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Con-Dem shock therapy - midwife to a double dip?

THE COMPREHENSIVE spending review (CSR) announced by the Tory chancellor, George Osborne, on 20 October will be a high-voltage charge of shock therapy for the British economy. It's based on blind faith that 'fiscal consolidation' - slashing the state deficit - will spark off a surge of growth led by big business and the rest of the private sector.

Lynn Walsh

Socialist Party executive committee

In fact, the CSR is more likely to provoke another recession (a so-called 'double dip') or at best condemn the country to years of near zero growth. British capitalism will stagnate as a result of the Con-Dems' reckless policy experiment, described by the New York Times as an "austerity overdose".

Needless to say, working people will suffer most from the brutal deficit reduction. The soaring deficit, 11.5% of GDP (gross domestic product), is being blamed on the low-paid, the unemployed, those with disabilities, and so on, who allegedly claim 'excessive' welfare benefits.

Shamelessly, government ministers have 'forgotten' that the deficit is primarily due to the slump in tax revenue that came with the 'great recession' that began at the end of 2007. That was provoked by the real excesses of the banks and other financial speculators, not the poorer sections of society now lined up for punishment.

The scale of the Osborne cuts is truly savage: £81 billion over four and a half years. £18 billion will come from welfare spending.

It is now estimated that 725,000 public sector jobs will be wiped out and another 900,000 linked to public spending will also go. 71% of the public sector debt reduction, totalling £114 billion, will come from spending cuts and about a third from tax increases. The increase in VAT to 20% next January will especially hit working-class consumers. Banks and the ultra-wealthy will escape largely unscathed.

The Osborne shock-therapy is going to be applied before British capitalism has achieved a real recovery from the 2008-09 slump, the most serious since the 1930s. Incredibly,

the third quarter figures for GDP (total output of goods and services) were hyped up in headlines as "stunning", showing "breakneck growth": "Sun breaks through the clouds."

This was on the basis of July-September growth of 0.8% (3.2% on an annual basis). This was a marked slowing from April-June, when GDP grew by 1.2% (4.8% annualised), leaving GDP way below its 2007 peak.

Britain's peak-to-trough fall in GDP was 6.4% (even bigger than the US fall of 2.5%). In the first half of 2010 GDP has grown by 3.2%, making up less than half the loss in the downswing. Moreover, a lot of that growth depended on New Labour's stimulus package (eg public sector building projects, the vehicle replacement scheme, the temporary VAT cut, etc) which is now played out.

Current GDP growth is about 10% below the average rate of economic growth of 1990-2010, and the output loss will never be made up. British capitalism will be permanently poorer than it was.

Osborne's gamble

YET EVEN before any signs of sustained recovery (and with a shaky world economy), the Con-Dems are hell-bent on implementing the most brutal cuts since the Geddes axe of 1922.

It is estimated that Osborne's package will cut real demand for goods and services by 8% of GDP and cut GDP by 4% over four years.

If carried through, this will mean widespread business bankruptcies and another surge of job losses. No wonder the Financial Times described the spending review as "a gamble, given the continued weakness of the recovery".

What do they think they are doing? Osborne and Cameron, with Cable and the Lib-Dems tagging along, are convinced that drastically shrinking the state will trigger dynamic private sector growth.

Cameron told the conference of the bosses' organisation, the Confederation of British Industry, that there will be "a relentless focus on growth", that will more than compensate for the reduction of the public sector. But this policy is based on blind faith rather than any visible

economic trends.

Consumer spending is weak (it actually fell in September). Unemployment, part-time working, squeezed incomes, the debt-hangover from credit-fuelled spending, and fear of worse to come are dampening household spending.

Business investment fell 20% in the downswing and so far this year has only grown 4.5%. Many small and medium companies are going bankrupt because they cannot get credit from the banks.

At the same time, some big businesses are sitting on piles of cash which they are deploying in global financial speculation rather than investing in new technology and production facilities. Business investment will not provide the 40% of new growth envisaged by Osborne.

Nor will exports provide a way out of stagnation. Despite a 20% devaluation of the pound since 2007, exports have not accelerated, and Britain's chronic trade gap and payments deficit persist.

