March 2013). So it is not only badgers who can move the goalposts.

The anti-Austerians have apparently been “silenced” – by being proven completely correct. This explains why the three years between autumn 2010 and autumn 2013 have been placed into the *Memory Hole*.

From A to B

Austerity was never going to prevent a recovery, just delay it. How long the delay would be determined, in part, by what the government did – in Spain and Greece, for example, austerity policies helped produce a downward spiral that pushed recovery further into the distance. What of the UK?

The *Financial Times*' leader implied that "Plan A" was still in place when, in fact, it had put on hold and replaced by the "Plan B" Osborne denied having: the "recovery" followed this suspension. While the government claims that the pace of fiscal consolidation has not changed and its spending cuts have continued as planned, the facts tell a different story.

Most of the initial deficit reduction came from cutting public sector net investment (spending on schools, roads, hospitals, etc) roughly in half, the rest from tax increases. "Plan A" was implemented in 2010 (state borrowing dropping from 9.5% to 7.9%), the economy promptly stalled and faced with the predicted consequences of his own policies, Osborne did what any self-respecting politician would do: he implemented "Plan B" while still talking about imposing "Plan A."

Others were more forthcoming with the OBR's Chair admitting in March 2013 that "deficit reduction appears to have stalled" and its figures confirm this (public sector net borrowing as a percentage of GDP was 9.5% in 2009–10, 7.9% in 2011–2, 7.8% in 2012–3 and 7.5% in 2013–4). Moody's downgrading was justified because of the government's "reduced political commitment to fiscal consolidation".

This is why we get the regular news reports of "unexpected" increases in borrowing by Osborne. For example, June 2014 saw borrowing total £11.4 billion which was higher than the £10.7 billion forecast by economists and £3.8 billion more than in June 2013. When a one-off cash transfer from the Bank of England in June 2013 is removed, borrowing in the first three months of the 2014–15 fiscal year was £36.1 billion, 7.3% higher than the same period last year. That this was the latest of a regular event went mostly unmentioned.

His preening on the vindication of austerity is doubly wrong: a recovery was almost inevitable and helped along because he put austerity on hold. Public spending has increased from £633 billion in 2009 and after four years of supposed "austerity" it rose to £718 billion. So what Osborne fails to mention is that the recovery we are now having owes much to this unpublicised easing of austerity between 2011 and 2013.

Indeed, so much of "Plan A" has been postponed to after the next election (60%, in fact) that the post-2015 government will have to make the deepest cuts since 1948 across Whitehall, local government and the welfare budget if it wishes to keep to Osborne's spending plans (which Labour has pledged to do).

Unlike the real cuts imposed on Greeks or Spaniards, Britain has suffered the rhetoric of austerity. Yet if the state's borrowing was not fundamentally changed, how it spent this money did so no-one is saying many state programs have not been slashed – they have, but state borrowing and spending have not. Cuts have been selective. As with Thatcher, local government has suffered with annual cuts of up to 15% in the quarter of public spending that passes through local councils. This has produced real cuts in services people need – day centres for the elderly, childcare, sports clubs, museums and theatres. Combine this with public sector real wage cuts and welfare "reforms" aimed at people most in need (and driven by unrepresentative media scare campaigns) and you see why austerity is possible while public spending remains high – the working class gets the cuts while state intervention ensures the security of the few at the top.

It could have been worse. Osborne could have stayed the course and continued with across the board austerity. Then he would have ensured that we did become another Greece. However, as we saw in 2008 and the oh-so-short rehabilitation of Keynes, the capitalist class will always favour state intervention when they are in dire (and not so dire!) straits.

Osborne changed his policies without changing his rhetoric, so avoiding the worse of austerity by directing it to the people – public sector wages, welfare and local government cuts – while maintaining state spending – resources for banks, corporations and tax-cuts at the top – that helped ensure that the eventual recovery appeared. So it should come as no surprise that the £25 billion in benefit cuts already started is more than matched by what Osborne has given away in personal tax allowances, petrol duties and corporation tax cuts – not to mention subsidising employers by topping up poverty wages by benefits and landlords by housing benefit.

