Challenging the cuts consensus

An e-pamphlet on alternatives to the Coalition's cuts agenda

Including contributions from:
Frances O'Grady, TUC Deputy General Secretary
Dave Prentis, UNISON General Secretary
Ken Livingstone
Diane Abbott MP
Caroline Lucas MP
Sally Hunt, UCU General Secretary
Billy Hayes, CWU General Secretary
Michael Burke, economist
Prof Victoria Chick and **Ann Pettifor**
Richard Murphy, Tax Justice Network
Jimmy Kelly, Unite (Ireland)
Dr Kate Hudson, CND General Secretary
Simon Bullock, Friends of the Earth
Richard Ascough, GMB
Simon Weller, Aslef

Produced by the Progressive Economic Alternatives Coalition

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Produced by the Progressive Economic Alternatives Coalition
alternativestocuts@gmail.com

An alternative to spending cuts – a TUC perspective

By Frances O' Grady, Deputy General Secretary, TUC

Britain's economy, like those in the rest of the world, faces a huge challenge. We have just emerged from an economic downturn and there is a very real fear that growth may not be entrenched. Inflation is higher than its target, unemployment remains high and we have a very large fiscal deficit. Economic policy makers face a more challenging environment than at any time since the Second World War.

Of course, there is another way to look at this. In 2008, when Lehman Brothers collapsed, the world was closer to economic meltdown than most of us recognised at the time. It is impossible to imagine the consequences if we hadn't pulled through. Yet over the last couple of years, international economic action, mostly but not exclusively through fiscal stimuli, ensured that the worst didn't happen.

That fiscal stimuli has left the UK with a high fiscal deficit. High deficits, while unwelcome, are not new - the UK emerged from the Second World War with a huge fiscal deficit. No one would wish to have one, but they can be managed.

Over time, the deficit should be reduced, through a combination of economic growth, fairer taxation requiring the banks and the very rich, in particular, to pay their fair share, and genuine efficiencies in the public sector. As the TUC has repeatedly argued, trade unions support real efficiency and the best way to achieve this is for public sector managers to work with their unions to identify the best ways to bring it about.

Instead of this measured response, the Government has prioritised spending cuts over all other economic objectives. The cuts are already biting and government departments have been required to submit proposals of cuts of up to 40 per cent of their budget for the Comprehensive Spending Review in October. Yet no date has been published for the forthcoming cross-government White Paper on growth.

And there is no sign of any appetite to raise more revenue from the rich or to regulate those parts of the financial sector responsible for causing the mess the rest of us are paying for. In the TUC's view, this is bad politics and bad economics.

The TUC believes that cuts will not only be painful in themselves, but will also threaten the economic recovery. Firstly, cuts will directly hit the public sector. Different attempts to calculate how many jobs will be lost depend on different assumptions. The Chartered Institute of Personnel and Development put the

> *A significant part of public spending budget is spent procuring goods and services from the private sector.. a major source of demand for private sector businesses is about to fall drastically.*

figure at 750,000[1]. Reform[2], the Conservative-supporting think-tank, suggested that a million public sector jobs would need to be lost to reduce the deficit.

Secondly, cuts will disproportionately hurt the less well-off, as cuts always do. For example, some services only exist because they help people cope with the effects of poverty and deprivation. Public transport cuts, to take another example, cause most pain to those who do not own a car, such as lower income families. But middle earners rely on public transport too. In this and in so many other instances, whilst the poorest might feel the most pain, spending cuts will hurt those on average pay of £25,000 a year too. Middle and lower earners have very good reason to come together to fight what amounts to a fundamental attack on the social wage.

Thirdly, past experience suggests that cuts will exacerbate inequality. During the 1980s, when the government of Margaret Thatcher introduced deep cuts, the number of children living in poverty doubled. In 1976, death from adult diseases was 80 per cent higher for men in the lowest social class than those in the highest social class. By 1989, it has risen to 128 per cent higher. And, studies have already shown, three quarters of the pain of the cuts will be borne by women.

The Government has tried to argue that Canada's experience of reducing its deficit in the 1980s provides a model for the UK today. But Canada aggressively reduced the budgets of key public services, with dramatic cuts in education, health and social services spending. At least 265,000 Canadian public service jobs were lost. And did this work? Economists have estimated that around 80 per cent of the eventual fall in Canada's debt was actually due to the expansion of the economy as a result of global growth during the 1990s and early 2000s. One group of economists[3] have since suggested that there is a "grave doubt on whether the degree of social spending cuts was ever warranted or needed to balance government budgets" all of which suggests that old-fashioned right-wing ideology might provide a better explanation of the Government's determination to wield the axe.

Finally, this is not only a public sector problem. A significant part of the public spending budget is spent procuring goods and services from the private sector. In other words, a major source of demand for private sector businesses – from construction to care - is about to fall drastically.

The result for many firms, and the workers they employ, is that company closures and job losses are inevitable. This is why a private Treasury assessment, seen by 'The Guardian' in June, predicted that whilst the public spending squeeze would see up to 600,000 public sector job losses, it would lead to up to 700,000 private sector job cuts.[4] In the eyes of those chasing a falling number of vacancies, and in the absence of any clear industrial policy, the Government's claim that the slack would be picked up by the creation of over a million new jobs in the private sector looks increasingly like a cruel hoax.

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1 http://www.cipd.co.uk/news/inthenews/_Archive/cuts-will-push-jobless-to-3m.htm

2 'The Front Line', Andrew Haldenby, Patrick Nolan, Lucy Parsons and Greg Rosen, Reform, 2009, p. 36

3 Phillips L (1997) 'The Rise of Balanced Budget Laws in Canada: Legislating Fiscal (ir)Responsibility', 34:4 Osgoode hall Law Journal, pp 681-740.

4 http://www.guardian.co.uk/uk/2010/jun/29/budget-job-losses-unemployment-austerity

It is for all of these reasons that some of the UK's most eminent economists, including David Blanchflower – one of the few economists to have foreseen the economic downturn – have warned of a double-dip recession. What is particularly galling is that if this was to happen, it would be no accident. It would be the result of a deliberate government policy of putting spending cuts above economic growth. It is not too late. The cuts can be stopped. There is an alternative. And a fairer outcome for Britain can be achieved.

Invest in public services for a stronger economy and a fairer future

By Dave Prentis, General Secretary, UNISON.

It's certainly audacious. Despite their failure to win a democratic mandate, Cameron and Clegg have seized their chance to cement their grip on power and drive through their shared neo-liberal agenda. Their Coalition is now using the fiscal costs of the financial crisis as a pretext for a historic and ideologically motivated assault on public services and the welfare state.

Their goal is to execute a five year programme of cuts and privatisations that would roll back not just New Labour's achievements, but the social gains of decades. Unprecedented attacks on departmental budgets will make it impossible to maintain standards and services, while public sector 'reform' and restructuring will weaken accountability and increase the exposure of staff and users to unregulated market forces.

Aided by their supporters in the media and right-wing lobby groups, they are attempting to convince the public that this is all a necessary consequence of the Labour government's excessive public spending. This is a dangerous myth. In the last decade public spending did increase in key areas such as health and education, but this was what was needed to repair the damage of previous under funding and meet the needs of an ageing population and a developing economy.

Even after these increases the UK was still spending a lower share of its national income on public services and social security than most other advanced economies.

The current state of the public finances is the result of a global recession that had its origins in reckless borrowing and lending in the private sector, against a background of deregulation, low wage growth and restricted public provision in key areas such as housing and pensions.

Before the 'credit crunch' public sector debt was less than 40% of national income – low by historic and international standards – while private household debt was nearer 100% and corporate debt almost 300%. It is the retraction of this leverage that had built up in the private sector that has led to a slump in investment and employment, and the knock-on effect on tax revenues that has necessitated an increase in public borrowing.

The Coalition also wants the voters to believe that the size of the deficit and the prospect of punishment by the bond markets means that cutting public spending is an urgent necessity. But this claim finds little support among independent economists, most of whom – including not just Nobel Laureates Paul

« *Investing in jobs …could take people out of unemployment and provide the stimulus our economy needs to climb out of recession and onto a new growth path*

Krugman and Joseph Stiglitz but also commentators of the right such as Samuel Brittan and Martin Wolf of the *Financial Times*, and now the OECD itself – are clear that public borrowing is sustainable and necessary to combat the real risk facing our economy: prolonged stagnation and long-term unemployment.

Cutting public service provision is a false economy that will only make this worse. Analysis by Richard Murphy has shown that throwing public service workers on the dole costs almost as much as keeping them working when lost tax revenues and increased benefit payments are taken into account. And cutting public service jobs has a further negative multiplier impact – research commissioned by UNISON from the Association for Public Service Excellence shows that for every pound paid to public service employees, 64 pence is recycled into local shops and businesses.

Yet the Coalition is pushing forward with plans to cut 600,000 public sector jobs over the next three years – cuts that their own Office for Budget Responsibility estimated would result in the loss of a further 400,000 jobs in the wider economy.

We also know that, whatever the Coalition's protestations about 'fairness' and everyone being 'in this together', the cuts they have outlined will be deeply unjust and regressive. The Institute for Fiscal Studies has blown out of the water Osborne's claims that his tax and benefit changes placed the greatest burden on the broadest shoulders. The Fawcett Commission and Women's Budget Group have highlighted the disproportionate impact on women. And research commissioned by UNISON and the TUC from the Fabian Society has shown that cuts to spending on public services will hit the living standards of the vast majority of households and hit lower income households and disadvantaged regions especially hard.

