Con-Dems' economic policy... austerity, austerity, austerity!

'The worst is yet to come'

Lynn Walsh
Editor of Socialism Today

The Con-Dem chancellor, George Osborne, claims his budget (24 March) is the "most pro-growth budget for a generation". But the British economy is barely crawling along, and the budget will do nothing to promote growth.

The government previously predicted 2.3% growth of gross domestic product (GDP – value of the total output of goods and services) for 2011. Now, the Office for Budget Responsibility (OBR) forecasts meagre growth of 1.7% of GDP for 2011. Even that may prove to be optimistic given the scale of spending cuts and tax increases.

Consumer spending, which has been the locomotive of the British economy over recent years, is falling. This is the chilling effect of job losses, escalating prices, and fear of what is to come. The former boss of Asda supermarket, Andy Bond, warns that worse is yet to come. "You're kidding yourself if you think the worst is over and we've had a consumer recession – it's ahead of us." The bosses of big supermarkets and high street stores, like Dixons and Mothercare, are warning of reduced sales and company profits.

"The economy," comments the Financial Times (6 April), "has been much weaker over the past six months than almost any economist expected." It was "practically stagnant over the past two quarters even before the impact of higher inflation and deeper spending cuts, according to a respected economics research group [National Institute of Economic and Social Research]."

As bad as they are, the Con-Dem cuts have so far merely been nibbling at public services: "The deeper cuts will bite with increased severity over the coming years." (Financial Times editorial, 25 March) Osborne's fraudulent 'expansionary austerity' is going to be austerity, austerity, austerity.

Squeezed incomes

Living standards have already been severely hit by inflation and squeezed wages. Prices are rising by 5.1% a year, according to the RPI (retail prices index, which includes housing costs).

At the same time, wages are only increasing by 2%, which means a 3% fall in real (inflation-adjusted) wages. Every 1% fall in real wages means a loss of £250 a year. This has resulted in the first fall in disposable income for over three decades, and there is likely to be a further fall in 2011.

The BBC Panorama programme recently carried out a survey of actual take-home pay (BBC News, 28 March). This showed that, on average, workers are taking home £1,088 less a year than two years ago. Their real pay has fallen by 5% since the beginning of 2009, which was half way through the recession.

The sharpest drop in real pay was in the construction industry, where it was £99 a month less. In the public sector, average pay was £45 a month less, while in the retail sector it was £41 a month less.

Privatising debt

One of the most alarming predictions for the next few years is for a huge rise in household debt. The Con-Dem government is aiming to cut public debt by £43 billion. At the same time, the OBR estimates that private-household debt (including mortgages and credit card debt) will rise by a staggering £245 billion. With increased unemployment, squeezed wages, higher prices and taxes, people will borrow more simply to survive.

In effect, this is the privatisation of the state debt, a huge share of which came from the nationalisation of bank losses. Now, spending cuts and tax increases will push millions deeper into debt, throwing a huge burden onto working class families.

By 2015, according to the OBR, debt as a percentage of household income will increase from the current 160% to 175%. In hard figures, this means a rise from an average of £58,000 debt to £66,291 by 2015.

Petrol tax

Faced with explosive public anger over the soaring price of petrol and diesel, Osborne cut fuel duty by 1p a litre and postponed a further 3p rise until January 2012. Undoubtedly, the government fears the possibility of another fuel price protest on the lines of September 2000, when lorry drivers and farmers blockaded oil refineries and jammed motorways. At that time, protests were encouraged by the Tory opposition, but new protests would now pose a threat to the Con-Dem government.

However, the 20% VAT on fuel will remain, and pump prices will no doubt continue to rise as a result of the rise in world oil prices, due to the crisis in the Middle East and North Africa.

To pay for the fuel duty cut, Osborne has raised taxes on oil production. The windfall profits tax on UK oil and gas production will increase from 20% to 32%, which is expected to bring in an additional £2 billion. Despite their increased profits from the 35% increase in oil prices over the last five months, the oil companies are screaming about this very limited tax increase, peanuts to these giant corporations. Malcolm Webb, chief executive of Oil and Gas UK, said: "This change in the tax regime will decrease investment, increase imports and drive UK jobs to other areas of the world."

