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**SCHOOL OF  
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## COUNTERING THE CUTS: THE CLASS POLITICS OF AUSTERITY

SAGE Working Paper 2010-1 | Alex Nunn



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## Abstract

The new Conservative-Liberal Democrat coalition government in the UK is pursuing a class politics of austerity through a proposed radical reduction in public spending. This paper questions the assumptions underlying the logic of austerity and reveals it to be based on class politics designed to redistribute wealth from the poor to the rich. It also suggests that the crisis which is being used as a catalyst for reform is actually a product of the particular form of capitalism pursued in the UK since the 1970s. Instead of promoting policies to reinstate that particular failed model of capitalist development, the government should instead pursue a radical alternative based on principles of social and environmental sustainability.

## About the Author

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# Countering the Cuts: The Class Politics of Austerity

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## Introduction

Since forming a coalition in May 2010 the current UK government has sought to promote the idea that a politics of 'austerity', to be pursued via swingeing cuts to public sector budgets, is necessary to correct the unprecedented and unsustainable public sector deficit. This short working paper takes issue with that logic, questions its underlying assumptions and sketches some alternative trajectories for political-economy reform which might serve as a route out of the profound crisis in capitalist development that has been unfolding since 2007. The working paper first questions a series of assumptions that underpin the proposed cuts programme and then seeks to show how the current crisis is in fact an inherent product of the form of capitalism pursued in the UK and the US since the 1970s. It suggests that both this version of capitalism and the cuts programme are indicative of a class politics that seeks to punish the poor and redistribute wealth to the super-rich. The paper ends by tentatively suggesting some possible foundations for an alternative to the politics of austerity that is being pursued by the current Conservative-Liberal Democratic coalition.

## Countering the assumptions underpinning the politics of austerity

### 'Government debt is unprecedented and unsustainable'

This is perhaps the main argument put forward by Cameron and the coalition in support of swingeing public sector cuts. But, while it is undeniably true that government debt is currently high, it is not without precedent and there are good reasons to think that it can be managed without recourse to the type of "inevitably painful times"<sup>1</sup> that Cameron says lay ahead of us. So the questions that need to be asked are: is the national debt unprecedented? And is it unsustainable?

On the first question, the answer is clearly no. Net debt has varied widely over time and in purely historical comparative perspective is actually low even now. Government debt is now around 70% of GDP. As Figure 1 shows between 1920 and 1960 net government debt never fell below 100% of GDP and at the end of the second world war reached 250% of GDP.<sup>2</sup>

Ofcourse these were the years when the UK economy was coping with a decline from empire and global dominance, and the fiscal affects of two world wars and a global economic crisis of unprecedented proportions, where national survival took precedence ahead of fiscal prudence. Admittedly, we are now dealing with the effects of just such a watermark crisis in the history of

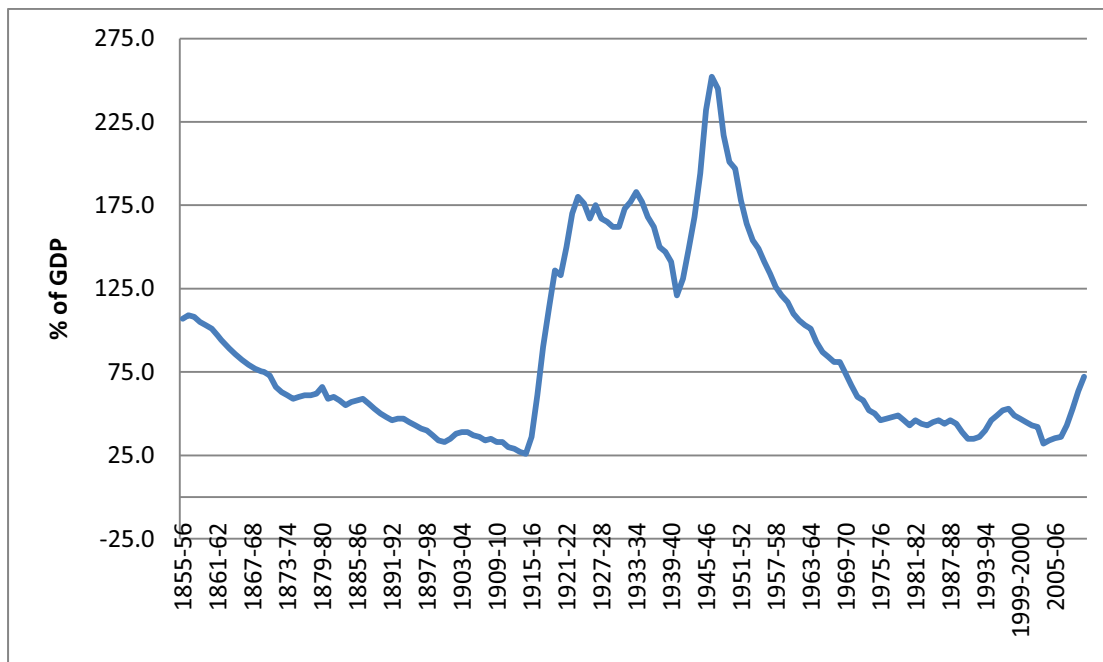
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<sup>1</sup> Cameron, D. (2010), Speech on the Economy to the Open Universty, 7<sup>th</sup> June, 2010, <http://www.number10.gov.uk/news/speeches-and-transcripts/2010/06/prime-ministers-speech-on-the-economy-51435>.

<sup>2</sup> Clark, T. and Dilnot, A. (2002), Measuring the UK Fiscal Stance Since the Second World War, London: Institute for Fiscal Studies, p5, <http://www.ifs.org.uk/bns/bn26.pdf>.

capitalism and as such it might be expected that debt would be unusually high for a long period of time. It is only in the last decade or so that the rough figure of 40% of GDP has come to be seen as a normal level of government debt. But what is absolutely not normal about that period is the level of economic growth that it saw, which helped to keep borrowing so low. Put simply, the period between the beginning of the 1990s and now is the only time in the history of the modern state when government debt has been slow: it may be that it was this low level of government debt that is a-typical.

Figure 1: Government Debt as % of GDP 1855-2010



Source: Debt Management Office, HM Treasury and Office for National Statistics, available from the Institute for Fiscal Studies at: <http://www.ifs.org.uk/fiscalFacts/fiscalAggregates>.