Money can be found for the right things – like waging war or Tory pet projects. Cameron’s election pledge busting top-down “reform” of the NHS cost at least £3 billion (its front-line staff denied a modest pay “rise”) while *Universal Credit*’s whole-life cost was revealed last year to be at least £12.8 billion, over £10 billion more than *Department of Work and Pensions* said it would. Then there is the decision to abandon the sale of the student loan book, which will cost the government £12 billion over the next five years, will require a review of the public finances and a revision of the decision to lift the cap on student numbers which was due to be funded by that sale. And best not mention – particularly to Nick Clegg – how the rising of student fees will now cost more than the system it replaced nor the gift to the City that the City-advised privatisation of the *Royal Mail* unsurprisingly proved to be (will the “liberation” of pensions be an even greater gift to the Tories paymasters or a greater scandal than previous pension “reform” and PPI “mis-selling”).

Low Expectations: Osborne’s Plan C

It is useful to remind ourselves how we got into this mess given how successfully the Tories (and their media) have been in rewriting the past.

According to Cameron, the “deficit didn’t suddenly appear purely as a result of the global financial crisis. It was driven by persistent, reckless and completely unaffordable government spending and borrowing over many years.” He forget to mention that before the crisis he had promised to match the public spending by Labour which he now denounces as profligate. Still, some forget all about the global financial crisis completely and suggest it is all Labour’s fault due to their high taxes, high borrowing and high spending (so expect more of “Labour’s recession” in the media as the election looms).

While it may suit the ConDem’s to suggest Labour produced an unwarranted increase in the level of government debt by ensuring single mothers were not in a workhouse, the awkward that is that before the global recession the debt to GDP ratio was slightly lower than when Labour took office. Then there is the awkward fact that in 2007 Labour borrowed £37.7 billion, of which £28.3 billion was invested in big projects (the balance of £9.4 billion represents the current budget deficit) while in 2013 the ConDems borrowed £91.5 billion, with just £23.7 billion invested.

Government debt rose as a result of the global recession due to having the bail out the bankers as well as the natural fall in government income and rise in expenditures in a slump (such as rising unemployment benefit costs). To ignore the role of derivatives, sub-prime lending, speculative bubbles, and general *renterism*-run-wild and suggest that the global economic crash was caused

by British welfare spending should be considered risible, but sadly in what passes for British intellectual discussion in the media it is not.

It was *private* debt that got us into the crisis but this should not be viewed in isolation. Inequality has exploded since 1979 and this contributed by making demand for goods weaker so increasing the necessity of credit to supplement wages and making the needed debt-repayments more fragile. A firm recovery would be based on reducing inequality and bolstering demand by raising wages and benefits but, of course, all are hated by the Tories. Hence the apparently paradoxical fact that starting with the emergency budget in 2010 their plans had an underlying assumption of increased personal debt. That assumption in the face of an economic crisis was always unrealistic due to the rise in uncertainty (and corresponding unlikeliness to lend) and fall in demand (and corresponding unwillingness to increase debt payments with tight budgets) and so it came to be.

While Cameron proclaimed that critics of Austerity “think there’s some magic money tree” in fact his government is trying to encourage individuals and firms to borrow more. They do that when the cost of borrowing is very cheap and this is why the Bank of England base rate has been rock-bottom for the last seven years. Why, then, is it not believing in the “magic money tree” when the private sector borrows more to invest in projects when the cost of borrowing is cheap but it is when the government does the same thing? Why after denouncing the evils of state debt, would the Tories seek to bolster private debt? Firstly, private debt will face higher interest rates than public debt and so will generate more income for the *rentier* section of the capitalist class. Secondly, private debt weighs down those subject to it and they are unlikely to become rebels – debt-ridden workers face more than just lost wages in a strike, they face losing much of what they mistakenly consider their own.

However, expectations change and after sufficient time what were previously considered historically bad levels can – and do – become the new normal. Banks lower levels of lending get repaid, encouraging more loans to be given and slowly the makings of an upswing (and new crisis) start. While the heroic levels of individual debt were not forthcoming initially the fact is that debt often has to be taken up simply in order for working class people to survive: the explosion of payday lenders is proof enough of that. This process was aided, of course, by the normal Tory response to a crisis: state aid to inflate a housing bubble.

