

# Snow way to run an economy

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Surprise! Austerity is kicking in and, as predicted, the economy is continuing its downward trend. If anything, the speed is increasing with growth in 2010 falling from 1.2% in the second quarter, to 0.8% in the third quarter until, finally, negative 0.5% in the last quarter. Rest assured, though, there is a culprit at hand to explain the last set-back. To paraphrase Michael Jackson:

*“don’t blame it on the banks,  
“don’t blame it on the dogma,  
“don’t blame it on the cuts,  
“blame it on the weather!”*

Needless to say, “the experts” in the City were both “surprised” and “shocked” by the announcement. The markets had been expecting growth of between 0.3% and 0.7% in the final quarter of 2010. These would be, of course, the same “markets” and “experts” which George “it shrinks in the cold” Osborne proclaims who must appease by imposing austerity... Ah, the “City experts” don’t you love them? They always seem to be “surprised” and “shocked” when their forecasts prove wrong... don’t you wish you had a job in which you are constantly and publicly proved wrong but you keep getting paid vast amounts of money?

The last time the “experts” were “surprised” was back in October, when the economy grew by 0.8% in the third quarter, double the 0.4% expected in the City. Then Osborne argued it confirmed his policies: “What you see today, in an uncertain global economic environment, is Britain growing... That is... a vote of confidence in the coalition government’s economic policies.” This proved his plan to cut the public sector was right: “In the Budget, I set out a plan to restore confidence in our economy by dealing with the deficit... Today’s figures... put beyond doubt that it was right to begin acting on the deficit now.” Impressive, given that the second quarter covers April to June, the Con-Dem came to office on 11<sup>th</sup> of May and the budget was on the 22<sup>nd</sup> June 2010. A mere 7 days transformed the British economy – unless the budget was so good it had retroactive powers! Sadly he did not explain why his government should take credit for growth in a quarter unaffected by policies he was yet to implement.

Undeterred by mere logic and facts, a Treasury spokesman pronounced at the time that while the government was “cautiously optimistic about the path for the economy, the job is not yet done. The priority remains to implement the budget policies which support economic rebalancing

and help ensure the sustained growth... forecast [for] this year and next.” Osborne proclaimed a “steady recovery” was now under way and when the surprising higher than expected third quarter figures came in, much back-slapping was indulged in. Yet this good news was hardly that – it represented a *fall* from the previous quarter. It was only good news in the sense that “the markets” (whom we must appease) got it wrong, again.

At the time, critics suggested that this showed that the economy could sink back into recession when the government’s spending cuts began to bite. This was dismissed and in December the Chancellor proclaimed that they had “already begun the reductions in public expenditure, and it has not had the impact on demand, not had the impact on economic growth that the critics said it would... they’re being confounded by the figures.” Cuts were being implemented and all was well with the world. Now Osborne suggests that “deficit deniers or the vested interests who oppose cuts to any item of public spending will probably claim that the Spending Review or the VAT increase are to blame for today’s growth data. But there’s a big problem with that argument – the data refer to the last quarter of 2010 when neither had yet begun.”

Now that the fourth quarter figures show a much bigger drop, strangely it tells us nothing about Con-Dem policies. When the second quarter’s figures were in Osborne proclaimed this vindicated his economic strategy – even though they had not been in power long and their measures had yet to be implemented. With the third quarter’s figures, he proclaimed they were down purely to his policies – policies which he now claims had not been implemented yet!

So despite being in office for over half-a-year, this slowdown was definitely *nothing* to do with Con-Dem policies – it was all the fault of the snow – and the previous two quarters had *everything* to do with them! So rest assured, there was “no question of changing a fiscal plan that has established international credibility on the back of one very cold month” according to Osborne. Sadly he did not explain why one quarter of good growth confirms his agenda but not one quarter of bad growth. So you should not read too much into one quarter’s numbers – unless, apparently, you are a Tory politician and the numbers look good...

Luckily for Osborne there *was* such heavy snow for he could blame the weather (presumably next quarter he will blame the wrong kind of leaves and then a big dog eating his homework). That meant he could skilfully avoid the awkward fact that, according to the report, the snow simply turned 0% growth into negative 0.5%. While still lower than the 0.3% to 0.7% City “experts” had expected both show a trend downwards since the Con-Dems took office.

Yet we cannot exclude the impact of the snow. After all, why was it the fault of the snow? Because people could not get out and spend their money. Osborne’s policies are based on cuts and raising indirect taxation so causing real income drops for most people. So what will happen when people do not have jobs to go to and do not spend money they do not have? If a few days of snow can have such an impact, what about huge cuts sucking jobs and money out of the economy? Sadly, we have a government which seems to think that the last thing a business needs during a slump is for people to go out and buy its products.

This drop in growth was predictable and predicted. Why? Keynes argued, correctly, that cutting wages will not produce a growth in employment, quite the reverse as it reduces aggregate demand, shifts the labour supply curve and has little impact on the real wage. Not that unemployment being caused by high wages reflects reality anymore of than any other part of neo-classical economics. With the advent of neo-liberalism in 1980, real wages stayed flat and the employers reaped all the benefits of rising productivity in the form of rising profits, rising income for managers, rising dividends. Wealth flooded upwards.