So if debt is not historically unprecedented, is the UK in a much worse position than comparable countries? Again, the answer is no. Up until 2007 when the crisis hit, IMF comparisons of UK Government debt showed the UK to be in a much better position than many comparable countries, such as France, Germany (the home of fiscal rectitude), Canada and the United States.

But what about now, post-financial rescue? Again, IMF data shows the UK to have the lowest net and gross government debt as a proportion of GDP among the G7.<sup>3</sup> Sure debt has risen to fund the bank bailout and to stimulate the economy, but this is not out of the ordinary in international comparisons, even given the unique position of the UK in the international financial system, with its very large financial services sector.

<sup>3</sup> IMF (2010), World Economic Outlook Database April 2010, [http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weorept.aspx?sy=2008&ey=2015&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=98&pr1.y=12&c=156%2C158%2C132%2C112%2C134%2C111%2C136&s=GGXWDN\\_NGDP%2CGGXWDG\\_NGDP&grp=0&a=](http://www.imf.org/external/pubs/ft/weo/2010/01/weodata/weorept.aspx?sy=2008&ey=2015&scsm=1&ssd=1&sort=country&ds=.&br=1&pr1.x=98&pr1.y=12&c=156%2C158%2C132%2C112%2C134%2C111%2C136&s=GGXWDN_NGDP%2CGGXWDG_NGDP&grp=0&a=). Accessed 20 June 2010.

So government debt in the UK is certainly not unprecedented or even outside of contemporary benchmarks during a period of financial crisis. But is it unsustainable? Cameron and Osbourne appear to be pretty convinced that it is and that swingeing austerity measures are needed which far outstrip the deficit reduction programmes implemented by their favourite exemplars Canada and Sweden in the 1990s. But it is not clear, even using the figures in the new Office for Budget Responsibility (specially set up for the purpose of justifying the cuts programme) report why such austerity is required. According to these projections, without cutting a single additional penny on top of Labour's existing (already tough) plans, the deficit will more than half by 2014/15 and net debt rises only gradually until then, after which the presumption of continued growth and a return to surplus would begin to eat away at the overall debt. So without doing anything additional at all, government debt would start to reduce by the latter half of the current decade. That assumes though that economic growth returns and that this is sustained, but if the public stimulus to the economy is reduced, that assumption may well prove optimistic.

The second factor to weigh up in relation to government debt sustainability is refinancing. Like a fixed rate mortgage or a time-limited interest free credit card, government borrowing is undertaken by selling bonds which mature after a fixed period of time after which the Government must give investors their money back along with the agreed interest payment. The problem for countries like Greece that are facing pressure from financial markets is that their government debt structure is relatively short term, meaning that they are constantly asking the financial markets to refinance a portion of their national debt. By contrast, the UK's national debt is comparably long-term with an average maturity period of 14 years. On top of which, in contrast to Greece where 99% of Government debt is held by foreign investors, the vast majority of UK government debt is held within the country, again meaning that UK Government debt is much more sustainable than are some of the other countries in Europe.<sup>4</sup> Furthermore, the key difference between the UK and Greece is that the UK has never defaulted on its sovereign debt.

Finally, with regards to debt sustainability, what the financial markets require is a persuasive narrative about how the interest payments on government debt will be sustained and the debt paid off at some point. The choice over which narrative to pursue: cuts now or continued investment to sustain growth over the long-term, is a political one. Put forward with enough conviction, a growth stimulus narrative is perfectly sustainable. Cuts are not an economic inevitability – they are a political choice. But all this assumes that the system of finance capitalism remains unchallenged – that too, ofcourse, is political choice.

### **‘The Economic Crisis was Caused by the Bloated Public Sector’**

Part of the implicit logic for the Tory and Lib Dem cuts programme is that the public sector has become too bloated. This is what Cameron is talking about when he claims that there is a ‘structural’ crisis underpinning the short-term increases in public debt to deal with financial crisis. As such, the Tories and Lib Dems are targeting the public sector in the cuts programme, as Cameron has promised: “There are three large items of spending that you can't ignore and those

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<sup>4</sup> Bank for International Settlements (2010), Annual Report, Basel: BIS, <http://www.bis.org/publ/arpdf/ar2010e5.pdf>.