Expectations, of course, do not nullify the need to produce and realise surplus value but decisions by capitalists – whether to invest, most obviously – are not taken on auto-pilot. The expectations of those making the decisions are a factor and these are influenced by many things including the state of the economy, the level of class struggle, the recent past, etc. A level of stable demand (as provided by the state, for example) can be a decisive factor in a crisis – something lost on those who fail to understand Keynes and the basic difference between the uncertain demand of the market and the certain demand provided by state policies (like the SWP which published a review of Paul Krugman’s book *End this Depression Now!* rooted in a mechanistic viewpoint worthy of Second International Marxism).

So the Tories have been helped by low expectations, with them doing their best to encourage them by showing general incompetence. This produced the bizarre situation that retroactively avoiding a double-dip recession by the June 2013 revision of growth figures for the first quarter of 2012 from -0.1% to 0% was considered “good news” for the chancellor!

However, Osborne may look stupid (when not looking evil) but he is not stupid. The last thing he wants in the run-up to an election is to have the economy being run-down by his austerity

policies. Hence the shift to Plan B while maintaining the rhetoric of Plan A. Similarly, that he has shifted the impact of Austerity to after the next election is equally understandable – you do not want the failure of a high-profile council to be background of an election. The time for such collapses is just after re-taking office with five years to work out how to blame Labour for it.

Mission Accomplished?

So Austerity has failed against its stated goals and there are obvious political reasons why Osborne is declaring that “Plan A” has been vindicated. Yet the stated goals were for public consumption: austerity was being driven for other, ideological and class, interests. So it is not austerity as such, just the rhetoric of austerity while – as usual – the Tories grind the face of the working class into the dirt.

In this it has been an amazing success – aided by the failure in its stated goals for the flat-lining of the economy and lack of resistance from the masses has allowed the Tories to undermine the welfare state, erode real wages and enrich the few.

According to this year’s *Sunday Times* “Rich List”, the combined fortune of Britain’s richest 1,000 people doubled compared to five years ago rising from £258 billion in 2009 to hit a new high of £519 billion (equivalent to a third of the nation’s economic output). This is up 15.4% from 2013’s total of £450 billion. Whether this was equivalent to the increase in food-bank use was not mentioned, but the compiler of the Rich List proclaimed he had “never seen such a phenomenal rise in personal wealth as the growth in the fortunes of Britain’s 1,000 richest people over the past year. The richest people in Britain have had an astonishing year.” By strange coincidence, real wages fell over the same period and Government figures showed that Britain’s richest 1% had accumulated as much wealth as the poorest 55% put together.

Like Milton Friedman, as Osborne helped make the rich richer he will be remembered fondly in elite circles as good at his job – in spite of being proved completely wrong.

And talking of Friedman, the terms of economic disaster the Tories have form. The UK recession at the beginning of the 1980s was – until the current one – the worst since 1945, with unemployment increasing from below 6% to nearly 12% and staying high until the end of the decade (unemployment would have been higher still if the government had not encouraged the unemployed to register as disabled and fiddled the figures by repeatedly changing its official definition to reduce numbers). This was driven by the Austerity of its day, Friedman’s “Monetarism” – the notion that the state could tame inflation by simply controlling the creation of money. The attempt to hit monetary targets failed dismally (the 80/81 target was 7–11%, actual 19.1%; the 81/82 target was 6–10%, actual 13.7%) and was soon quietly abandoned. As now, one of the biggest experiments in UK macroeconomic policy turned out to be a disastrous failure as GDP fell by over 2% in 1980 and remained flat in 1981. Growth finally returned and inflation fell (thanks to mass unemployment and the state’s onslaught on labour militancy resulting in “pay restraint” in the face of rising prices). The rich got immensely richer and that is what counts for Tory economic policy.

Back to Keynes?

Increasing government borrowing and spending in a crisis to kick-start a recovery is the Keynesian position as is the idea that expectations play a key role in the economy. Faced with falling demand and rising uncertainty, expectations will drop and firms become less willing to invest and hire – which becomes a self-fulfilling prophecy. One of the aims of Keynesian policies is to reduce uncertainty by making demand more consistent by removing aspects of it from the market.