Instead of cuts and privatisations that will inflict hardship on communities and lasting damage on our economy, we should be investing to create the jobs we need to support the recovery and build a better, fairer society.

Expanding public service employment could be a key part of this strategy. Just take a few examples. The Academy for Sustainable Communities has estimated that 10,000 more planners are needed by 2012 to ensure sustainable infrastructure and community development. The LGA has proposed that another 20,000 new jobs could be created with a local authority-led programme to improve energy efficiency by upgrading the ten million homes currently without cavity wall and loft insulation. Getting the previous government's house building programme back on track by building an additional 80,000 homes next year would provide employment for another 120,000 people; 10,000 more social workers are needed to fill vacancies and deal with rising child protection caseloads. Research commissioned by UNISON has shown that recruiting 50,000 more hospital cleaners would bring staffing back to levels of the 1980s, before the cuts and contracting out that resulted in the explosions of MRSA and C-Difficile. The UK Commission on Employment and Skills has estimated that 100,000 more education workers will be needed by 2017 to train the skilled workforce our economy needs. And the Audit Commission has warned that 350,000 more care workers will be needed by 2020 to meet the needs of a growing older population.

Investing in jobs such as these could take people out of unemployment and provide the stimulus our economy needs to climb out of recession and onto a new growth path. Combined with well-targeted capital investments, and an industrial strategy to support key sectors such as sustainable energy generation and low carbon technologies, this would generate the prosperity we need to take care of the deficit created by the financial crisis.

And if we do need to raise more revenue, there are numerous ways of tapping the grotesque incomes and unprecedented accumulations of wealth that are currently concentrated in the hands of a tiny super-rich minority and the major banks and corporations. As things stand the public loses tens of billions every year through tax evasion and avoidance by big business and wealthy individuals. Further resources could be raised with a ‘Robin Hood Tax’ on financial transactions and more progressive taxation of incomes and bonuses.

The Coalition’s claims that their cuts are unavoidable do not stand up to scrutiny. There is an alternative, and it’s one that has the potential to engage and inspire the vast majority of people in this country. Our task, then, is to get out there and organise and campaign for it. The future of our economy and our society depends upon it.

- *To support UNISON’s campaign for public services and a fairer society go to www.unison.org.uk/million*

London can't afford the cuts

By Ken Livingstone

The scale of the government's cuts agenda is truly breathtaking. It is going to have a huge impact on London and on the quality of life of Londoners of all backgrounds.

New research I have carried out has shown the shocking extent of the axe that is set to be taken to London's public services. London accounts for the largest share of public expenditure of any region and over five years the cuts will cost the capital £45billion - or £5625 for every Londoner.

This will not only damage the public services and infrastructure that those living in any modern city need but risks leaving the economy with low growth – or even a double dip recession.

Employment will be hit hard too. There are nearly 800,000 public sector workers in London - accounting for 21% of employees. Cuts will worsen London's already severe unemployment problem - which stands above the UK average and has done over the past 20 years.

Higher joblessness and slower growth will do nothing to tackle the deficit.

This cuts agenda is entirely ideological – there are alternatives that do not involve slashing services, jobs and pay, and that do not risk pushing us into years of low economic growth.

Any solution to London's economic problems needs to address what is causing the recession. Here both the Conservative led Coalition and the current London Mayor fail the test.

UK output fell by 6.4% during the recession with only a limited recovery from the end of 2009 onwards. The biggest component of Britain's economic downturn is the collapse in investment – over half of the decline in UK GDP is due to this fall. Nearly two-thirds of the overall decline in economic output is due to the private sector's withdrawal of investment – with this offset to a limited degree by a modest rise in the government's own investment.

The second biggest economic decline is in consumer spending - which accounts for 45% of the fall in UK GDP.

Cutting government investment and expenditure is clearly against the interests of both Londoners and economic development. The exact opposite is needed. Fighting against these Tory cuts is therefore in the interest of Londoners and in the interests of London's economy.

« *When I was Mayor, London won the Olympics and Crossrail construction. Both are creating 1000s of jobs in London during the downturn. The urgent task for the Mayor is… new infrastructure projects to improve the quality of life and create new jobs.* »

All the powers of the Mayor - both direct powers and the influence of being Mayor in a city with a bigger economy than some European countries - should be being used to promote growth and to win the case for large scale infrastructure schemes.

During the period when I was Mayor, London won both the Olympics and Crossrail construction and both are creating thousands of jobs in London during the downturn. The urgent task for the Mayor of London is creating a new consensus across London – from the poorest communities to London's companies - for new infrastructure projects to improve the quality of life in London and create new jobs.

It is also essential to ensure that all Londoners benefit to the greatest degree possible from growth in London's economy. For example, I ensured that Crossrail would reach not only the City of London but also the poorest areas of London.

In contrast Boris Johnson began taking his axe to services in London even before his Party formed the government: cutting police numbers, failing to guarantee the future of safer neighbourhood police teams, reducing financial backing to the police service.

He is gutting the Transport for London investment programme including key outer London transport links. Johnson has concentrated cuts in infrastructure in the less well-off parts of London and on vital schemes such as the extension of the Croydon Tram and the extension of the DLR to Dagenham Dock have been abandoned.

The Mayor also has significant direct powers over budgets which affect fares, housing, training and other key issues for Londoners. These can either be used as much as possible either to protect Londoners from the effects of the Tory cuts or to worsen their effects.

As Mayor I oversaw the highest levels of house building in London for thirty years, free travel on the buses for those under 18 was introduced and initiatives such as the living wage were delivered.

Boris Johnson has used the direct powers of the Mayor to protect the richest Londoners and to transfer the burden of the crisis onto ordinary and the lowest paid Londoners - exactly the policies that are now being pursued by the Tory dominated government with, for example, the VAT increase.

Nothing shows that more clearly than fares policy. Bus fares, the means of transport used not only by the greatest number of Londoners but by the poorest Londoners, were unnecessarily raised by as much as 20% this year alone.

However the proposal for a £25 a day tax on the most polluting gas-guzzlers, which would have brought in up to £50million, has been scrapped.

These priorities must be reversed. Londoners on normal and low incomes must be protected while those on the highest incomes, or who engage in environmentally damaging activity, must bear the greatest burden.

Another vital task for the Mayor on which Londoners' future prosperity depends is to understand the new shape of the world economy and to orientate to this.

The world economy is going through a once in a century transformation with the rise of the rapidly growing Asian economies – above all China and India and also the emerging Latin American economy. This is a trend that will only continue to develop. The Mayor should be promoting London around the world as a city where companies can invest.

With this approach of investment not cuts, protecting the income of the working people and orientating to the growing parts of the world, London's economy can be protected in the interests of all Londoners.

Cuts will hit women hard

By Diane Abbott MP

There is no doubt that the Coalition government's economic strategy will hit the poorest hardest. Despite the protestations of George *"We are all in this together"* Osborne and his Liberal Democrat allies, the budget was fiercely regressive.

One way of illustrating this is to examine the impact of the budget on women and families. The figures are frightening. The bulk of the impact will be felt by women: 72% of the cuts will be met from women's income as opposed to 28% from men.

There is a whole series of taxation and benefit changes that will hit women harder including: reductions in entitlement to Child Tax Credits; linking the indexation of benefits, tax credit and public service pensions to the (lower) Consumer Prices Index rather than the Retail Price Index; the cuts in Housing Benefit; freezing Child Benefit and restricting eligibility to the Sure Start Maternity Grant.

Some of these changes seem technical but the ultimate effect will be to take billions away from women. This is because a larger share of women's income is made up of benefits and tax credits: one-fifth for women compared to one-tenth for men.

But it is not just the cuts in tax credits and benefits that will hit women hard. The cuts in the public sector will be a hammer blow to women. In the public sector 65% of the workers are women.

And, just like the government's public sector cuts in general, the effects will not just be felt by women working in the public sector. In all the comments on the public sector cuts, what has not been sufficiently recognised is that millions of jobs in the private sector depend on public sector contracts. This is particularly true of local authorities. Ever since Thatcher there has been a tide of privatisations in the public sector. Currently most jobs in childcare and social care are in the private sector. And the majority of these workers are women. Cuts in local authority funding mean that many of these women face either losing their jobs altogether or having their terms and conditions squeezed.

Yet the Tories and their allies have been successful in depicting the cuts as merely being a matter of sweeping out bureaucrats in bowler hats. Relentless propaganda in newspapers like the Daily Mail, encourages people to focus on the more ludicrous public sector job titles in the job advertisements in the Guardian. Usually these jobs are perfectly reasonable jobs under over-fanciful titles. But they are always cited as examples of public sector "waste".

> « *We need to make the case that we will not cut our way out of this recession and that women and families should not pay the price for the irresponsibility of bankers.*

Alongside the anti-public sector worker propaganda, Cameron is pushing his idea of a "Big Society". He presents it as empowering people to take over from the bureaucrats. In fact it is all about a "cut- price" welfare state. He does not want voluntary workers to supplement the state or to innovate. Cameron wants voluntary work to substitute for the state.