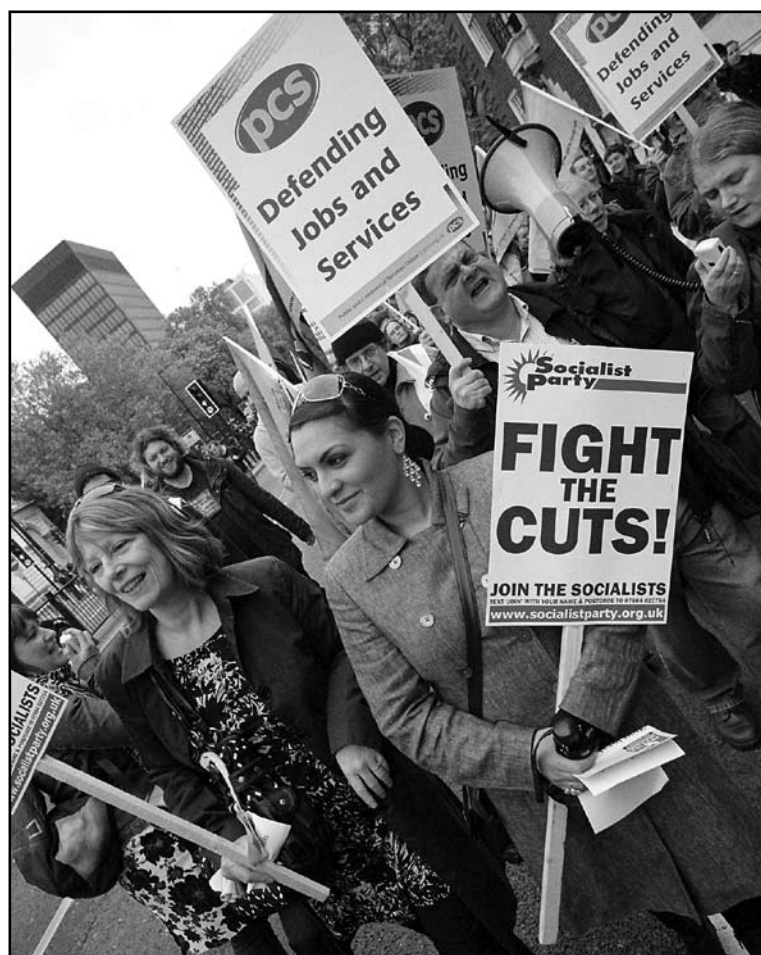
Moreover, all the world's major exporters are simultaneously trying to boost their economies through export-led growth. But there is not enough money-backed demand, and exporters are more and more protecting their home markets, further restricting the global market. Meanwhile, the US, still the world's biggest market, slowed to a sluggish 0.5% growth in the third quarter (2% on an annualised basis).

Osborne's cuts package, not surprisingly, delighted the City financiers, who are pathologically hostile to 'excessive' taxation of the wealthy and social spending on the 'undeserving poor'.

But many of the strategists of big business are more than sceptical about the Con-Dem cuts. They fear the Osborne axe could provoke a double dip recession.

The New York Times, for instance, dismisses the claim that running a 10.7% (US) or a 11.5% (UK) deficit for a few years means catastrophe. Economies like the US and UK "can afford to run fiscal deficits in times of weak private sector growth. In fact, they cannot afford not to."

Martin Wolf, the Financial Times columnist (and no woolly Keynesian), warns that Osborne's plans may be "the biggest fiscal blunder



Organised working-class resistance.

photo Paul Mattsson

since the early 1930s" (when the National Government under the Labour renegade, Ramsey MacDonald, imposed savage cuts on the working class).

"What is your Plan B?" Osborne and Cameron have been asked. Their response is that even if there is another downturn - a double dip - fiscal austerity will still be necessary.

They reject any suggestion of a Plan B! They are ready to plunge British capitalism into an even deeper slump than before, inflicting untold suffering on working people. Privately, they appear to be pinning their hopes on more quantitative easing (QE) by the Bank of England. QE means creating more credit by, effectively, printing money.