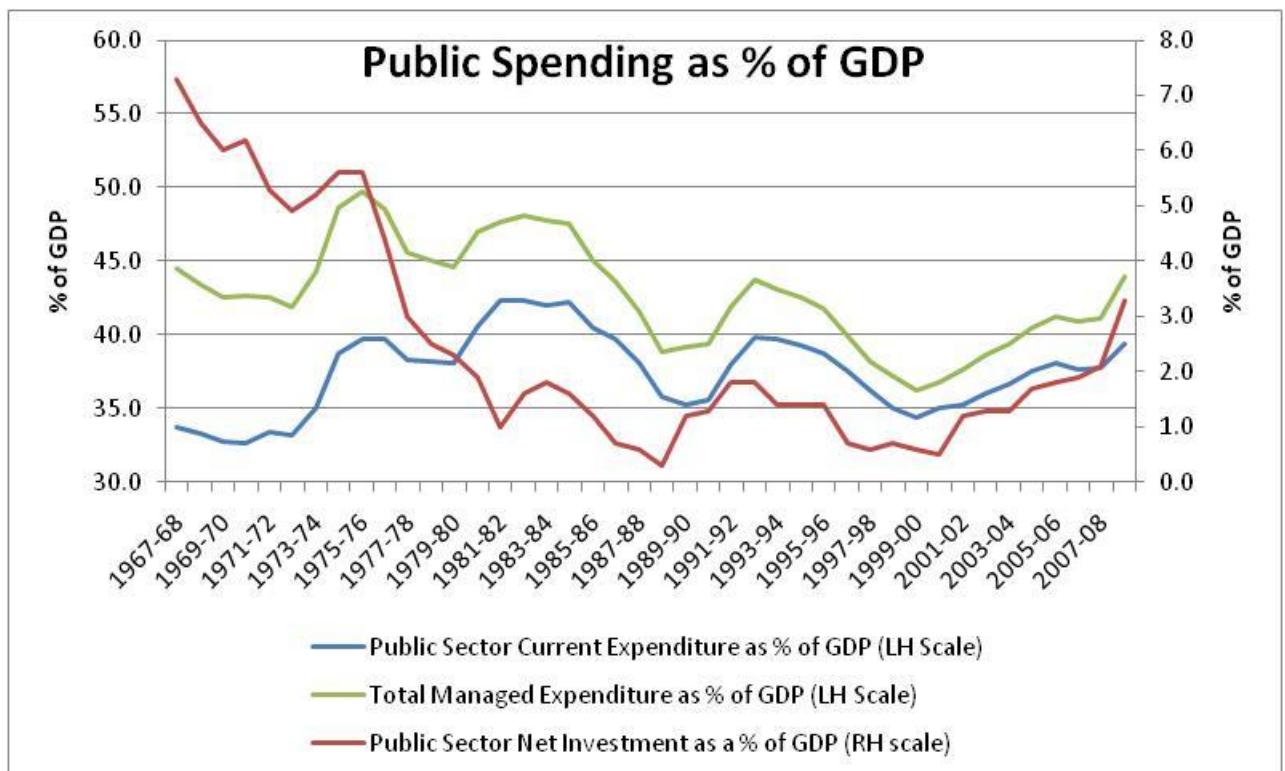


are public sector pay, public sector pensions and benefits”.<sup>5</sup> This appears an appealing argument, but is it true?

Figure 2 shows a variety of measures of public spending as a proportion of the country’s whole economic output. In all cases the charts show that public spending has been on a downward trend since the 1960s. The bumps in the lines in the 1980s and early 1990s show how public spending responds to periods of crises; as benefit transfer payments increase. In economic ‘lingo’ these payments are what are called ‘automatic stabilisers’ or in-built structural measures which act as counter balances to the economic cycle and help to prevent the economy collapsing into depression.

The graph does show that Labour gradually raised expenditure over the course of the early part of this decade, but from historically low levels. This is particularly so in relation to public sector net investment – or capital investment in public sector assets such as roads, rail links, schools and hospitals that help to produce long-term economic growth. Increases in public spending were necessary at the end of the 1990s in order to repair the effects of long-term under-investment in these assets, all of which were visibly in need of renewal. Who can forget schools with buckets in the corner catching the leaks, dilapidated hospitals or grim city centre landscapes with crowds of homeless sleeping rough?

Figure 2: Public Spending as Proportion of GDP at Current Market Prices



Source: HM Treasury (2010), Public Expenditure Statistical Analysis 2010, Chapter 4.

So Labour probably did spend slightly more on infrastructure than would be necessary in an ideal world where there would be a stable level of continued re-investment. The need for public

<sup>5</sup> Watson, R. (2010), “Public Sector will bear the brunt of cuts, says Cameron”, *The Times*, 19 June 2010.

spending on infrastructure is at times also cyclical and related to the structural development of the economy. After WW2 it was necessary to up levels of state spending on infrastructure to create the institutional underpinnings for a new type of economy based on modern large-scale manufacturing. We are at just such a structural turning point now also. Rather than being a time for cutting capital spend, the crisis may be a very good opportunity to convert some current spending into capital spending to restructure the economy toward a more energy efficient green agenda, thereby preparing for the longer-term structural barriers to growth presented by climate change and resource depletion. Such expenditure may just now seem expensive but it is inevitable. A time when there is low growth in other industries is an ideal point to make that shift.

So if public spending is not disproportionately high in historical terms, is it higher than in other comparable countries? Again, consideration of the facts suggests not. UK public expenditure is lower as a proportion of the economy than the likes of France, Italy, Austria, Belgium as well as the Scandinavian countries.<sup>6</sup> Additionally, on core areas such as health and education spending remains comparable or low in relation to other OECD countries. For example, the UK spent around 8.4% of GDP on health in 2007, roughly half that spent in the United States (when the large private sector is taken into account) and well behind Germany, France and most other West European nations. On education, the UK again spends less per-pupil than most comparable OECD countries. What this tells us is that the UK is not profligate in public spending and does not have an oversized public sector when compared to similar countries.

### **‘Spending on the public sector is ‘crowding out’ private sector growth’**

So if UK public spending is not high in the UK in historical or international terms is it true, as implicitly claimed by the Government, that spending on the public sector is crowding out private sector job growth? Such an assertion could be made (1) if the tax take were particularly high meaning that potential investment was being channelled into taxation; (2) if the labour market were operating close to full employment and private sector growth could not attract sufficiently skilled workers; (3) if wages in the public sector meant that the best talent was unavailable to be employed in the private sector or if other resources such as land; or (4) raw materials or even markets were dominated by the public sector to the extent that there is insufficient left for private sector growth.

Several of these potential elements of crowding-out can be dismissed out of hand. For example, the public sector in Britain does not compete for raw materials or product/consumer markets with the private sector.

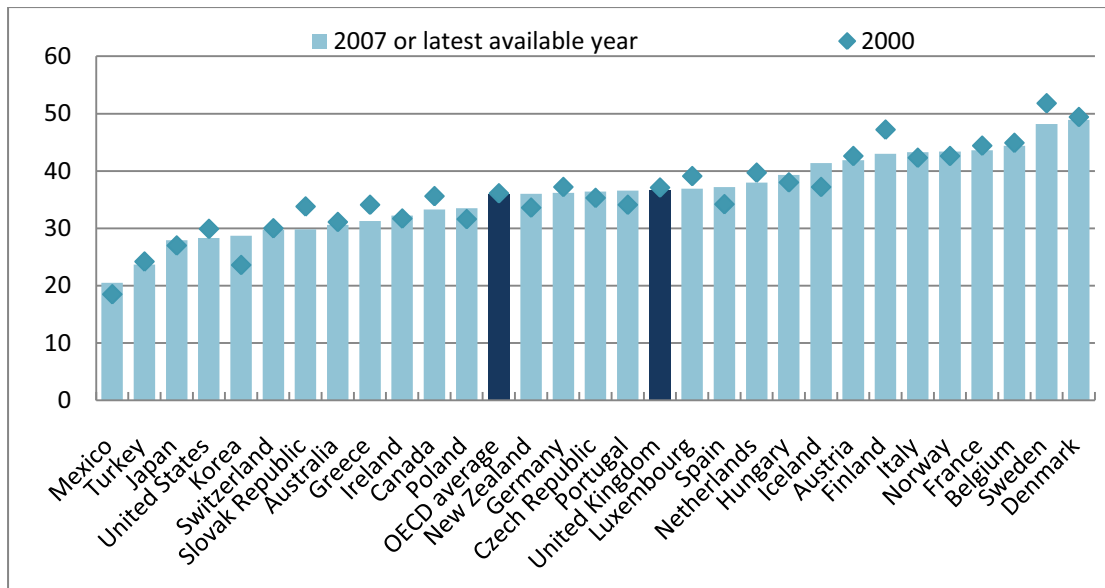
But what about taxes? Is the level of taxation in the UK diverting economic resources away from private sector growth? Figure 3 shows the total tax take in OECD countries as a proportion of GDP. The UK is way down the list, being only just above the OECD average which is pulled down at the bottom end by countries such as Mexico, Turkey and the United States. Figure 4 shows how the level of overall taxation in the UK as a proportion of economic output has changed in relation to comparable countries. Again, it shows that the UK has continued to have low levels of

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<sup>6</sup> OECD (2010), World Factbook 2010, Paris: OECD: [www.oecd.org](http://www.oecd.org).