The truth is that ordinary people (particularly single mums) do not necessarily want come home from their shift at work and take part in meetings to run their local school. Furthermore, in the cultural mosaic that is our inner cities, the type of groups that will take it on themselves to run local services will not necessarily be representative of the community as a whole. In Cameron's "Big Society" marginalised groups will be even more peripheral. And "time-poor" single mums will probably be the most marginalised of all. But denigrating public sector workers and peddling the (superficially attractive) idea of the "Big Society" is all part of softening voters up for massive public sector cuts and a permanent shrinking of the welfare state.

So it is vital that Labour is not forced on the defensive in the debate about the Coalition government's economic policy. To have any credibility attacking the Coalition government now, we have to offer a genuine alternative.

We need to make the case that we will not cut our way out of this recession and that women and families should not pay the price for the irresponsibility of bankers.

We have to make the case for investment and point out that investing in public sector services like schools and hospitals actually creates jobs in the private sector and generates growth in the economy overall.

Nobody disputes that we need to take tough action to deal with the deficit. But at the very least we should consider raising a larger proportion of the money from increases to taxation. This is not about increasing the tax burden on ordinary people. We could consider increasing the levy on the banks.

There is a responsibility on all of us in the Labour movement to make the "Investment not Cuts" case with renewed vigour. The life-chances of millions of women and children depend on it.

The case for a Green New Deal

By Caroline Lucas MP

The coalition is presenting its austerity measures as inevitable. But let's be clear, the cuts are an ideological choice: Tories and economic liberals *like* to cut public spending.

They're equally disingenuous when they talk about "fairness". "We're all in the same boat", Clegg says, but he's forgetting that while some are in First Class there are a lot more in Steerage. And, as the nature of the cuts becomes clear, and their disproportionate impact on the poor even clearer, it's apparent that the latter are not even to be guaranteed lifeboats.

No-one would deny that the economy is in crisis. But there are serious concerns over the government's draconian cuts strategy. And at the same time we're facing another crisis – climate change – and the effects of climatic instability will hurt far more people and make themselves felt for a lot longer than the deficit crisis.

So here are two problems, each massive in its own right – and in combination greater still, because the government's cuts are already weakening its efforts to help tackle climate change, while climate change will inevitably cause huge economic damage.

And let's add a third problem, because whatever solution we propose we need to make sure it's fair – both for moral reasons and because the public will have to find it acceptable.

Fortunately there is a way of dealing with this triple crisis in an integrated fashion – through a "Green New Deal"[5]. I don't mean the government's so-called "new green deal", which is a typically inadequate Tory plan, which fails in scope and ambition. By Green New Deal, I mean a radical plan for addressing the climate crisis that would help recession-proof the economy, create huge numbers of new jobs, and help those in fuel poverty.

Of course, to implement a Green New Deal you have to be prepared to intervene in the economy far more than New Labour was. And to help fund it, you need to break an even bigger taboo – you must tax the people who can afford it, including cracking down on the billions lost in tax evasion and tax

> *It may be ideologically unfashionable to admit it, but government spending can rescue the economy from recession and set it onto a new path of development.*

5 http://www.neweconomics.org/publications/cuts-wont-work

avoidance. So here's a proposal. The Green Party's 2009 election manifesto[6] contained a £44bn "Green New Deal" spending package focused on both the recession and the climate crisis. The idea was to start radically and rapidly transforming the UK economy in order to slash emissions by investing heavily in low- or zero-carbon alternatives.

It was calculated that the package would generate just over a million new jobs and training places for engineers, builders, plumbers, fitters, mechanics, public transport workers, and also in associated management and training or education roles. We showed how to pay for it partly through cutting things like Trident and ID cards, partly through higher taxes on higher incomes and partly through borrowing.

Of course, helping hundreds of thousands of people into work would slash expenditure on benefits while increasing tax revenue. Tremendous social benefits would ensue, including making sure every home in the country is warm and energy-efficient, ending fuel poverty, hugely improving public transport, stabilising energy costs, and ultimately providing the energy security you can't have if you depend on fossil fuels.

A year later, with more information on the state of the deficit to take into account, the Green Party's 2010 election manifesto[7] was still able to show a plan for a million jobs with all of the above social, environmental and economic advantages, costed taking into account the deficit situation and able to render the UK economy proof against the double-dip recession that increasing numbers of economists were warning about.

The benefits of this package are indisputable. What about the costs?

Well let's look more closely at the taxation aspect[8]. And let's start not with the rate of tax, but with tax evasion and avoidance – which HM Revenue and Customs themselves admit come to at least £40 billion a year. In November 2009 they also admitted there was £28 billion of unpaid tax owing to them. Shocking as these numbers are, some experts have suggested that tax evasion – deliberately breaking the law to not pay tax – might be as high as £70 billion a year and tax avoidance – exploiting loopholes in tax law – might be £25 billion a year.

Ironically whilst these appalling losses to the nation's coffers are occurring, HMRC is looking to cut 20,000 of its staff – close to one-quarter of the total. That is, through cost-cutting the government is weakening its own ability to raise the cash that would avoid this and a lot of other cost-cutting too. This programme should be reversed, staff re-employed, and local tax offices re-opened in order to tackle tax abuse.

That would be fair and reasonable – far more so than public spending cuts that inevitably impact most on people on lower incomes, who depend on public services the most. Why should they be the ones to pay

6 http://www.greenparty.org.uk/assets/files/EU_Manifesto_2009.pdf

7 http://www.greenparty.org.uk/assets/files/resources/Manifesto_web_file.pdf

8 See Cuts: the callous con trick, written jointly by tax expert Richard Murphy, Colin Hines of Finance for the Future and Caroline Lucas MP. It can be read at http://www.financeforthefuture.com/TaxBriefing.pdf.

the highest price for the recent excesses of the bankers? I would argue that we should instead ask those who are best able to pay to foot the bill for the economic reorganisation that we need.

It may be ideologically unfashionable to admit it, but government spending and decision-making really can rescue the economy from recession and set it onto a new path of development that is both socially just and ecologically sustainable, geared to meeting human needs equitably within the constraints imposed by our resource-base.

A full-blown Green New Deal could re-launch the UK economy in the right direction to not only play our own part in cutting CO2 emissions, but in demonstrating to the world the social and economic benefits that can accrue from doing so. And in the process, we could make the UK economy a lot fairer as well.

Education cuts will hurt growth now and in the long term

By Sally Hunt, UCU general secretary

We are being told that making huge 25% cuts to vital services is not why our politicians went into public service. We are being told that they are being made because they are necessary. We are being told we are all in this together.

Those arguments might be a little more convincing if George Osborne's first action as Chancellor hadn't been to promise to slash corporation tax for the biggest profit makers in the City to the lowest levels in the world, while delivering a budget described by the Institute of Fiscal Studies as 'clearly regressive'. The IFS went on to say that the cuts in welfare will mean that working families on the lowest incomes, especially if they have children, will be hardest hit.

As the cuts start to bite anyone who is still under the illusion that 'we are all in this together' will soon realise that we are not. When promises are broken over winter fuel allowances for pensioners and pupils have to wear their coats during lessons because school buildings are not being rebuilt, people will be angry.

Against this backdrop Nick Clegg is trying to get social mobility back onto the political agenda. While there may not be one silver bullet to sort out social mobility, experts agree that education is the closest thing we've got. Therefore to treat education as just one more area for budgetary pruning will meet neither the needs of individuals and their families, nor those of society in general.

We cannot afford to waste this opportunity to invest not just in the country's infrastructure, but also in the areas that we will need to develop if we are to compete in the future. High-speed rail, broadband expansion, the green economy; we should be helping people secure places at university or high-level vocational qualifications. We can only do that through investment - not cuts.

The students of today are the doctors, nurses, social workers, engineers, plumbers and architects of tomorrow. As a country we must invest in them, rather than seeking to ration access to further and higher education. The real answer to the crisis is not to ask people to temper their ambition, but to invest in Britain's young people and create the extra places that are in such demand.

Too many bright teenagers have been left with no educational place this summer and must now chance their arm in the most competitive job market for years. The Coalition government's refusal to fund

Other countries are preparing to play a leading role in the new knowledge economy while we risk consigning a generation to the scrapheap of inactivity and being left behind.

sufficient university places this summer will come back to haunt the country.

Unless urgent and decisive action is taken to reverse the punitive cuts planned for education then the situation is going to get much worse. Other countries are preparing to play a leading role in the new knowledge economy while we risk consigning a generation to the scrapheap of inactivity and being left behind.

President Obama clearly stated America's aim to produce the most graduates in the world. He recognises the need for a highly skilled future workforce. Our competitor countries are investing in education and skills and it is extremely worrying that our government is not. The scandal of the lack of university and college places this summer exposed the coalition's failure to understand the collateral damage of funding cuts.

It is not enough for the government to parrot the lazy 'no money left, so students must pay' line in certain sections of the press. The challenge of who pays for higher education was clearly laid out in a landmark report from Lord Dearing back in 1997. He said the main beneficiaries of a university education had to pay their fair share.

Since 1997 students have been hit with university tuition fees, followed by top-up fees while there has been continued state support. What we have not seen is any real contribution from the third beneficiary identified by Lord Dearing - the employer.

UCU recommends raising the level of corporation tax in the UK to the G7 countries' average. This simple 'business education tax' would raise enough money to abolish all university tuition fees and would still leave our rate of corporation tax lower than that of France, Japan and the United States.

It would also leave corporation tax at a lower rate than when the Tories were last in power and would actually add some substance to the ridiculous claim that we are all in this together. Crucially, it would only hit the really big players - those earning more than £1.5m a year in profits - leaving 96% of companies in the UK unaffected by the change.

