'In reality, Britain is facing a savage economic ice age'

"DIRE", "TERRIBLE", "shockingly bad", "horrendous… an absolute disaster for the economy"! These were some of the terms used by City and media analysts to describe economic figures for the last three months of 2010 (released on 25 January). Government leaders, Cameron, Osborne & Co, blame the sharp fall in output on December's Arctic blast. But in reality Britain is facing a savage economic ice age.

Lynn Walsh
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The fourth-quarter dip (a 0.5% fall in GDP – gross domestic product) reflects the fragility of British capitalism's 'recovery' from a deep recession. It comes even before the Con-Dem government's savage spending cuts (£81 billion) and tax increases (£33 billion) begin to bite.

Among experts and the broader public, there are growing fears of another downturn, a dreaded 'double dip'. Even the government's friends are calling on chancellor George Osborne to come up with a 'plan B'.

At the end of last year David Cameron claimed Britain was "out of the danger zone". Yet there is bad news for virtually every sector of the economy.

Unemployment is up, wages are lagging behind soaring price rises. Household spending (which makes up two-thirds of GDP) is still falling. New mortgages have fallen to a ten-year low, and house prices are expected to fall another 10% this year.

These trends are all eroding the demand for goods and services, smashing the prospects for sustained growth.

What happened to last year's 'recovery'? Overall, 2010 growth was a paltry 1.4%. The feeble mid-year growth spurt was partly based on the temporary effect of 'stock building', as businesses replenished their supplies and goods. Even after four consecutive quarters of growth the economy only recovered about a third of the output lost during the recession (6.4%).

Con-Dem ministers blame the weather for the fourth quarter slump. But the Office for National Statistics (ONS) says that, even without December's cold spell, the economy would have been flat.

The construction industry slumped by 3.3%. This was partly due to bad weather, but also because government-financed stimulus projects were finishing. No doubt bad weather deterred people from shopping in December. But household spending was already running at half the historic trend. The cold winds of massive job losses and swingeing tax rises – unmistakably forecast – have shattered consumer confidence.

Unemployment is beginning to soar, even before most of the Con-Dem cuts take effect. Figures for the three months to the end of November show a jump of 49,000 to a total of 2.5 million. More than a fifth of young people are jobless (nearly a million). Just over a million women have lost their jobs, mainly from the public sector.

The total jobless would be much higher except for the increase in part-time (up to a record 1.16 million) and temporary jobs.

But the worst jobs carnage is yet to come. The so-called Office for Budget Responsibility is predicting 490,000 public-sector job losses (out of six million) over the next five years. A cut on this scale will inevitably affect the private sector, causing even more job losses.

Weak world economy

APART FROM spending cuts and job losses, a battery of other measures will cut into living standards: 20% VAT rate, 1% increase in National Insurance contributions, petrol and diesel price increases, rail and other fare increases. Verdict, the retail research group, predicts that average household disposable income will fall by 9.1% between 2011 and 2015. The average household is likely to be £2,200 worse off. These are average figures, many families will be much worse off.

All this is unfolding against the background of a very fragile recovery in the world economy. There is still the possibility of a meltdown of the European banking system, a shock that would inevitably trigger another slump in the British economy.

Osborne, Cable & Co optimistically point to the renewed vigour of manufacturing. True, the devaluation of the pound (25% since 2008) has helped exports a bit, and the manufacturing sector grew by 0.9% in the last quarter. But it now accounts for only 12% of output (down from 25% in 1980). This shrunken vestige cannot lift the wider economy.

Manufacturing investment slumped during the recession (down 28%) and many big companies have piles of cash in the bank. Yet they are in no hurry to invest in new plant and equipment.

The anti-cuts movement must be linked to a struggle to run the economy on socialist lines. *photo Suleymann*

Weak demand at home and stiff competition abroad means there is surplus capacity. According to the ONS: "firms are not sufficiently confident about the future to warrant a current rise in productive capacity".

Prices up, wages down

CON-DEM ministers appear to have an almost mystical belief in a renaissance of the private sector, which will supposedly replace the jobs cut from the public sector.