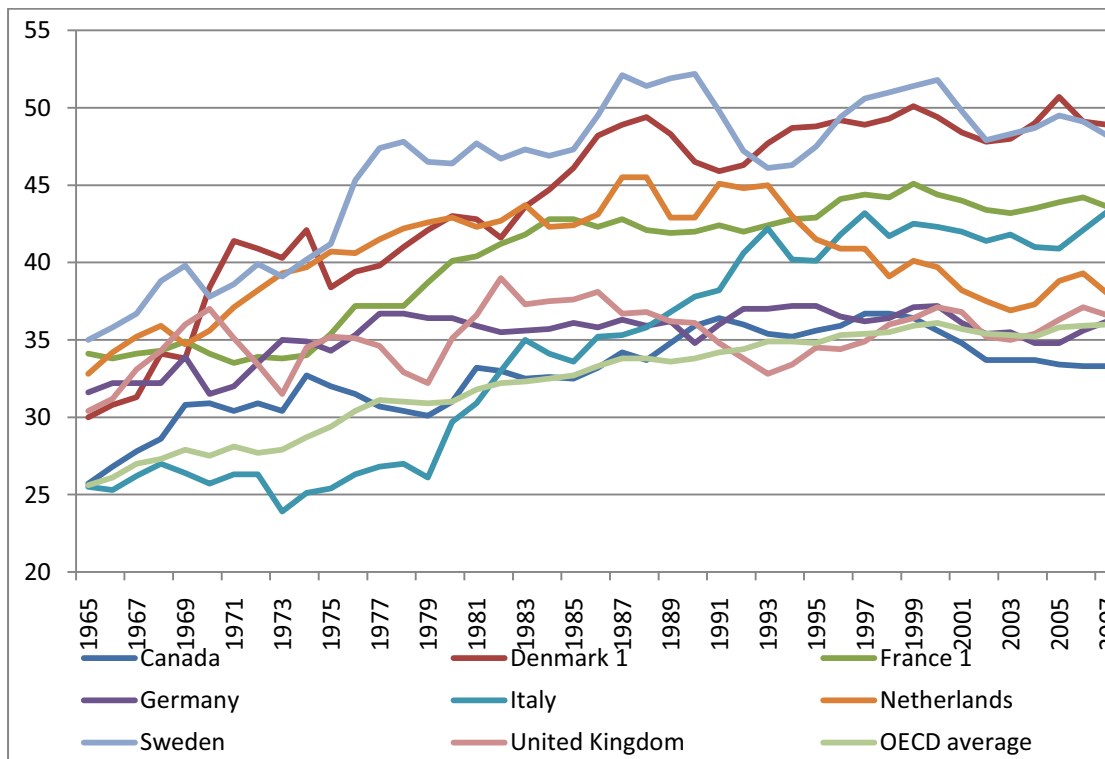
taxation compared to other comparable countries and that the level of taxation up until 2007 was not historically high either.

Figure 3: Total taxes as proportion of GDP



Source: OECD (2009), World Economic Factbook 2009: Economic, Environmental and Social Statistics, available at: [http://www.oecd.org/site/0,3407,en\\_21571361\\_34374092\\_1\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/site/0,3407,en_21571361_34374092_1_1_1_1_1_1,00.html).

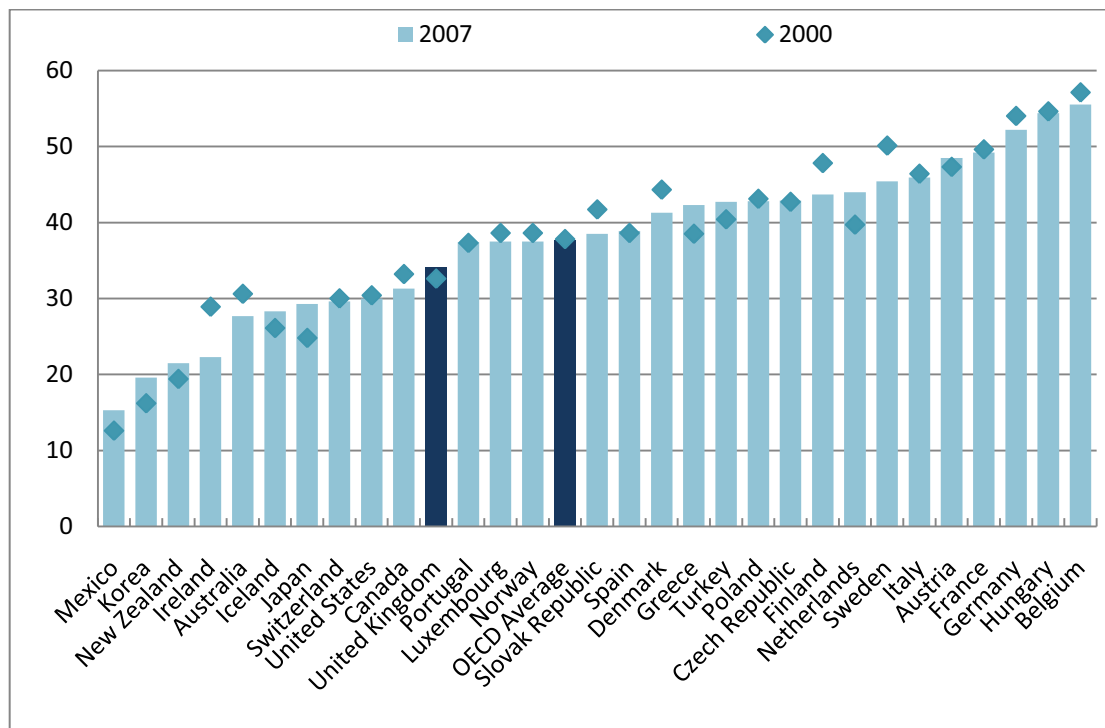
Figure 4: Taxation as a % of GDP in Selected OECD countries



Source: OECD (2009), World Economic Factbook 2009: Economic, Environmental and Social Statistics, available at: [http://www.oecd.org/site/0,3407,en\\_21571361\\_34374092\\_1\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/site/0,3407,en_21571361_34374092_1_1_1_1_1_1,00.html).