Our proposals are part of an emerging consensus that business must pay its fair share.

We have seen the hugely popular Robin Hood Tax, the backlash against bankers' bonuses and a special tax from Tory Mayor of London, Boris Johnson. Johnson's 2p in the pound tax on central London businesses has been introduced specifically to fund a project that the businesses will benefit from. The difference between Boris's tax and our tax is that one in five businesses will be hit by his tax; just one in 25 will be hit by ours.

The business education tax proposals are based on fairness. The future for the UK is as a high-skilled knowledge economy and that requires business to pay its fair share towards something which benefits us all. We believe our proposals will be welcomed by hardworking families who want their children to benefit from education, but are put off by the potential debts created by university fees.

Privatisation is not the way forward

By Billy Hayes, General Secretary, CWU

The coalition government's proposal to cut public spending by 25-40% represents a grave and unnecessary attack. It is dictated by the Tory's long-standing opposition to public services.

The CWU rejects the consensus that the deficit in public finances is the decisive economic problem that we face.

The international recession – which was above all a collapse in private investment - led to tax revenues to the Treasury collapsing whilst welfare payment rose due to the rise in unemployment. The deficit is a result of the crash in private sector activity. It has only been government spending that has saved the economy from depression.

The coalition government proposed cuts go in exactly the opposite direction, and threaten to tip the economy back into recession. Therefore the CWU rejects the manufactured consensus that cuts are necessary.

We believe the priority is to expand the economy out of recession. Creating jobs and increasing tax revenues, which flow from increased activity, will reduce the deficit.

Developing an alternative economic strategy to the coalition government's cuts is crucial. The Labour, trade union and progressive movements have an urgent need to outline an expansionary economic policy, which can underpin the work of local, or sector specific campaigns.

It is for that reason that we must greatly welcome the breach that Ed Balls has opened up in the coalition government's arguments. His intervention has already changed the terms of debate.

Along side this we see the first breaches in the majority public support for the cuts. The recent poll conducted by the Times, showed that a majority now felt that the cuts are too large.

For our own part, we have launched a campaign to 'Keep the Post Public'. Over the past 20 years, every opinion poll has demonstrated a large majority of the public are against the privatisation of Royal Mail. In an opinion poll in August, 51% of Tory voters opposed any partial or complete sale whilst 63% of Lib Dem voters opposed any partial or complete sale.

> « *The priority is to expand the economy out of recession. Creating jobs and increasing tax revenues, which flow from increased activity, will reduce the deficit.*

Despite this public hostility, the government seems determined to sell and break up a much-respected public service. In early September, the government published a report by Richard Hooper, who had previously published a report for Lord Mandelson advocating privatisation. Presumably to embarrass senior Labour figures, the coalition government asked him to update the original report.

This is after the government had already made clear its intention to privatise Royal Mail. Hooper is acting as a match fixer – independently giving the government independent advice that the government has asked him to provide.

Well, we are not going to give him any creditability. In the past two years, the CWU has with great difficulty, negotiated a comprehensive agreement with management. This is leading to the industry being modernised over the coming three years with the full involvement of the union. This is despite the usual vile media campaign, claiming that the union is incapable of agreeing on such modernisation.

This new agreement allows for the most up to date machinery to be deployed across the industry, with the complete engagement of the union, locally and nationally. This is a fully funded programme, which Royal Mail is achieving through a commercial loan from government, which it is repaying.

Royal Mail has survived the recession better than its privatised rivals like Deutsche Post and TNT. Royal Mail increased its profits while these companies registered losses. TNT has even told the Dutch government that it may only be able to provide a delivery on three days a week.

But privatisation is a dogma for the Tories and Lib-Dems. Regardless of the facts, they brought a privatisation Bill before the House of Commons in early October.

This will start the break up of Royal Mail. Post Office Ltd – which is composed of the local Post Office branches – will remain in the public sector. As this is a loss making section with a public subvention, this is not a surprise.

Does anyone seriously think that private investors will want to continue linking Royal Mail to a loss making service? Clearly not, they will seek alternative retail networks, and there will inevitably be a massive programme of local Post Office closures.

We are also certain that private investors will seek to reduce and worsen the scope of the universal service. It will be domestic customers, small businesses and rural communities that will feel the pinch of a privatised industry. Prices will rise whilst services deteriorate.

For such reasons we will campaign hard against the coalition government proposals. We have defeated privatisation on three separate occasions. In 1994, Michael Heseltine brought in a Bill, under John Major's government. We campaigned against this and it was defeated. From 2004 – 2007, the then Royal Mail Chairman, Allan Leighton, lobbied government for a share sale. We defeated him. In 2008-2009, Lord Mandelson brought forward a Bill to sell up to 49% of Royal Mail. We campaigned against that and defeated him too.

Now the coalition government intends to go further still, by selling off all of Royal Mail, except the loss making Post Office counters. We know we cannot guarantee defeating the new proposals, but we have got a fighting chance.

We are asking our local CWU branches to work with organisations, campaigners and individuals to put pressure upon the government. We have identified 71 key marginals where the coalition party MPs have less than 10% majorities.

As a trade union we do have our own distinct battles to wage. But we know we cannot win these alone and that privatisation is not just our concern. Royal Mail provides a public service, which is greatly valued. We are certain that a very broad campaign is capable of defeating the coalition.

We will shortly be publishing a pamphlet laying out our vision of the new innovative Royal Mail in the public sector, we know that there is an alternative to a declining, privatised, Royal Mail and we intend to ensure that this is widely understood.

The CWU believes that the successful modernisation of a wholly publicly owned Royal Mail will form a small part of a genuine alternative economic strategy. We are committed to winning the campaign and to the promotion of the broader strategy.

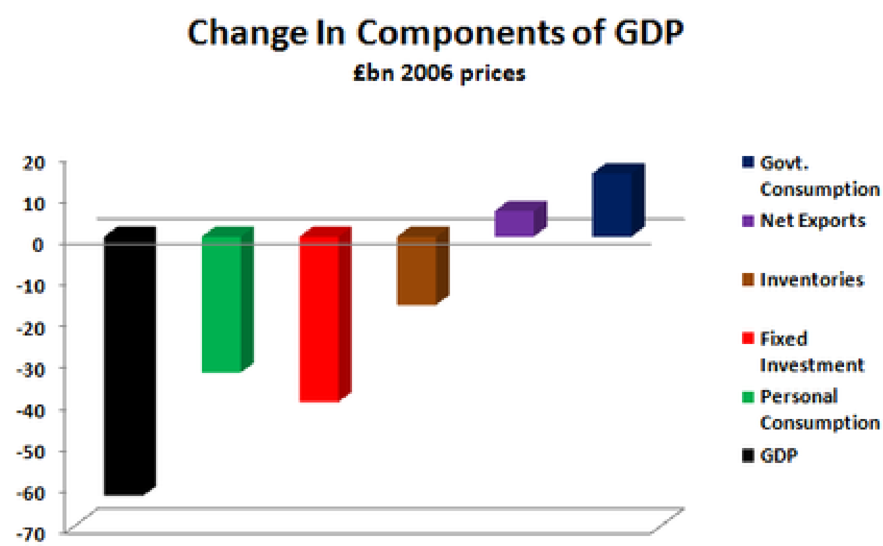
Increasing Investment is the key to solving the crisis

By Michael Burke

The underlying cause of the current crisis is the collapse in investment. To get the economy growing, people back into work and to tackle the deficit - we need to increase investment.

Investment is a decisive area of activity, determining future prosperity. For thousands of years farmers have understood that they cannot consume all this year’s crop - some of it must be stored as seed for future years. In a modern economy, the greater proportion of activity an economy devotes towards investment, the more efficient and faster-growing it becomes. By contrast, declining investment leads directly to lower growth, inefficiency, lack of competitiveness and job losses.

This is clear from the fastest growing economies in the world today, China and India. In the five years to 2008, China's GDP grew at an average annual 10.8 percent, and it invested an average of 40.7 percent of GDP whilst India's economy grew an average 8.5 percent a year and its share of fixed investment in GDP was 31.0 percent. In the UK investment was only around 17% even before the recession leading to growth of around 2.5%.



Recession was above all an investment collapse

Taking the latest data for the UK economy, the total contraction over 6 quarters of recession was £88.1bn. The economy has since recovered somewhat, but in the 3 quarters since, the economy has grown by only £25.4bn, leaving it still £62.7n below its peak at the beginning of 2008[9], as can be seen in the chart.

Of that decline, fixed investment[10] has fallen by £40.6bn – that is nearly two-thirds of the current total decline. Even while other sections of the economy have begun to pick up, notably household consumption, investment continued to fall in the 2nd quarter of this year, and has fallen in 8 of the last 9 quarters. The recession is above all an investment slump.

9 ONS, UK output, income and expenditure, August 27, 2010, constant 2006 prices

10 Gross fixed capital formation

This reflects international trends. Declines in fixed investment account for approximately 96% of the fall in GDP in the OECD and for 76% of the decline of GDP in Europe that had taken place by the end of 2009[11].

Private sector investment strike

The overwhelming bulk of the decline in investment is from the private sector. Data to the 1st quarter of 2010 shows a net decline in UK investment of £35.6bn[12]. Public sector investment has actually risen by £11.7bn during that period, whereas private sector investment has collapsed, down £47.3bn. This is a private sector investment strike and needs to be broken if the economy is not going to lapse into a permanent path of slow growth.