This is a barely disguised threat of a 'strike of capital' if the government increases its tax on oil production. They are unlikely to carry this out, at this time, however, because of the immensely profitable reserves that remain in the North Sea, especially given the fact that oil has now risen to around $120 a barrel.

Nevertheless, it is an indication of the likely reaction of big business, like the banks, to the threat of a 'Robin Hood tax' proposed by the TUC. Without measures to take control of big business and mobilise mass support for such measures, big business will attempt to sabotage any such steps through withholding investment, etc.

Partners in crime. Tories and Lib Dems dish out cuts in jobs, services and living standards.

Trade unionists protest outside parliament photo Paul Mattsson

Black Wednesday budget

There are 44 changes in tax and benefits in Osborne's budget. With such a complex tax/benefit system it is very hard to calculate their exact effect. But one thing is certain: most of the changes will cut the incomes of working-class families. The government's claim that everyone – apart from the rich – will benefit is completely false.

One organisation, Credit Action, calculates that, on average, the changes will reduce household income by at least £200 a year. The Institute for Fiscal Studies (IFS) reckons that the average family income is expected to still be lower in 2013 than it was in 2008, making it the biggest five-year drop for more than 40 years. The IFS also calculates that the typical pensioner household has seen its real annual income fall by 2.4% (£456) since 2008.

However, these estimates come before further price rises, job losses, squeezed pay levels, and benefit cuts. The Centre for Economic and Business Research reckons the higher cost of living in 2011 will mean that the average family will be £910 worse off this year – the tightest squeeze on finances since 1921.

This year's budget, moreover, is a supplement to last year's horrendous Con-Dem spending review which spelt out £81 billion cuts and £33 billion tax raises by 2013.

The basic personal tax allowance (the threshold below which no income tax is paid) is to rise by £1,000 to £7,475, which means around 500,000 workers will not pay income tax.

This small gain, however, will be wiped out for many by the loss of services through cuts and reduced benefits. In particular, changes in tax credits and a freezing of child allowances will mean a sharp cut for working parents.

- Many middle class families will be squeezed by the lowering of the threshold for the higher (40%) tax rate from £37,401 to £35,000, which will mean around 750,000 workers paying significantly more tax (as well as higher national insurance contributions).

Osborne tried to provide some populist window dressing through a number of taxes aimed at big business and the wealthy.

- The levy on windfall bank profits (heavily subsidised by state support during the crisis) is being marginally increased. North Sea oil companies will have to pay another £2 billion on their soaring profits.
- There will be a tax on passengers in private jets, and the stamp duty on the purchase of houses over £1 million will be raised to 5%. At the same time, however, there are concessions on stamp duty for developers and landlords buying multiple properties.
- The fee paid by wealthy overseas visitors to register as 'non-doms' will be raised to £50,000, but they will continue to enjoy the privilege of paying no UK tax on their offshore profits.
- In the small print of the budget, there is a whole series of tax allowances for big business. Big companies will be able to offset against tax investments in enterprise zones, research and development, and many forms of new capital investment.
- Above all, corporation tax, currently 28%, has been cut by 2% with the promise of further cuts to 23% in three years' time.
- Osborne has also promised that the 50% top rate of tax on those earning over £150,000 will be reduced in the future. This highlights an important aspect of the Con-Dems' policy. Many of the current taxes levied on big business and the wealthy minority are regarded as temporary, to be reduced in the future.

On the other hand, the cuts in public spending, with the massive loss of services and public sector jobs, are regarded as part of the permanent reduction of the public sector – in other words, a permanent blow to the living standards and well-being of many millions of workers.

Heading for disaster

The Con-Dem government's leading economic policy guru, Oliver Letwin, has revealed the private discussions of Con-Dem ministers. "Leading up to the recent budget, we took the view collectively in cabinet that we faced an immediate national crisis in the form of less growth and jobs than we needed." (The Guardian, 31 March) Nothing in Osborne's budget will overcome this crisis, which will deepen in the coming months.

In response to the budget's supposedly pro-growth measures, the 'independent' OBR concluded: "We do not believe there is sufficiently strong evidence to justify changing our trend growth assumption in light of policy measures announced in budget 2011."