Finally, it is sometimes suggested by economists that the way in which taxation is structured mitigates against private sector job growth. Again though, as Figure 5 shows, data shows the UK to have very low levels of taxation per job on an international comparative basis; far lower than the OECD average.

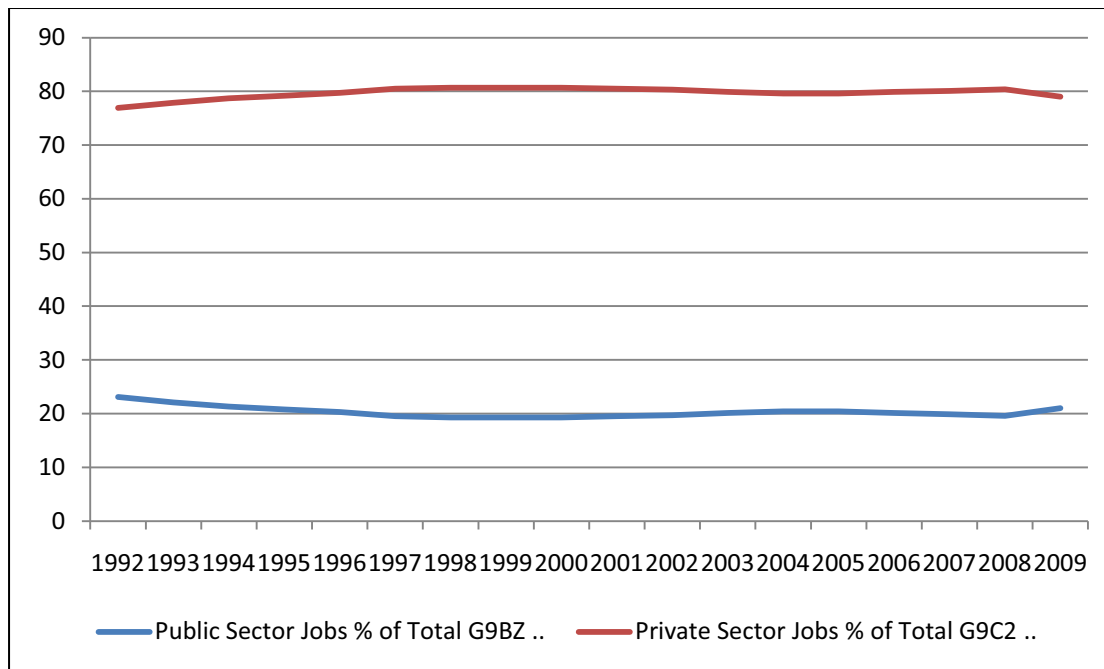
Figure 5: Taxes per average worker in the OECD



Source: OECD (2009), World Economic Factbook 2009: Economic, Environmental and Social Statistics, available at: [http://www.oecd.org/site/0,3407,en\\_21571361\\_34374092\\_1\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/site/0,3407,en_21571361_34374092_1_1_1_1_1_1,00.html).

So if taxation is not crowding out private sector jobs growth, is it that the public sector is elbowing the private sector out of competition for labour. Again, this is difficult to sustain. As Figure 6 shows, the number of public sector jobs did jump in 2008, but this was largely as a result of reclassifying workers in the Royal Bank of Scotland and Lloyds Banking group onto the public sector employment roll. Over the last quarter the number and proportion of public sector jobs fell in relation to a slowly recovering private sector. A longer term perspective shows that the relationship between the proportions of public and private sector jobs in the economy have remained stable since the early 1990s when there were proportionally more public sector workers. Added to this, unemployment is now higher than it has been at any point since the early 1990s. So yet again, there appears to be absolutely no evidence that private sector job growth is being crowded out. The real question is: Can private sector employment creation increase in the now likely event that public sector jobs are cut? The evidence seems to suggest that this is unlikely.

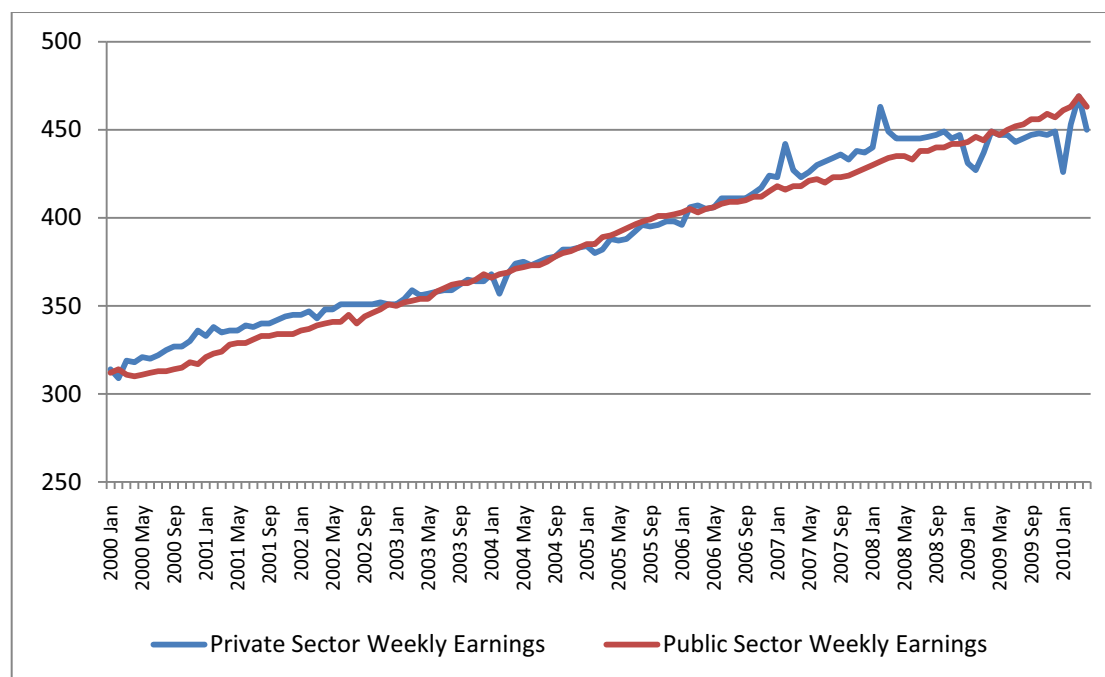
Figure 6: Proportion of public and private sector jobs, 1992-2009