The previous Government had made a positive contribution to investment, but insufficient to offset the private sector slump. Now, the government intends to cut public sector net investment in nominal terms by a cumulative £142.5bn over the next 6 years.[13] The rational alternative is to do the opposite - for the public sector to increase its direct investment in those sectors like housing and infrastructure where there is a desperate need.

Why Investment Is Required

There are two key benefits from investment. The first is the immediate boost to demand. The second is the long-term benefits to the economy in the form of increased efficiency. Both of these are required currently. Not only does the economy require a significant increase in demand, but because of long term under-investment, it also requires a marked improvement in productivity.

The British economy continues to slip down international rankings of competitiveness, now 13th overall. It is 35th in terms of quality of transport infrastructure, 38th in education expenditure, 52nd in quality of maths and science education (and 126th in soundness of banks)[14]. Britain has worse access to quality port infrastructure than landlocked countries such as Luxembourg and Switzerland. But it is precisely these areas and others where the investment slump has been deepest.

Government Investment would pay for itself – and help pay off the deficit

Any spending has a greater impact on the rest of the economy than the initial outlay. This is known in the jargon as the 'multiplier effect'. There are a variety of multipliers depending on the sector (available form the official government Input-Output tables). The highest multiplier is attached to construction at 1: 2.06, meaning that every £1bn invested in construction will actually generate £2.06bn in new activity.

As a result, and as Ed Balls has recently pointed out, the government could, for example, embark on a massive programme of publicly-owned housing, to help reduce the deficit. It can do so much more efficiently than the private sector for three reasons. First, government has a return in the form of taxes. Secondly, welfare spending falls as people are brought into work. Thirdly, government borrows at much

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11 'The Great Recession' is actually 'The Great Investment Collapse' - by John Ross, Li Hongke and Xu Xi Chi

12 ONS, UK quarterly national accounts, July 12, 2010, constant 2006 prices

13 HM Treasury, Budget Redbook, June 2010, Table C13

14 World Economic Forum, Global Competitiveness Report, 2009-2010

lower interest rates. For these reasons, government can actually build the same house for a much lower net outlay than the developer and so offer affordable housing which contributes to reducing the deficit.

This is precisely one of the bold initiatives the post-1945 Labour government made, which inherited war debt more than 3 times the size of the current level. The debt level fell as a result of its massive programme of council house building, and created employment. This is because investment works.

Funding Investment

There is no obstacle to increasing borrowing in order to fund investment. The interest rate on 10-year government borrowing is currently well below the level of inflation - meaning the government can borrow at interest rates that are less than zero in real terms.

But a number of campaigning organisations, including the World Development Movement have pointed to a source of sustainable investment which requires no new government borrowing at all. RBS is 84% owned by British taxpayers and has £438bn in assets (adjusted for their riskiness). New international capital rules for all banks mean that they will have to carry a 7% cushion against those assets, mainly in the form of shareholders' funds. Currently RBS has more than double that limit, and would still have 11.2% in capital in 2011 even under the severe stress tests conducted by the FSA. RBS could make an investment of £100bn in new industries that would reduce its capital cushion by just 1% - and kick-start a transformation of the economy while creating growth and hundreds of thousands of new jobs and tackling the deficit.

- Michael Burke is a former senior international economist with Citibank and a regular contributor to Socialist Economic Bulletin

Cuts may increase the deficit: evidence from history

By Prof. Victoria Chick and Ann Pettifor

To speak of 'cutting the deficit' is a nonsense. Government can cut expenditure, but it can only *influence*, not determine, the budget deficit.

It may seem obvious that if one wants to reduce the excess of one's expenditure over income, one should either increase income or reduce expenditure or both - the Micawber principle.

That strategy will be successful for most individuals - but not for government. Individuals are small cogs in the economic machine. What we do is not important to anyone else and has no significant effect on the economy unless everyone is doing something similar.

But it is unsound to generalise from what is true for individuals to such a significant institution as Government: its expenditure and taxation plans affect the rest of the economy. The outcome for the deficit of cutting expenditure and raising tax rates depends not only on what Government does but also on the response of the whole economy.

That is why the debate should be framed as expenditure-cutting vs. stimulus, and not as deficit-cutting vs. stimulus.

It is highly likely that the reduction in expenditure and rise in tax rates planned by the present government will cause households, already trying to repair their balance sheets, to cut back further on their expenditure. The companies that produce what consumers would otherwise buy will cut back their output and employment, to cut costs in the light of reduced demand from both households and government.

As production falters, income and demand fall further. Income will fall by a multiple of the initial expenditure cuts. The increase in unemployment will add to expenditure on benefits and reduce tax receipts; businesses also will pay lower taxes as their profits fall. Even the revenue from a higher VAT will fall, if the proportional fall in the demand for goods subject to VAT is greater than the proportional rise in the rate.

These factors work in the opposite direction from the original expenditure cuts: they increase the deficit. It is just a matter of which is the larger.

« *If the Government wants to cut its deficit in these circumstances, both history and sound theory argue that a policy of cutting government expenditure, raising taxes and cutting benefits is likely to be counterproductive.*

As members of the PRIME[15] network of economists we have undertaken research into past episodes of public expenditure cuts and increases and published a report *'The economic consequences of Mr Osborne'* [16].

This research shows, in the UK, that each of the periods of expenditure cuts from 1918 to 1947 correlated with a rise in the debt/GDP ratio in the period. Before 1947 periods of expansion in expenditure coincide with a fall in the debt/GDP ratio.

After 1947, expenditure never actually fell. From 1947 to 1975, when government spent freely on the National Health Service, public housing and education, the public debt fell each year. The first increase in debt coincides with the 1976 fiscal consolidation.

The cuts in 1944-47 pushed the average percentage change in the debt/GDP ratio almost as high as it had been during the First World War and the cuts of 1918-23 produced a worse outcome for debt than World War II.

But perhaps it is the public economy drive of 1931-33 which most closely resembles our present situation. Then the (May) Committee on National Expenditure forecast a public deficit of £120m and recommended an expenditure cut of £97m, including a reduction of 20 per cent in unemployment benefit (at a time when unemployment was 16 per cent) and a reduction of teachers' salaries by 15 per cent.[17] The problem was that, at a time when Britain was on the Gold Standard, the financial crises in Germany and Austria made the maintenance of sterling parity difficult. (At least, in contrast to today, there was a reason for concern beyond the deficit itself.)

The Cabinet, considering the Report, tried to find a portfolio of cuts 'that would prove satisfactory to financial opinion'[18] in order to borrow abroad to support sterling. Public expenditure was brought down, in the worst years of the depression, from £575m to £514m[19] while GDP fell from £4.36b to £4.26b (real GDP fell sharply in 1931 and growth was minimal in the next two years). Unemployment rose to over 20 per cent. But perhaps the most relevant lesson today is that public debt and the debt ratio also *rose*.

To try to cut a deficit in a period of fragile recovery from the worst financial crisis since 1929 is to jeopardise that recovery and court a rise in unemployment.

If the Government wants to cut its deficit in these circumstances, both history and sound theory argue that a policy of cutting government expenditure, raising taxes and cutting benefits is likely to be counterproductive.

15The PRIME network is a group of economists working on issues relating to monetary policy, public finances, the international financial architecture and sovereign debt. The network will launch the Policy and Research Institute for Macro Economics (PRIME) within the next few weeks.

16 See http://www.debtonation.org/wp-content/uploads/2010/06/Fiscal-Consolidation1.pdf

17 Keynes's comment on this would be of interest to civil servants today: 'It is a monstrous thing to single out this class and discriminate against them, merely because they happen to be employees of the government. ... The principle of discriminating against persons in the service of the State, because they can be reached most easily, is not right.' J. M. Keynes, Collected Writings (CW), vol. IX, pp. 146-7.

18CW, vol. XX, p. 595. The phrase is the editor's, not Keynes's.

19 These data exclude transfer payments, as their effects on the level of economic activity depend on their redistributive effects. We were interested in the primary effects of an injection of expenditure.

It appears that the historical record is being ignored and that the theory that lies behind its rhetoric is the old 'Treasury view' that government expenditure crowds out private economic activity. That is only true in a booming, full employment economy, and that is hardly where we are.

By all means cut waste – that is a good idea at any time – but replace those cuts with expenditure on the sort of current and, especially, capital projects which will benefit the economy and the ecosystem, and enhance our way of life; this will consolidate the recovery and restore the tax take while reducing the cost of benefits, rather than making these matters worse.

One suspects that the government's overriding concern with the deficit is rhetorical cover for a programme of rolling back the state even beyond the dreams of Lady Thatcher.