Some reformist academic economists, who clearly have no notion of the social role of their profession as a replacement for priests as defenders of the rich and powerful, ponder why the interest in Keynes and Minsky rose and disappeared so quickly, to be replaced by a retrenched neo-liberal ideology and practice. The reason is simple. In 2008–9, the crisis threatened the ruling class and very obvious state-intervention was needed. This had to be justified and so Keynes was dusted off. With the crisis for the elite solved and the panic over, the masses were wondering where their bailout was and it would have sent the wrong message to provide one – state help is for the few, not the many, under neo-liberalism. Hence the near universal acceptance of some form of Austerity (and we should note that Obama's America saw austerity at the State level even if a far too weak stimulus package was implemented at the Federal level).

So we have the contradiction of while Austerity has proven the Keynesian position right (even the lobotomised neo-classical Keynesianism of the likes of Paul Krugman), the politicians who proved their own theories wrong are gaining some benefit politically – the numbers of people polled who consider cuts as helping rather than harming the economy is slowly increasing. This should be of concern for revolutionaries for it suggests that more people are embracing the fatalism that nothing can be done – be it a welfare state or strikes/protests – to change things for the better. Yet as Kropotkin wrote in his *Memoirs*, it is *hope* which produces revolutions not despair.

Many libertarians are influenced by Marx and while this in some respects is good, we should remember that we are not Marxists for good reasons. Marx, like the classical economists, was wedded to the notion that capitalism cannot be changed. For the likes of Ricardo, this assumption was used to dismiss attempts to improve the condition of the working class as, at best, an illusion or, at worst, counter-productive. Marx took this fatalism and used to it suggest only social revolution was a real solution to the working class.

While ultimately true (in the sense a fully human and decent life is not compatible with selling your liberty to a boss who then monopolises the value produced by your labour), it produces the paradoxical situation of radicals in practice urging workers in crisis periods to resist cuts in wages or services while in theory thinking that this is either impossible to get or counter-productive if won (this paradox can be seen when they pronounce that co-operatives would be forced to act exactly as capitalists do by “the market” yet also argue that capitalists can concede a pay rise if workers strike suggesting sufficient autonomy from these same pressures for bosses to make different choices). It also blinded Marx to the dangers of reformism developing within parties which followed his recommendations on political action: reforms are possible and capitalism can – under sufficient pressure from below – be quite flexible in what it can do for the general population (as such, and in spite of certain errors, *Modern Capitalism and Revolution* by Cornelius Castoriadis is still essential reading for any serious libertarian).

Thus the dislike of Keynes by many Marxists – he suggested that state intervention could work and improve things. Yes, he was trying to save capitalism from itself but it cannot be denied he

contributed to our understanding of how the system worked (he had to understand it to save it by, for example, explaining why cutting wages made things worse) as well as reminding us that reform within capitalism is possible before a social revolution takes place. The unwillingness of many Marxists to recognise that the post-war social-democratic consensus was even possible helped reformism immensely (as did the implicit assumption – all too common now! – that the development of economic analysis ended in 1883: at least the better post-Keynesian economists have added Marx and Keynes to push it forward). Still, believing that capitalism is unchangeable outside of revolution means you do not need to present appealing alternatives and just have to wait for a crisis to force people into a socialism they apparently cannot be convinced of otherwise (given the state-capitalist nature of most Marxist visions, this is unsurprising).

Of course, the Keynesian system was unstable because Keynes' elitist paternalism failed to see that, firstly, working class people would not be happy to remain well-fed order-takers; secondly, that the ruling class would not be happy to see their power to command eroded by well-meaning state bureaucrats and – even worse – those beneath them; and, thirdly, the *rentier* class would not agree to their own euthanasia in the higher interests of humanity. As such, Michal Kalecki (the Polish socialist economist who independently came to many of the same conclusions as Keynes but slightly before him) was right:

“a strong opposition of ‘business leaders’ is likely to be encountered ... [to] lasting full employment [as it] is not at all to their liking. The workers would ‘get out of hand’ and the ‘captains of industry’ would be anxious ‘to teach them a lesson’ ... under a regime of permanent full employment, ‘the sack’ would cease to play its role as a disciplinary measure. The social position of the boss would be undermined and the self assurance and class consciousness of the working class would grow. Strikes for wage increases and improvements in conditions of work would create political tension ... ‘discipline in the factories’ and ‘political stability’ are more appreciated by business leaders than profits. Their class interest tells them that lasting full employment is unsound from their point of view and that unemployment is an integral part of the normal capitalist system.” (*Political Aspects of Full Employment*)

Kalecki also predicted the rise of “a powerful bloc” between “big business and the *rentier* interests” against full employment and that “they would probably find more than one economist to declare that the situation was manifestly unsound” (hence the lionisation of that fraud Milton Friedman). The resulting “pressure of all these forces, and in particular big business” would “induce the Government to return to ... orthodox policy.” Hence neo-liberalism and its use of the state to impose a very specific form of social engineering – putting our class in its place to ensure the rich get richer.