But this will not guarantee growth. Banks and speculators are already flush with cheap credit, while small businesses and working people are over-burdened with debts.

Osborne boasts that after his cuts package, the rating agency S&P restored Britain's top AAA credit rating. His message was that a bond-buyers' strike has been averted, allowing the government to go on borrowing on the bond markets.

The threat of a boycott of British government bonds (as opposed to Greek bonds) has undoubtedly been exaggerated at this stage. With near-zero interest rates and huge pools of liquid capital swilling around the world economy, the cost of borrowing money through the bond market has never been lower.

Nevertheless, in the future, the bond market vigilantes will move against governments carrying out policies of which they disapprove. They are market anarchists, their only loyalty to the unfettered pursuit of profits by the super-rich.

Yet even Osborne may find the credit rating agencies to be fickle friends. If Con-Dem measures provoke another slump or prolonged stagnation, threatening the stability of the system, even these credit market parasites, like other sections of big business, may turn against Cameron and company.

The present crew, or a replacement crew, could be forced to change course and resort to renewed state intervention to prevent economic collapse. Above all, the course of events will depend on the strength of the organised resistance of the working class.

Socialism 2010

Saturday 6 & Sunday 7 November

Socialism 2010 is a weekend of debate and discussion in central London hosted by the Socialist Party.

Saturday evening's 'Rally for Socialism' (6.30pm) and Sunday afternoon's closing rally (3pm): 'Workers of the world united' take place at Friends' Meeting House, 173 Euston Road, London NW1 (opposite Euston rail/Tube station).

All other sessions starting at 2.30pm-5pm Saturday, and continued on Sunday 10.30am-12pm and 1-3pm, take place at University of London Union, Malet Street, WC1. (full programme see www.socialism2010.net)

Tickets: Weekend £25 (£12 concession), one day £15 (£7 concession) Rally for Socialism only, £5. Book online or phone 020 8988 8777. Tickets can be purchased at the event, on the day. Saturday accommodation and full creche available. See website.

Fund the fight for socialism

WE ASK all our members and supporters and participants at Socialism 2010 to donate to our financial appeal. The Socialist Party has no rich backers - we depend on your donations. Your support is vital so we can continue our essential work.

Socialist Party members are helping to build anti-cuts unions and have been central to the demonstrations and protests that have already taken place - including the NSSL lobby of the TUC and the 23 October demos in London, Cardiff and Bristol.

Our members in the PCS civil servants union have been instrumental in ensuring that the PCS executive has issued a call to the other public-sector unions to back a national demonstration in 2010.

We are part of the Trade Unionist and Socialist Coalition (TUSC), along with members of the RMT rail union and other public sector trade unions, to build a working class electoral alternative to the Tories, Lib Dems and Labour.

The only way out of the nightmare future that capitalism holds out for us - of economic crisis, wars and climate change - is a socialist alternative. The Socialist Party has consistently defended and developed the ideas of Marx, Engels, Lenin and Trotsky and is part of the Committee for a Workers' International, which is organised in over 40 countries on every continent.

Donate at www.socialistparty.org.uk/donate or send cheques payable to Socialist Party to PO Box 24697, London E11 1YD.

MODEL MOTION FOR A NATIONAL DEMONSTRATION IN 2010

(Amend as necessary for your organisation)

This(name of trade union body, student union, workplace, campaign) is opposed to every cut in the £81 billion austerity package demanded by this millionaire Con-Dem government.

We will not accept:

- a million job cuts
- doubling of student fees
- drastic cuts to welfare benefits
- increasing the pension age to 66 and beyond.
- mass privatisation of services

We believe that these cuts will only be defeated by powerful united action led by the trade unions, and backed up together with campaigns of service users, welfare claimants, students, pensioners and others.

The TUC general council met on the day Osborne announced the slaughter of public services and agreed to call a national demo in March 2011.

This doesn't show the urgency necessary given the scale and depth of the attacks.

We therefore call on our National Executive Committee (or appropriate national body.....) to call an emergency meeting immediately, to contact the PCS and other trade unions to coordinate the calling of a national demonstration before Christmas and to discuss a suitable date for joint action.