Taken at face value, what the government is doing is looking at the problem through the wrong end of a telescope. It should be concerned with the functioning of the economy and the welfare of citizens and recognise that the outcome of the budget is not entirely in its hands. Keynes used the telescope the right way round: 'Look after the unemployment, and the budget will look after itself.'[20]

- *Victoria Chick, is Emeritus Professor of Economics, University College London and co-founder of the PRIME network of economists.*

- *Ann Pettifor is a fellow of the New Economics Foundation (nef) and co-founder of PRIME.*

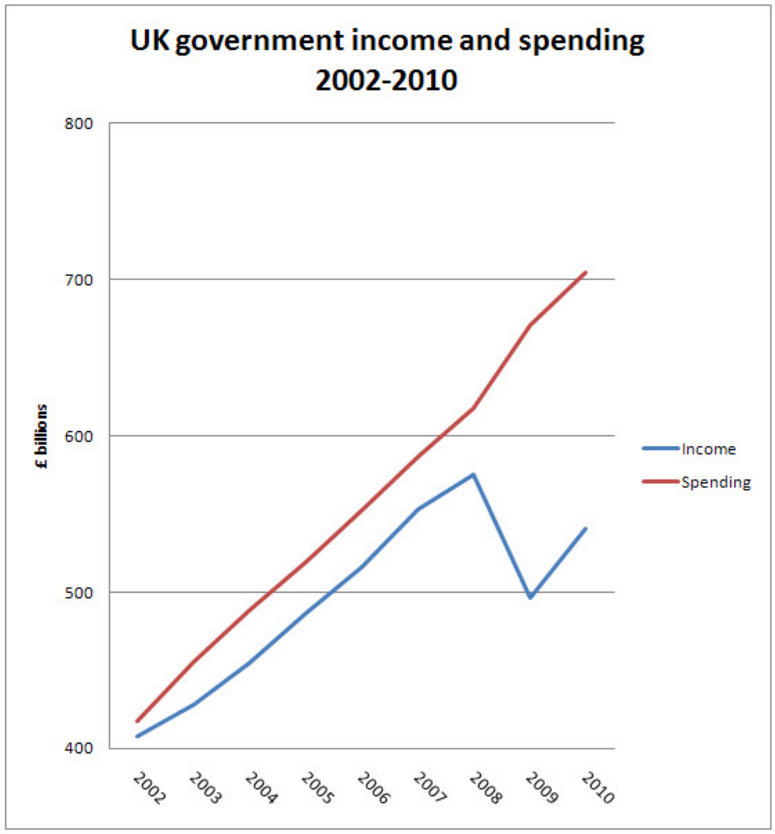
20 CW, vol. XXI, p. 150.

Collapsing tax revenues lie behind the deficit

By Richard Murphy, Director of Tax Research UK

We have a financial crisis in the UK. The crisis was not caused by the government. The crisis was caused by a collapse in our national income. That was in turn caused by the collapse of the banking sector. That crisis then resulted in the income of the government collapsing.

Comparing planned total government income and spending as disclosed in budgets for the last decade reveals the following graph[21]:



As is apparent the reality is that, despite the rhetoric, deficits have not been caused by runaway spending but by a decline in income.

As an example of the scale of this fall in income, the budget for 2008-09 forecast that government income in 2009-10 would be £608 billion[22]. The budget for 2009-10 forecast that same income to be £496 billion[23].

That difference in anticipated income for that one year - £112 billion – is what made up most of the borrowing requirement in 2009-10. The rest was entirely reasonable borrowing to pay for the £44 billion

« *Despite the rhetoric, deficits have not been caused by runaway spending but by a decline in income*

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21 http://www.taxresearch.org.uk/Documents/ukgovinc2010.jpg

22 http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/bud08_completereport.pdf

23 http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/d/bud09_completereport_2520.pdf

of net new investment by the government in that year. In combination lost government income and paying for investment cost a total of £156 billion in 2009-10. Total actual borrowing was £161.9 billion in that year[24]. If income had fulfilled expectations there would, therefore, have been no deficit to cause any concern at all.

In that case what is clear is that any deficit reduction policy aimed at cutting spending is wholly misdirected. What we need now is a deficit cutting policy aimed at increasing government income.

There are three ways to achieve this. The first is for the government to stimulate a moribund economy by encouraging investment. This is the Keynesian solution that is proven to work. The second is to raise selective new taxes on those best able to pay them. This is possible[25]. The third option is to tackle the tax gap.

The tax gap has three parts[26]. The first is tax avoidance. I estimate this to be about £25 billion a year. This arises from the exploitation of loopholes in UK tax law and between UK tax law and that of other states – especially tax havens. The second part is tax evasion – that is breaking the law. I estimate this to be £70 billion a year. H M Revenue & Customs claim it is much less, but their methodology for estimating anything but VAT evasion is very weak. Lastly, there is unpaid and late paid tax – currently according to H M Revenue & Customs at least £26 billion.

Put these figures together and they come to more than £120 billion, or enough, at least in principle, to close the whole current government deficit.

Now of course, no one will ever collect all tax theoretically owing. That's just not possible but serious measures could be taken to tackle the tax gap and yet there is no evidence that the Coalition government is adopting any.

First this government is continuing the policy, initiated by New Labour, of cutting staff at HMRC. Almost 26,000 have gone since 2005 - 5,000 front line staff went last year and more still are to go[27]. This makes no sense: each front line member of staff brings in thirty times in tax what it costs to employ them, on average[28]. The result is that tax that is so badly needed to keep services going is being given away.

Second, strong measures are needed to tackle tax abuse. Despite this the Coalition agreement has just this to say on the issue[29]:

- We will make every effort to tackle tax avoidance, including detailed development of Liberal Democrat proposals.
- We will review the taxation of non-domiciled individuals.

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24 http://www.statistics.gov.uk/pdfdir/psf0410.pdf

25 For example see http://www.neweconomics.org/sites/neweconomics.org/files/The_Great_Tax_Parachute.pdf

26 http://www.taxresearch.org.uk/Documents/PCSTaxGap.pdf

27 http://www.hmrc.gov.uk/about/hmrc-accs-0910.pdf

28 http://www.fda.org.uk/Media/HMRC-needs-more-resources-if-deficit-is-to-be-seriously-reduced-says-union-leader.aspx

29 http://www.cabinetoffice.gov.uk/media/409088/pfg_coalition.pdf

It's interesting that in effect the Tories had nothing to say at all whilst the Lib Dem manifesto said they would:

- Tackle tax avoidance and evasion, with new powers for HM Revenue & Customs and a law to ensure properties can't avoid stamp duty if they are put into an offshore trust.
- Crack down on tax havens which allow individuals and corporations to avoid paying taxes to developing countries, and
- Propose specific policies to restrict pension tax relief and relief for charitable donations to the basic tax rate – both now seemingly abandoned – and a pledge to increase the Capital Gains Tax rate to the income tax rate, also now abandoned.

The weakness of these proposals within the Coalition list of priorities has been amply demonstrated. In addition, on the several occasions that my work on the tax gap has been debated in Parliament[30] since the election the Tory ministers who have responded have gone out of their way to make clear that they do not think this an issue of consequence.

This is not chance: a crisis in the nation's income which created a crisis in the government's income is being addressed by cutting spending – which was (by and large) under control. That makes no economic sense at all. It suggests the spending cuts agenda is purely political.

But there is opportunity in that. For those who are looking to the world after the time that Osbornomics has failed (as it surely will) addressing the tax gap and raising new taxes have to be two parts of the agenda for rebalancing the equation in the government's income. The rest will have to come from something else more important still – and that will be getting people into work again.

30 http://www.taxresearch.org.uk/Blog/2010/07/13/the-tax-gap-in-parliament/

Lessons from Ireland

Below, a leading Irish trade unionist explains the consequences of the Irish government ferocious programme of public spending cuts and sets out an alternative.

By Jimmy Kelly, Irish Regional Secretary, Unite the union

Concerned has been expressed that unless Ireland continues on our path of deflationary policies, we might end up like Greece, on the brink of bankruptcy.

Unfortunately, if the Economic and Social Research Institute is to be believed, that is exactly where we are heading. Even under moderate growth rates the Institute estimates that by 2020, employment will still be below pre-recession levels – a decade-long job drought; debt levels will be 134% of GNP and rising – a crushing level of interest payments, and investment will stagnate below 2007 levels.

And our public finances? Current policy will fail to bring the deficit under control. It will remain above Maastricht targets, even by 2020. And that's not counting bank bailout money. We may not be technically bankrupt but it will be a bleak economic landscape of high debt and high unemployment. If this doesn't count as failure – fiscally, socially, economically – I can't imagine what would.

The government's deflationary policies have been a major driver in our recession. They have cut growth and economic activity, reduced employment, driven down tax revenues and driven up unemployment costs. And all throughout last year – despite three effective budgets – borrowing costs increased. It's like running in quicksand – the more the government cuts, the more we sink. The dole queues, the emigration lines, and the vacant shop-fronts are a testament to government policy.

How do we get out of this deflationary-debt trap? Last year UNITE published a comprehensive alternative programme, 'Growing the Economy'. We identified investment and employment as the key drivers. This is not a traditional stimulus programme, whereby the government temporarily boosts demand until such time as the private sector gets back on its feet. It is an investment-led programme constituting a major drive to modernise our economic base and boost productivity. It will increase job numbers and profitability throughout the private and public sectors.

Take the example of our physical infrastructure; our transport, telecommunications and energy networks are ranked as among the worst in the industrialised world. This is a major drag on growth, productivity and competitiveness. An investment drive that delivered next generation broadband to every house and business, a coherent public transport system, a water network that didn't leak and an upgrading of our building stock to the highest possible energy rating is the type of bold, creative vision we need.

The best thing is that this will not cost the country any real money. Investment in wealth-creating and cost-reducing assets does not create debt – it creates an economic return which, in turn, reduces deficits

« *The government's deflationary policies have been a major driver in our recession. They have cut growth and economic activity…..*

and debt. We must invest our way to a balanced budget – investing in activities we would have to do anyway, regardless of the recession, taking advantage of low tender prices. European countries which succeeded in containing unemployment also contained their deficits. It is obvious that keeping people in work and creating jobs increases tax revenue and consumer demand.