It is predicting a mere 1.7% growth in GDP for 2011. At the same time, unemployment is projected to continue to an appalling 2.52 million or 8.2% of the workforce. This includes over a million unemployed young people.

The Con-Dem government's aim is to reduce the government's budget deficit to near zero by 2014-15. This is an unrealistic objective even from the point of view of big business and their system – and is likely to prove counter-productive. It is a doctrinaire policy dictated by the interests of the big banks and wealthy speculators, who manipulate bond markets in search of speculative profits.

Wiping out the budget deficit depends on faster economic growth, which is why Osborne continually claims he is promoting "expansionary austerity" through pro-growth measures.

His budget, however, did not impress the financial markets that much. The rating agency, Moodys, which assesses the credit status of borrowers, including governments, warned that "slower growth combined with weaker-than-expected fiscal consolidation could cause the UK's debt metrics to deteriorate to a point that would be inconsistent with a AAA rating."

Near zero growth or even a new recession would mean even higher unemployment and reduced tax revenues. The Con-Dems' savage austerity policy could then result in an increase in the deficit, the worst of all worlds.

The so-called 'expansionary austerity' cannot provide a way out for sickly British capitalism. The crisis referred to by Letwin can only deepen. The Con-Dem government has already been shaken by mass opposition, especially the mighty 26 March TUC demonstration in London. It has been forced to partially reverse the abolition of education maintenance allowance, and to announce a 'natural break' on the savaging of the NHS through accelerated privatisation.

The 26 March demonstration was only a beginning. It should be the prelude to further action, especially coordinated public sector strikes against cuts, a massive weekday demonstration, and a 24-hour general strike.

Next step after 26 March demo: prepare for coordinated strike action

Following the TUC mass demonstration in London on 26 March against the government's spending cuts, the National Shop Stewards Network (NSSN) has produced a model resolution on the next step for the workers' movement.

The NSSN was established by shop stewards and workplace representatives in July 2007 to provide solidarity action to workers in struggle and to assist the rebuilding of the trade union movement. The Rail, Maritime and Transport (RMT) union played an essential role in founding the NSSN, which also has the support of several other trade unions including the CWU, PCS, POA and the NUM.

At a special NSSN conference on 22 January 2011 around 600 delegates and observers launched an anti-cuts campaign (www.stopcuts.net) to help bring trade unionists and community campaigners together to fight to save all jobs and services.

On the 26 March demo the NSSN organised a platform at Speakers' Corner, Hyde Park, to rally support for its position of opposition to all cuts and coordinated industrial action by the trade unions, including a 24-hour public sector general strike against the government's austerity measures.

www.shopstewards.net

Part of the massive TUC demo against the cuts on 26 March photo Senan

Model Motion

This [union branch/anti-cuts organisation etc] believes that the 26 March TUC demonstration of at least 500,000 trade unionists, young people, pensioners and community campaigners has sent a deafening message to the Con-Dem coalition that working class people will fight their £81 billion cuts package.

This [union branch/anti-cuts organisation etc] recognises that, while the march has given everyone a huge boost of confidence, it won't be enough to stop the cuts.

Already the new financial year has seen still more local authority workers losing their jobs, no matter which party leads the council.

Cameron and Clegg have public sector pensions in their sights and the announcement of the privatisation of HMP Birmingham is another sign of this government's desire to roll back all past gains of working people in this country to boost the profits of big business.

Therefore, this [union branch/anti-cuts organisation etc] believes that as soon as possible, the TUC General Council, in accordance with their policy, should:

Discuss the fight against the cuts and to defend public sector pensions in particular and "support and coordinate campaigning and joint union industrial action, nationally and locally, opposition to attacks on jobs, pensions, pay or public services". TUC 2010 conference (composite 10)

Discuss coordinating strike action against the cuts.

Advocate that unions combine to plan for a 24-hour public sector general strike as a step towards a one-day general strike of all workers.

Discuss with those unions who have already committed to balloting on pensions about organising a midweek march in London to coincide with strike action so other trade unionists can show their support to those striking and demonstrate their support for strike action against these attacks which affect all workers.