Source: ONS Timeseries data <http://www.statistics.gov.uk/statbase/TSDdownload2.asp>

So what then of wages? It is true that very recently average wages in the public sector have moved above those in the private sector. However, this largely reflects two patterns. The first is that this has occurred not because public sector wages have risen sharply above their trend rates but because private sector wages have fallen, as a result of the economic crisis. Second, when private sector wages are disaggregated to consider different sectoral and occupational patterns a rather different picture of polarisation emerges. Wage rates differ widely in the private sector, with the average pulled down by very low wage sectors such as distribution, retail and hospitality. What this data shows therefore is not that public sector wages are crowding out private sector growth – there are lots of unemployed people available who would love to take up work – but that wages in some parts of the private sector are very low, and international comparisons again back this up.

Figure 7: Public and private sector wages over time



Source: ONS Timeseries Data.

### 'The public sector is inefficient and requires reform'

Just like the private sector there will be inefficiencies in some parts of the public sector, and it is right that efficiencies are removed. However, it is a misnomer that there is lots of excess that is easy to trim. The public sector under New Labour has certainly grown and it has done so largely because it has been asked to do more things. To take one example, investment and coordination of activity in early years education has grown considerably, in an attempt to bring us up to the standards of some of the more economically successful countries in Europe where such services are seen as the norm and part of the reason why they have happier, more cohesive societies to boot. At the same time as this increase in the size of the public sector, however, New Labour were always keen to use the market model, contracting new and existing services (in areas of health and education that the Thatcher government could only dream of reaching) to the private sector. Labour also demanded year on year efficiency savings from local government and other public services. It is difficult to see that there will be huge savings to be made from 'efficiency measures' which all governments are initially optimistic about, but frequently fail to materialise principally because the promise of such savings is not grounded in reality.

The idea that the private sector is naturally more efficient is also not easy to sustain. There are countless examples of private sector service delivery that are anything but accountable and it needs to be remembered that the private sector will always demand a profit on top of the costs of providing whatever service is being contracted. If efficiencies are simply to be brought about through reducing the wages of already low-paid public sector workers then all that is likely to be achieved is higher inequality, lower effective demand in the economy and more consumer debt as poor paid families resort to credit to finance their everyday needs (see below). Efficiency savings achieved in this way also simply create more medium/long-term demand for transfer

payments (such as in work and unemployment benefits) and public services such as healthcare and policing because we know, from a very well established research base, that poverty and inequality create ill-health and crime, among a wide range of other social ills.<sup>7</sup>

### **‘Dealing with government debt is like dealing with household debt’**

Politicians have started to justify their ‘austerity’ programmes with the logic that individual and household debts are similar to those of the state. Households know, the logic runs, that they can’t live beyond their means and that this is how the state has behaved under New Labour; borrowing more than it can sensibly afford to pay back. Here debt takes on a quasi-Victorian moral character as something to be avoided by an effective and morally sound state economic policy as in an upstanding household. But households are not the same as Governments and the logic itself is internally flawed.

The modern household needs to use credit to access the goods and services it needs, and the system of finance capitalism pursued by successive governments since the 1970s requires this. This is primarily related to housing, which ever since the promotion of owner occupation by the Labour and Conservative governments of the 1970s and 80s has grown into the normal or at least aspirational tenure. Technically speaking a large proportion of owner-occupier households at least are insolvent; owing many times their total annual income in mortgage debt. Add to this the credit card and other debts incurred to gain access to repair and improve our housing and to acquire the other ‘normal’ elements of family life such as personal transport and the student debts that the vast majority of middle class young people take on to access a ‘normal’ University education.

So household debt is in fact normal, rather than an atypical and immoral condition. So too national debt is a normal condition. Similar to businesses financing investment for long-term productivity, all states use public debt to pay for public goods that cannot be financed from a single year’s tax revenues. Without it we would not be able to provide key social and economic infrastructure such as schools, hospitals, roads and rail networks all of which are vital, not least for our long-term economic growth prospects.

### **‘The financial crisis is caused because there is not enough money in circulation’**

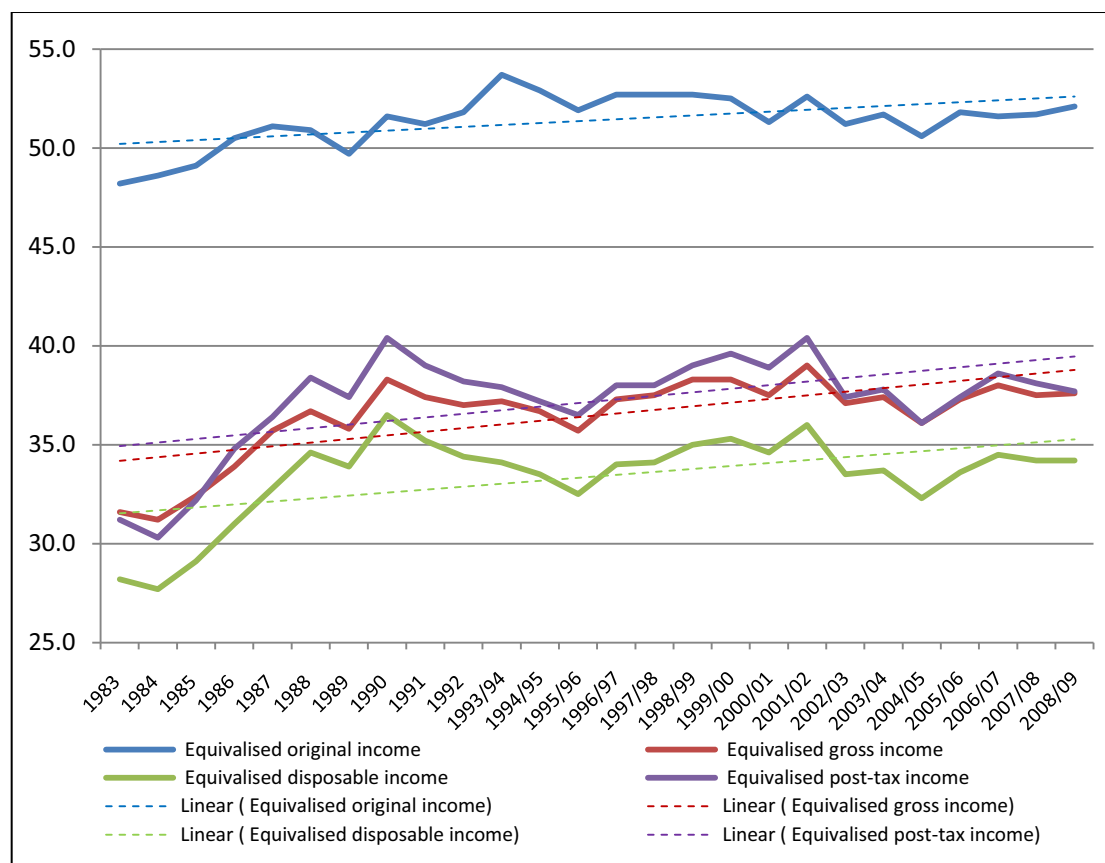
This is true to an extent, but needs careful explanation. The system of finance capitalism pursued in the UK and US since the 1970s, and aggressively promoted by both countries in the rest of the world, has continuously recycled the economic surpluses away from the poor toward the rich. In both the US and the UK the share of GDP that is accounted for by wages as opposed to profit has fallen and inequality has risen as the very affluent have got wealthier at the expense of the rest of the population (see Figure 8). This means that in 2007/8 the richest tenth of the population had more than 30% of total income.<sup>8</sup>