In Ireland, however, employment collapsed – falling nearly five times more than the Eurozone rate. It is no coincidence that this collapse in job numbers mirrored the collapse in our public finances. Had we, from the outset, invested in growth we would have greatly limited job losses, kept more people in work, reduced the recessionary slide and kept the deficit at manageable levels. That didn't happen. And here we are now – looking into a lost decade of high debt and high unemployment.

There is strong evidence that an investment programme would work here – even in a small, open economy. Evaluations of past investment programmes show high domestic multiplier effects – which means that money invested here remained here for the most part. In recession these positive multiplier effects on the domestic economy will be even higher.

It is heartening that more commentators, analysts and economists are starting to question the direction we have taken. We will still face difficult budgetary decisions and financing investment will require new creative vehicles to coordinate Exchequer, public enterprise and private resources. But if we embed investment, rather than debt and deflation, into our economy we will find it easier. Most of all we will embed into society and every household something that is in desperately short supply – hope.

- *A version of this article first appeared in the Sunday Tribune newspaper in Ireland*

Scrap Trident and invest to create 100,000s new jobs

By Dr Kate Hudson, General Secretary, CND

The costs of Britain's nuclear weapons system Trident – and its proposed replacement – have been the subject of considerable debate in recent months.

The scale of the expenditure - £76 billion for the procurement and lifetime costs of a replacement, plus £30-odd billion on the existing system - makes that inevitable in a time of economic crisis.

A big factor in elevating it to its current controversy status has been the decision by Chancellor George Osborne that the costs of Trident replacement must come out of the Ministry of Defence (MoD) budget. This is a budget which is already massively overcommitted and faces cuts of up to 20% per year. In monetary terms this means that over the next ten years the MoD faces a £74bn budget cut, a £36bn deficit on projected capital programmes and a bill exceeding £20bn for the capital costs of Trident replacement – in other words of actually building the new subs.

It is now clear that the original £15-20 billion capital cost quoted by the government when it put the issue to Parliament for voting in March 2007, was itself a gross underestimate. This was highlighted by the Public Accounts Committee which referred to its dependence on a number of monopoly suppliers and on UK initial funding for the design of a US supplied common missile compartment, all of which was tending to escalate costs.

Congressional hearings in early 2010 reported that the cost of the US replacement for Trident had now doubled from the original estimate. On this basis, the ultimate capital cost of replacing the Trident subs is likely to be in excess of £20bn - of which at least £2bn will be spent in the United States. In addition we need to add the increased running costs of £1.5 billion a year - and the £1 billion a year spent on upgrading the Atomic Weapons Establishment at Aldermaston. This adds up to a lifetime saving of at least £100 billion if the whole Trident programme were to be phased out.

There are many compelling and urgent reasons why Britain should scrap its nuclear weapons. They are weapons of mass destruction, the use of which would be illegal under international law. They do nothing to meet our security needs and are described by senior forces figures as militarily useless. Retaining them and getting new ones will help provoke proliferation by other countries and put everyone in greater danger. Now add to that the costs involved and it is not hard to see why polls consistently show a majority of the population would like to see them scrapped.

An additional compelling factor is the opportunity cost. British industry is crying out for new investment –

> *If we invest the money saved by cancelling Trident, we could …create 100,000s of new jobs in Britain. It is a question of choices, and it's about time the government made a positive choice to invest in Britain's future*

productive investment that will generate jobs and prosperity for our communities.

In 2009 the TUC called for a Just Transition to a low carbon green economy that will be jobs rich, high in research and development and can generate exports. Marine energy has this potential and we have the geographical conditions. The inlets, bays and estuaries of Britain's coastline have some of the biggest tidal surges and strongest currents in the world. There are also plenty of strong winds!

All of this represents a huge source of untapped potential for us to exploit in the drive to achieve our carbon reduction targets, to utilise our engineering and design skills and to provide new jobs for thousands of workers at the same time.

If our shipyards are likely to see hard times from the collapse of merchant shipbuilding demand and the severe curtailment of military ship building programmes over the next decade, there are important opportunities emerging in the next few years to develop manufacturing of the equipment and platforms for tapping into offshore wind and marine power.

It is in marine energy that one of the greatest potentials lies for the UK economy. Here the UK retains the leading role in design and development. Britain has more businesses developing tidal stream and wave power technologies than any other country. But the technology, unlike wind and solar energy, is not yet fully mature.

According to the International Energy Agency, marine power is roughly 10 years behind offshore wind development. The smaller scale wave and tidal stream arrays currently being established in parts of Scotland will be followed by much larger arrays of second and third generation systems from 2015 and truly large scale deployment in the period from 2020. And that is when the boom in construction, installation and maintenance will occur and the boost to upstream supply industries.

In terms of the defence industrial sector this type of development is a very positive choice. The construction work on the Astute Class submarines will be tailing off at the shipyard in Barrow from 2015 onwards and the Queen Elizabeth Class aircraft carriers will be nearing completion around that time. In the absence of further naval shipbuilding orders, these yards could be adapted, with some investment, to build equipment to harness wind and marine power. A similar transformation took place in shipyards all over Britain in the 1970s and 80s with the boom in building platforms for the North Sea oil and gas industry.

The shipyard at Barrow, where the Trident replacement subs would be made, could instead become, with appropriate investment, a major centre for the design and manufacture of wave and tidal turbines. The skills that are needed for complex submarine and shipbuilding, such as steel working and engineering and marine design expertise are similar to those required for marine energy developments.

Britain also has a wealth of experience in offshore oil and gas exploration and production. They would require external investment, and require infrastructure developments such as the ability to make rapid grid connections, positive feed-in tariffs for all sizes of suppliers and modifications to ports and harbour areas and upgrading transport networks.

If we invest the money saved by cancelling Trident, we could make the UK a world leader in wave and tidal power technology and create hundreds of thousands of new jobs in Britain. That would more than compensate for the jobs lost by cancelling Trident replacement and would help generate a sustainable and prosperous future for our communities. It is a question of choices, and it's about time the government made a positive choice to invest in Britain's future.

Green taxes can tackle the deficit.

By Simon Bullock, Friends of the Earth

Debate rages about the Coalition's prescription of severe cuts to public spending. Will this tough medicine kill or cure the economy, and if it does cure, are the other side-effects – unemployment and worse services for people who need them the most – justifiable?

These are crucial issues. But for Friends of the Earth's, another central concern is not receiving enough attention – that is, what sort of economy the UK needs. It is the type of economy which is of critical importance in determining whether the UK comes out of recession, whether the UK's increasing inequality is tackled, and whether the UK's economy will be robust enough to face up to some colossal economic challenges heading its way in the next decade.

Get the type of economy right, and many of the dangers posed by the deficit - and the justifications for severe cuts to address it - recede. This can also help us solve the other serious problems of climate change and energy security.

Climate change is the greatest threat to all countries' social and economic security. The Stern Review highlighted that the cost of inaction was five times higher than the cost of action. Stern has subsequently said that his Review underestimated the scale of the problem. Climate change is also a major justice issue – it is the poorest people in the poorest countries who will be hit hardest. This year we have seen catastrophic climate disasters in Pakistan and Russia – these are the sorts of tragedy which are predicted to become more frequent and extreme if climate change is not tackled. These are not isolated events which do not affect us here in the West. The Russian fires were a disaster for wheat harvests, leading to higher food prices worldwide. In the UK too, climate change will hit the poorest hardest – people who are less able to insure their homes, and less able to move home. Climate change is a social and economic disaster the world cannot afford, and must not tolerate.

A related issue is energy security – increasing difficulty in extracting from new oil and gas fields, coupled with rampant increases in energy demand in Asia mean that it is increasingly dangerous for countries to rely heavily on fossil fuel imports. As North Sea oil and gas yields continue to fall, the UK will be forced to import more oil and gas, and be increasingly at the mercy of highly volatile fuel prices, which are likely to rise rapidly. We must act to reduce the risks heading our way.

Climate change and energy security risks mean it is imperative for the UK to reduce its use of fossil fuels. The good news is that doing so can also help with the UK's current economic problems. It should be a core part of the Government's economic strategy.

The UK's low carbon and environmental sector is growing fast. The Government predicts it will be worth £150 billion by 2015 with 400,000 extra jobs if it continues to be nurtured.

The UK's low carbon and environmental sector is growing fast. The Government predicts it will be worth £150 billion by 2015 with 400,000 extra jobs if it continues to be nurtured. More manufacturing and service jobs, particularly in the North, are also urgently needed if the Coalition's cuts lead to the predicted higher unemployment in these regions. A nurturing approach has worked on the continent. The Feed-in-tariff (FIT) programme to support community renewables projects in Germany created thousands of jobs, prevented the need for billions of euros of oil and gas imports, and strengthened local and regional economies.

In the UK, stronger policies are needed to promote renewables and to improve energy efficiency in homes, hospitals and offices. This will save people, Government and businesses billions of pounds, create hundreds of thousands of jobs, tackle fuel poverty, climate change and increase the UK's energy security.

Critical next steps are setting up a strong Green Investment Bank, and putting in place powerful policies for energy efficiency and renewable heat in homes and buildings.