However, let us assume Keynes and Kalecki were wrong. Where does that leave us? If we fight austerity policies then we are assuming – implicitly at least – that cutting effective demand during a crisis makes things worse. If we have a theoretical framework that concludes that success will either make no difference or lay the foundations for a bigger and so worse crisis in the future, then this, surely, weakens our struggle? We can fight austerity in terms of its human costs and as a means of bolstering class confidence and power but resting on an analysis which is the same as the Austerians is doomed to failure.

Neo-liberalism: its non-strange non-death

The problem with this class war by the few on the many is that while it saved capitalism from a crisis caused by capital being too weak as the working class was too strong (the 1970s) it laid the foundations for the current crisis which was produced by capital being too strong and the working class too weak. Hence the delay in the recovery – austerity is the usual neo-liberal policy of using the state to enrich the few at the expense of the many but in a crisis period caused by those very same policies it causes more reduction in consumer demand and increases uncertainty, making firms and the rich less inclined to spend their accumulating fortunes (firms will not invest when they cannot sell what they already produce, for example, as is the case now in the UK). Increasing private debt, the usual neo-liberal solution, is not an option because of the credit crunch and the toxic debt instruments that nearly brought the whole system crashing down.

Yes, capitalism is driven by the creation of surplus value – which is created, as Proudhon stressed in the 1840s, by workers producing more than they receive in wages. However, this is just *potential* surplus value: it becomes *actual* surplus value when the goods or services are actually sold. Keynesian policies seek to ensure the realisation of surplus value by maintaining demand in a way that reduces uncertainty and improves expectations. Without this, the process is drawn-out – as shown by the years now consigned to the *Memory Hole*.

Expectations *do* change and faced with a stagnant economy expectations themselves stagnate – then things simply not getting worse can result in an up-turn (so any tendency for the rate of profit to fall is meaningless – capitalists do not care if it were 20% one hundred years ago or 15% twenty years before they were born, they care about *now* and the immediate uncertain future). Expectations become so low and memories so faded that these low returns and demand become the “new normal” and a basis for a new upturn – firms see some utility in hiring new workers, banks, as Hyman Minsky argued, start to loan more (in the UK helped by Osborne’s banker-friendly interventions in the housing market), returns get better, producing a rise in expectations.

We seem to be at this stage now but with a delay that is shockingly bad and from a base which is shockingly fragile – the fact that the Bank of England is unwilling to raise its historically low base rate says it all. However, the very thing justifying that inaction – at best under-inflation wage “increases” – is also one of the key factors in producing this fragility in the recovery. The fear of our class (the euphemism is “inflation”) produced in the revolts of the 1960s and 1970s still weighs heavy at the commanding heights of the economy in spite of the successes of the 1980s onwards, most obviously in the suicidal decisions of the European Central Bank to double-down on Austerity in spite of its very obvious negative impact on the European economy (rest assured, though, the solution for the problems caused by austerity is obvious – more austerity!).

That is why neo-liberalism remains so firmly entrenched – it is too useful to the ruling class. The rich like becoming richer and, probably more important, they like being in charge. There has been – unlike 1930s America – no mass revolt of the working class to produce reforms from below. While we have, as a result, been under no threat of fascism (the ruling class has no need for jokers like the BNP just now), it does mean that in spite of the self-destruction of neo-liberalism in 2008 it continues.

Proudhon: “It takes an economist not to expect these things”

It is, apparently, a puzzle that there is a disjoint between economic growth and wage growth.