Yet a problem remained – if the output per unit of labour input is rising while capacity to purchase (the real wage) is lagging badly behind, how does economic growth sustain itself? Simple – by credit and pushing ever increasing debt onto households. The capitalists found that they could sustain purchasing power and receive a bonus along the way in the form of interest payments. As an added bonus, it made people less likely to rebel as credit repayments had to be made. This, however, increased the fragility of credit markets and this came to roost in the credit-crunch. When the bubble burst, revenue collapsed and the bank bailout increased public debt.

Amazingly, the Tories have managed to turn the narrative a crisis with its roots in the private sector and inequality into one caused by public welfare spending and workers' rights! The crisis is being used as an excuse to increase job insecurity by raising the qualifying period for unfair dismissal claims from one year to two. This increased ability to fire people will, by the magic of the market, make bosses hire. Which raises the question of just how incompetent *are* Britain's bosses if they cannot work out in a year whether someone is a "good" (i.e., obedient and productive) wage-slave? Rest assured, Vince Cable insisted workers who were genuinely exploited by "unscrupulous employers" would still be able to go to tribunal. Yes, but after 2 years, meaning that bosses can safely be unscrupulous for 23 months then sack the employee in order to replace them with someone just happy to have a job.

Still, we have "credibility." Shame that the outgoing CBI chief slammed government's lack of strategy for economic growth, warning that it would fail to reduce Britain's budget deficit without measures to boost demand. Yet that assumes that the Tories wish to reduce the deficit. As the US Republicans have found, the deficit is a useful thing to wave about when demanding austerity measures for the working class. That explains why they are so keen to create them when in power and demand tax cuts for the wealthy which increase it. Here we see "the deficit" rolled out to explain the imposition of every Tory wet dream. What a wonderful coincidence...

The grumbles in the CBI show that while business may have tolerated a deep recession caused by Tory incompetence and economic illiteracy in the 1980s to break the labour movement, it may be less accommodating when it is for the far less pressing ideological passions of a few Thatcherites. Particularly as this crisis was caused by capital *winning* the class war for the last three decades – as reflected in the exploding inequality we have seen. And, as in the 1980s, it is hard to tell whether the Con-Dems stupidity is driven by class interest, incompetence, ideological blindness, economic illiteracy, or a Machiavellian wish to use crisis to pursue market-fundamentalist social engineering. Probably a mishmash of all with the incompetence, ideology and illiteracy helpfully deepening the crisis which can be used as an excuse impose neo-liberal dreams and ensure the rich get richer.

Still, there is Osborne's "international credibility", that is "the markets" which got us into this mess to begin with and which make such good economic predictions. Yet who will be lining up to invest in an economy in which people don't have money to spend? Just like in Ireland, the old poster-boy for Boy George and the need for austerity, which saw its credit rating go down in October as the predictable impact of austerity measures took hold and deepened the crisis. It will now have higher interest payments on its outstanding loans and so harsh spending cuts led to huge job losses and lower wages but failed to restore "credibility."

So, unfortunately, "credibility" does not get people into jobs and spending money and if the snow stopped both of these in December then what is going to happen when the austerity measures truly kick-in and people don't have jobs and have less money to spend? Strangely, after pay cuts aplenty, Irish consumers have deserted the high street. Sadly, there was no snow to

blame for it. Unsurprisingly, given the increase in uncertainty caused by the prospect of cuts, there has been collapse in consumer confidence here as well. Unsurprisingly, polls shows people are reluctant to spend when they are not sure how much money they will have in the future – and why should firms invest in such circumstances?

Still, Ireland has a lesson for us all – which one depends on who is telling the story. In America, Republican Congressman Paul Ryan pointed to Ireland and the UK in his response to Obama’s State of the Union Address, asserting they “didn’t act soon enough; and now their governments have been forced to impose painful austerity measures.” Yet Ireland not so long ago was held up as a positive example for *why* you should cut hard and fast. That this has resulted in making things worse (predictably, and predicted) does not change that. Here, in the UK, our Tory masters used to point to Ireland on why *they* were cutting hard and fast – because it would be worse later... Given the outcome, the historical revisionism is to be expected.

After all, what is the Tory (and Republican) plan? More of the same neo-liberalism which got his into this crisis to begin with – more austerity for the many so that the elite can be persuaded by yet more wealth to exploit us again. That is the meaning of wage-cuts, to increase the gap between what we produce and what we get paid. “In 2011, real wages are likely to be no higher than they were in 2005,” said the head of the Bank of England: “One has to go back to the 1920s to find a time when real wages fell over a period of six years.” This squeeze in living standards is “the inevitable price to pay for the financial crisis and subsequent rebalancing of the world and UK economies.”

In short, the working class is expected to pay for a crisis caused by their economic masters. Inevitable? Far from it – that depends on us. The facts are conclusive – imposing austerity makes the crisis worse. If cutting benefits and wages makes things *worse*, fighting for increases will make things *better*. Libertarians need to be at the forefront of anti-cut struggles, arguing for direct action, solidarity and community and workplace self-organisation. This will combat the contradiction of capitalist crisis being the product of capitalist strength. However, it will expose another contradiction – that capitalism needs workers to obey their bosses and produce more than they get paid but that will be undermined by the strong resistance movement required to solve the current crisis. This struggle, with movement between contradictions, will continue until we get rid of capitalism once and for all.

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