Green tax reforms could help fund the necessary green investment. The UK's tax system is in need of major reform. It is unfair. The poorest people pay more of their income in tax than the richest. It is wasteful – tens of billions of pounds are not collected each year due to avoidance and evasion. And the tax system does a poor job of rewarding what society values. Taxes on employment are high. Taxes on pollution and financial speculation are low. Environmental taxes are lower now as a percentage of GDP than in 1997.

Friends of the Earth advocates that taxes on carbon need to be increased, starting now, and increasing annually. Initially, these tax rises would help tackle the deficit, reducing the need for public sector spending cuts. In time, as the deficit comes down, increased carbon taxes should be used to lower other taxes, such as on employment.

The Green Fiscal Commission advocates that environmental taxes should be raised to around 20% of the total tax-take by 2020, green taxes rising by over £100 billion a year with income taxes and national insurance contributions reduced by the same amount.

Their analysis is that this can be done without damaging the UK's competitiveness, and be progressive. This makes intuitive sense – richer people use far more fossil fuels than poorer people, for example they fly five times more. But this is a far from uniform picture and it is essential that other policies are strengthened to protect poorer people and communities, and to ensure that overall the effect is progressive: for example by a major step-up in action on tackling poor quality fuel-inefficient homes – eradicating the scourge of fuel poverty - and by improving the quality and reliability of public transport. A small fraction of the increased green tax take spent on such measures can ensure the overall result is a triple win: economic, social and environmental.

A green economic strategy needs to be at the heart of the Treasury's plans. It will lead to essential action against climate change and energy insecurity, and provide a more just and safe economic transition out of our current budget deficit.

Public sector cuts will hit the private sector

By Richard Ascough, Regional Secretary, GMB Southern Region

When Mervyn King, the Governor of the Bank of England, addressed the TUC Conference in September, he conceded that there may well be alternatives to cuts but that it was for us (presumably he meant the trade union movement and the political opposition) to come up with credible alternatives. He also candidly admitted that the arguments about maintaining Inland Revenue staff to claw back the tax gap were persuasive but more on this later.

It is clear that the Con-Dem Coalition plans in regard to reducing the deficit will involve substantial cut-backs, primarily aimed at the public sector. This will inevitably lead in some cases to a reduction in earnings and other terms and conditions, thereby also reducing tax revenue and in some cases direct job losses.

An early example of this is the subject of an Emergency Motion at this year's TUC from my own Union, the GMB. Birmingham City Council has issued redundancy notices to 26,000 staff. These redundancy notices are on the basis that they wish to terminate existing terms and conditions and re-employ everyone on substantially inferior terms. We are also aware that this Council's Leader is addressing other Councils on the Birmingham plans and no doubt this will be rolled out across other Authorities.

At the same time as laying the foundations for substantial cuts in employment the Coalition are talking tough on tackling welfare benefits. This seems to be a classic case of facing in both directions - at the same time as you wish to tackle a reduction in benefits you will be making large numbers of people unemployed who will then have to rely on benefits.

There is a fundamental weakness in the Government's argument in regard to public sector cuts as this would no longer affect just the public sector but has a very clear spin-off into the private sector. This can be illustrated by two recent examples. In the 1980s many Councils during the Thatcher period outsourced various functions such as street cleaning and refuse collection. There are now a myriad number of contractors working for the local authority who are very dependent on public money. The recent collapse of Connaught, blamed on local authority cut-backs, is therefore a clear example of how tackling the deficit through public service cuts will also lead to major job losses in the private sector.

A further example of the dependence of a private sector on public money is the building of two giant aircraft carriers across a number of shipyards in the UK. These two aircraft carriers, despite the fact that the contracts have been issued, may well be subject to the Defence Review. Part of one of the carriers is

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being built in Appledore in North Devon (a private shipyard) that once before did face closure but was subsequently rescued. Appledore is dependent on public sector contracts such as the aircraft carrier work. Appledore is a major employer in what is primarily a rural area and the collapse of this firm would devastate the local area.

We have seen over the last forty years a shift from a productive economy - with finance as servant - to a speculative economy with finance as master.

In 1970 manufacturing accounted for 32% of the economy but by 2009 this had been reduced to 11%. Whilst finance was only 5% in 1970, by 2009 it had doubled to 10%. This shift away from manufacturing has also seen a rise in unemployment. In the post-war period from 1945 to 1976, average unemployment rates were 2.3%. In 1976 to 2009 it was 7.7%. There is a total contrast between 1966 with an average of 1.6% to 2010 with an average of 7.9%.

With the Con-Dem cuts that unemployment rate is set to increase.

This is not a UK only problem, as was illustrated in a recent article by Mark Weisbrot, Co-Director of the Centre for Economic and Policy Research in Washington[31]. The US unemployment is currently running at 9.5% (as of July), and as Mark has pointed out, if they add people voluntarily working part-time or who have given up looking for work, the figure arrives at 16.5%. This means that unemployment plus under re-employment has risen by about 14.6 million people since the recession began.

Mark points out how bad must it get before Congress and the President decide that the economy needs another stimulus to get things moving. The article also goes on to say that there are real fears of a double-dip recession. In addition, fear of job loss means that many Americans will not spend and businesses hold back on investment.

It seems to me that it is simple economics that the loss of tax revenue through substantial job losses leading to an increase in benefits and a loss of confidence of those who are employed to spend, could well lead to double-dip recession.

An alternative to all of this is clearly stimulus in the economy which leads to greater tax revenues with fewer people on benefits and a greater confidence about spending, which will result in further taxation benefits.

Finally, on the question of taxation, it makes no sense at all to cut back on Revenue staff who should be tasked to claw back the huge tax gap in regard to tax evasion and tax avoidance.

Maggie Thatcher famously once said “there is no alternative”. We should shout loud and clear and with pride that there is an alternative!

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[31] See More Stimulus Badly Needed to Create Jobs, http://www.cepr.net/index.php/op-eds-&-columns/op-eds-&-columns/more-stimulus-badly-needed-to-create-jobs

Reducing transport investment will damage the wider economy

By Simon Weller, ASLEF National Organiser

The announcement in May that the Department of Transport was to lose £683m - or 4.6 per cent of its budget - with immediate effect will have serious implications not just for the transport sector but the wider economy as a whole.

History has proved that any government which disinvests in transport infrastructure inflicts long-term damage on its economy.

In fact the cancellation of major infrastructure projects and the downgrading of existing developments is nothing less than short-termism. Moreover if you are a woman, a member of an ethnic minority, disabled or elderly the impact of the ConDem's cuts is likely to be even more severe.

This is just the beginning. The Strategic Spending Review, due to be completed in October, is likely to see public services cut to an extent we have never before seen in this country. A leaked memo warns that London alone faces a £1.2 billion cut to its transport budget which the Transport commissioner warned 'will have a very significant effect on what we do'.

A survey published in August, which looked into the impact of economic activity found, to no one's great surprise, that investing in rail produces a much better return than investing in any other sector for which the government is a major provider. In fact £2.20 of wealth is generated for every £1 spent which compares particularly favourably with investment in the banking and financial sectors.

During a period of economic insecurity it would seem sensible to invest our money where it is most likely to provide the best social and financial return.

A slash and burn approach to public transport is a betrayal of commitments made in Conservative and Liberal Democrat election manifestos to support business while ensuring that public transport continues to provide for those users who need it most. It also makes a mockery of a Conservative manifesto promise to 'be the greenest government in history'. Scrapping additional runways at Heathrow and Stanstead and overhauling Passenger Air Duty are pointless without providing an alternative cleaner, greener, electrified railway. One we can all afford to use. It's time to put people and the planet before the profits of a tiny minority - to invest far more in public transport. Instead we're being told to accept poorer bus services and a more expensive railway.

History has proved that any government which disinvests in transport infrastructure inflicts long-term damage on its economy.

Cuts in subsidies paid to Train Operating Companies could dramatically reduce levels of service, and 'holidays' in rail maintenance resulting in speed restrictions and delays might have to imposed, as has happened during previous recessions.

The Campaign for Better Transport has warned that train fares, already the highest in Europe, could rise by more than a third in the next five years if government attempts to balance the books by allowing regulated fares to rise 3 per cent rather than 1 per cent above inflation.

We must not allow this to happen. With rail fares (and some bus fares) already high, further real increases will price the poorest in society off public transport altogether (especially at peak times) and make it impossible for workers on modest incomes to afford commuter fares. It is already widely recognised that many older people suffer social isolation and lack the close connections with others that support both individual wellbeing and social cohesion. The scrapping of concessionary travel and cuts to bus and train services will make it much harder for many of them, especially the poorest, to fully participate in society.

All of this is likely to lead to fewer passengers, reduced revenues, rail freight being transferred to the roads, and job losses for ASLEF members.

There is a danger that we and the wider public will allow ourselves to become fatalistic about the necessity for cuts. This is clearly what the Government is relying on. But there are alternatives.

If the government wishes to save money a good place to start would to be to reunite trains and tracks in a publicly owned railway. This is what the vast majority of the British public would like to see. At a time when train operating company profits continue to rise despite a recession-led drop-off in passenger numbers the government must end the incomprehensible extortion that is the rail franchising system.

If the government is serious about saving money perhaps it should consider the £16.8bn of subsidies that have been paid to the rail industry over the last three years. Having spent almost £40 billion partly nationalising the banks, taking our railways back into public ownership at almost zero-cost would save the government far more than the amount it intends to cut.

Renationalising our fragmented railway would not only be cheap to do but has never made more sense.