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<sup>7</sup> See Wilson and Pickett (2009), *The Spirit Level*, London: Penguin, see <http://www.equalitytrust.org.uk> for details and evidence base.

<sup>8</sup> <http://www.poverty.org.uk/09/index.shtml>.

Figure 8: Inequality in the UK, 1983-2009



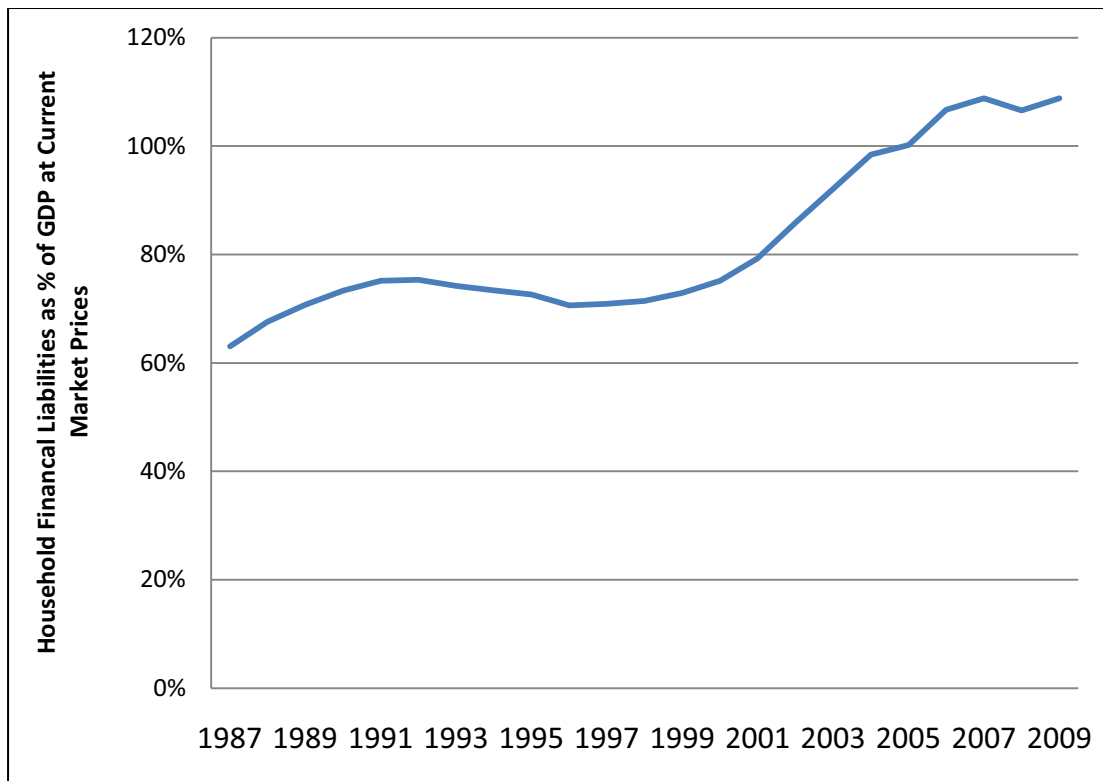
Source: Barnard, A. (2010) The effects of taxes and benefits on household income, 2008/09, <http://www.statistics.gov.uk/CCI/article.asp?ID=2440>, figure 5.

The pattern of inequality since the 1970s has contrasted with that between the end of WW2 and the end of the 1960s. In the post-war period, part of the role of the state was seen as intervening to redistribute the surpluses of economic growth to the wider population so that they could keep spending. This was seen as so important precisely because large inequalities had been perceived as being one reason for the speculation which preceded the 1929 stock market crash and subsequent depression.

So, yes there is not enough money in circulation, but this is precisely because it has been captured by the super-rich. For a while, the problem that this presented in terms of keeping up effective demand in the economy was overcome in two ways. First, the expansion of the use of credit helped to enable households to keep spending despite receiving a decreasing share of national income in wages. This is underpinned by the data in



Figure 9: Household debt, 1987-2009



Source: ONS Timeseries Data, Series: NNPP, YBHA.

The second way in which this problem was overcome was simply through the super-exploitation of workers in the developing world which allowed the prices of consumer goods to stay low and in many cases to drop over time. That's all very well and has helped to maintain stable societies and the legitimacy of capitalism in the UK and other developed countries, but it also contributed to the current debt crisis, the rampant and irresponsible speculation in debt assets that precipitated the 2007-10 crisis and environmental degradation through excessive resource usage. It is also clearly unethical in that it sustains sweatshop conditions around the world. This more than anything points the way toward what ought to be the resolution to the current crisis: a very different form of political economy, not public sector cuts to make the poor pay for the rich man's crisis. To an extent the debate over cuts is a distraction from this.