Yet the out-going director of the Confederation of British Industry, Sir Richard Lambert, slammed the government for having no industrial policy, no 'vision' for the future.

Lambert, no friend of the working class, welcomes the Con-Dem's deficit reduction measures. But he wants them to go much further with pro-business policies: lower taxes for businesses and the wealthy, further restrictions of trade union rights, curbing access to industrial tribunals, weaker health and safety legislation, and so on.

The Bank of England has again held interest rates at a near-zero 0.5%. Two members of the bank's Monetary Policy Committee (MPC) voted for a rate rise at its last meeting. These inflation hawks reflect pressure from many finance capitalists. Higher real (inflation-adjusted) rates favour lenders, while low or negative real rates erode the value of debt, benefitting borrowers.

The majority of the MPC, however, realise that when rising prices are caused by rises in world energy and food prices (amplified by the devaluation of the pound) and VAT increases, higher interest rates will not improve the situation. On the contrary, dearer credit would cut disposable incomes even more, further depressing growth.

Recent price rises, especially energy and food, together with higher VAT, have already eroded real (inflation-adjusted) take-home pay by 12%. Prices, measured by the Consumer Price Index (CPI), are rising by 3.7%, but by nearly 5%, measured by the more realistic Retail Price Index (RPI). The RPI includes housing costs and other essential items. In the last quarter average earnings grew by only 2.1%, meaning a cut in 'real' (inflation-adjusted) terms.

Mervyn King, governor of the Bank of England, has warned that real wages will continue to fall. "In 2011 real wages are likely to be no higher than they were in 2005. One has to go back to the 1920s to find a time when real wages fell over a period of six years." This means a savage cut in living standards, even before the £81 billion Con-Dem cuts package takes effect.

Prices are rising by 5% (RPI) and average earnings only grew by 2.1%. Bankers' bonuses were up by 5%.

This squeeze, claims King, "is the inevitable price to pay for the financial crisis". But why should workers pay for the reckless speculative activity of banks and the wealthy who detonated a financial implosion? While the majority face austerity, a handful of bankers will together pick up £7 billion in bonuses in 2011. In 2010, the average bonus for front-office professionals in the banking sector was £84,409 – 5% more than the year before.

Striking a Thatcherite pose, Osborne proclaimed that he would not be changing course on account of "one cold month": "We cannot afford to be blown off course by bad weather." His side-kick, Lib Dem business secretary Vince Cable, said that "there is no need for a plan B if plan A is right and sensible, which it is".

Osborne, Cable & Co are, no doubt, hoping that the fourth quarter's provisional figures will be revised upwards next month on the basis of more complete data. Nevertheless, many back-bench Con-Dem MPs, and reportedly some ministers, were severely shaken by the latest figures and the growing risk of a double-dip recession.

Even the Murdoch-owned Times commented: "it is not hyperbole [an exaggeration] to describe that prospect as a crisis for policymaking."

The £114 billion deficit-reduction plan may well result in a higher deficit. Negative or zero growth would further reduce tax revenues and increase spending on unemployment. The financier, George Soros, commented: "I don't think they can possibly implement it without pushing the economy into recession."

The Financial Times, the voice of big business, called on the government to draw up a 'plan B'. It recognises that Con-Dem measures are likely to provoke another downturn, and that widespread fear of a double dip is already depressing consumer spending and business investment.

"The exchequer should have a plan B for public finances: a self-fulfilling pessimism is avoidable if people know austerity will be delayed should things go worse than hoped."

What would plan B be? Both the capitalist critics of the Con-Dem policy of 'cut and hope' and the pro-big business New Labour leaders favour spreading the pain of deficit reduction over a longer period. But this would not resolve the deep-rooted problems of capitalism.

The message for the working class is that the government can be forced to retreat on cuts by a determined, mass struggle. But merely postponing cuts is not enough. The anti-cuts fight must be linked to a struggle to take over the economy and run it on democratic, socialist lines.

Mervyn King: warning that wages will fall.