Yet it is hardly surprising that employers remain reluctant to increase wages: they are under no pressure to do so from their workers. So some reasons for low pay growth are obvious – pay policy in the public sector and the unwillingness of the trade union bureaucracy to defend its members (really, *more* one-day strikes after the failure of the last ones?) are both holding pay back. This points to the real cause: the countervailing power that the employers once faced by union militancy has been eroded to near non-existence.

Workers are firmly in their place, patiently tolerating the greatest drop in real wages for over a century. Neo-liberalism has succeeded: when the economy is doing well it no longer means that most people are (best not mention that this has been the case for over three decades in the USA). This explains the soaring inequalities – and dropping social mobility – of the neo-liberal era: workers are in no position to keep more of what we produce in our own hands. It floods upwards as the rich piss on us (the real meaning of “trickle-down” economics).

Ultimately, for a capitalist economy to do well working-class people need to suffer. And making us suffer is what gets the Tories up in the morning (in every sense of the word). They are running the economy to achieve three things. Firstly, to make the rich richer. Secondly, to make the working class pay for the crisis and know its place. Thirdly, to win the next election and so continue their long-standing state-driven social engineering. What they have to balance is the contradiction between aims one and two to ensure three. Luckily, they have the overwhelming support of the media (including the BBC). Unluckily, they have the grim reality of the impact of their policies. Still, they have the Labour Party and its flip-flops to give ideological credence to its activities.

Labour, after initially making some sense with their advocacy of the correct anti-Austerity position, muddied the waters by embracing Austerity-lite while the economy was flat-lining for two years. So rather than being able to hound the ConDem’s by pointing out that their analysis has been vindicated, they are strangely muted: unsurprisingly, as they are selling themselves as the nicer wing of the dominant neo-liberal party. This, of course, has not stopped the Tories trying to paint their very moderate policies as inspired by Stalin – which has always been a key role of the Tories, namely making Labour look better. Still, if you were expecting solutions from Labour then you have not been paying attention.

That the ultra-Thatcherite UKIP is apparently the main beneficiaries of the unravelling of Thatcherism – even proclaiming that they are seeking votes from the class that Thatcher’s neo-liberalism crushed – is a sorry sight. This reflects the continued Americanisation of Britain, as shown by the development of an bat-shit crazy right-wing and the regular calling of Tory politicians “libertarians” in the black-is-white American (propertarian) sense (for all their flag waving, the Tories hate “traditional British values” – why else are they trying to turn us into the 51st State?).

Where now for radicals?

The Left has failed and while anarchist low numbers explains our lack of impact, it does not excuse it. With levels of class struggle, consciousness, self-activity and self-organisation at his-

toric lows, there is a tendency for many on the left to look to elections – forge yet another party of left-unity, reclaim the spirit of 1945.

Nostalgia is not what it used to be. If we must look backwards then we should do so to learn from the past, not repeat it. This year marks the 150th anniversary of the founding of the First International but if a similar organisation were created now, numerous Trotskyists would “bore from within” (literally boring people away) and ensure it was still-born by seeking – as Marx did – to turn it into an electioneering machine and recreate the failure of social democracy all over again (Greens please take note).

Bakunin predicted the fate of Marxism and it is time radicals embraced his syndicalist vision of economic and social struggle and organisation. It is no coincidence that we have Tory anti-union laws: our enemies know where our class’ power rests and the task of anarchists is to remind our class of this. Only by direct action and solidarity in our workplaces and communities can we force change, create a “stimulus from below” by winning improved wages as well as a redirection of state priorities to people rather than profit, give us a sense of our own power and create the potential for significant social transformation by the creation of a serious anti-parliamentarian social movement. This struggle is not reformism – who today seriously believes socialism will come from the actions of politicians or that Labour wishes it? – but we need to win reforms to show that change is possible.

We need to look forward, not back. We need an appealing vision of a free society, a *realistic* sketch “non-political” people can understand and *build upon* rather than jargon-riddled dismissals of “self-managed” capitalism and other such self-contradictory nonsense.

No easy task, some will say, and they are right. However, without anarchist participation in everyday struggles then anarchy is an impossibility (unless we think revolution will just drop into our laps). That there is an apparent lack of everyday struggles just means that our task includes promoting the spirit of revolt and awareness that working class people have an immense power in our hands and *that we can win*.

Let us use every means to discuss how to achieve that.

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