## Discussion

### Short-term risks: what negative impact might the cuts have

This all shows why the logic presented in support of the austerity programme is deeply problematic. But there is one other set of reasons why austerity now is a bad idea. That is simply because, as a range of economists from Larry Elliot in the Guardian to Nobel prize winning professors like Paul Krugman and Joseph Stiglitz, keep warning that cuts now offer the very real possibility of undermining the fragile economic recovery.

As every first year economics student knows there are four main components of economic growth in a capitalist economy: (1) exports; (2) investment; (3) household spending; and (4)

government spending. Over the last two years governments around the world have stepped in to bridge the gap in the first three by providing public sector stimulus, albeit debt-financed. This was behind the much vaunted re-discovery of 'Keynesianism'. There is precious little evidence yet that the private sector or households are ready or able to step up their activity to fill the gap or that exports will increase, in a world where our major trading partners are also reigning in spending. As such, the austerity programme may well prematurely remove the foundations of the recovery and lead to a 'double dip' or 'w-shaped' recession, which would be disastrous, not just for growth, but in turn for tax receipts and the capacity of the state to reduce the deficit and government debt.

### **If it is not necessary and bad economic sense, why does the government favour austerity?**

For the Tories this is simple. Small government, recycling the benefits of economic growth to the rich and protecting the City of London are the core concerns of the party. Just as in the 1970s, the Tory party wants to use the cover of an economic crisis and pseudo-economics to push forward a reform agenda to promote the interests of the most affluent. This is about continuing the Thatcherite programme that ran aground in the late 1980s as public sector managers, trade unions and community groups began to effectively resist further privatisation.

Think about it, from the point of view of the Tories and their natural supporters, what could be better: the financial crisis forced pain on a very wealthy super-strata of investors. 2007-8 unusually saw a decline in the incomes of the top 1% and 0.1% of the population.<sup>9</sup> The state stepped in to ensure that this did not lead to a general economic collapse, in the process taking the costs of the crisis and spreading them to every man, woman and child in the country. Stage three is to decide which social groups should ultimately pay for these costs. By cutting public spending, especially on benefits and low paid frontline public sector workers, the Tory party is effectively squaring the circle by forcing the very poorest to pay for the costs associated with the instability of the economic system that throughout was intended to benefit the very rich! Last month's emergency budget already demonstrated these intentions, with distributional analyses by the Institute for Fiscal Studies showing that, in contrast to the measures already announced by the outgoing Labour government, the Conservative-Liberal Democrat alliance measures would have the most severe impact on the poorest groups in society.<sup>10</sup>

This is the same trick that has been visited on the hapless populations of the developing world for the last thirty years, where an economic crisis is used as the cover to implement a radical programme of reform designed to punish the poorest sections of society and cement the position of the super-rich. The danger is that the left, especially as the Labour party looks inward in its search for a new leader, does not present a united front and instead squabbles with itself about which vulnerable groups (public sector workers or immigrants for example) should and shouldn't bear the brunt of the cuts.

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<sup>9</sup> Joyce, R., Muriel, A., Philips, D. and Sibeata, L. (2010), *Poverty and Inequality in the UK: 2010*, London: IFS, pp28-9: <http://www.ifs.org.uk/comms/comm116.pdf>.

<sup>10</sup> Graphic from Browne, J. (2010), *Personal taxes and distributional impact of budget measures*, London: IFS, <http://www.ifs.org.uk/budgets/budgetjune2010/browne.pdf>

The speed and aggression with which austerity is being pursued now is at least partly a reaction to the fear of neo-liberal economists and financiers about what the events of the last two years might have heralded. In the context of a complete collapse of the financial system and the state stepping in to secure ownership or at least partial control of significant sections of the finance industry, the widespread calls to 'blame the bankers' and a promised 'Keynesian' turn in economic policy, these groups must have feared a seismic shift away from finance capitalism to a more embedded social-democratic alternative, as happened in response to the 1930s. By barracking states across Europe to implement austerity programmes, these interests are effectively moving back on to the offensive to ensure that this does not happen.

### A missed opportunity?

What is not at all clear is how this sort of retreat back to neo-liberal political-economy will help to stabilise the world economy, deal with the frequent, persistent and cumulative financial crises that are endemic to it or overcome the pressing resource and environmental constraints that are so clear for all to see. The economic crisis was an absolute golden opportunity, at the very least, to move toward a more economically, socially and environmentally sustainable national and international economic system. That all countries for a while were so concerned about the whole system meant that there was at least a chance to overcome narrow self-interest and look toward a more cooperative and sustainable future. With this retrenchment to austerity economics and East Asia pressing ahead with rampant economic growth, that opportunity may be missed.

It is worth pausing to think though, what future lies ahead should we all continue to compete in the way that we do today. Without a radical change of direction it will not be long before we start to hear that China and India are just as good at us (and why shouldn't they be?) not just a producing manufactured goods but also high-value services and that their huge populations prefer those services to be provided by their own rather than subsidising the relatively cushy lifestyles of the western working class. What future then for the Welfare state or competing European variants of capitalism? We are about to squander a once in a generation opportunity for progressive change... unless that is we pursue an alternative.

### Alternatives

The beginnings of an alternative have already been discussed. For example, UNISON's alternative budget<sup>11</sup> suggests that almost £4.7bn could be raised each year from introducing a 50% tax rate on incomes over 50%, £5bn a year could be raised every year from a tax on vacant housing, £25bn a year could be raised every year by closing tax loopholes and the IPPR<sup>12</sup> have estimated that a 'Robin Hood' tax on financial transactions could raise another £20bn a year in taxes. All these taxation measures would be 'progressive' in the sense that they would divert wealth from the rich to the poor, in contrast to the regressive measures such as increases in VAT that the government announced in the emergency budget last month. In addition, some of these might have behavioural advantages in working against destabilising speculative financial

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<sup>11</sup> UNISON (2010), *Alternative Budget: We Can Afford a Fairer Society*, London: UNISON: <http://www.unison.org.uk/acrobat/18887.pdf>.

<sup>12</sup> Dolphin, T. (2010), *Financial Sector Taxes*, London: IPPR: <http://robinhoodtax.org.uk/files/IPPR-Financial-Sector-Taxes-report.pdf>.

flows or leading to fewer empty houses. Equally, we could make judicious choices about what elements of public spending should be cut. For example, while estimates about the true costs of replacing Trident vary widely, they tend always to be above £80bn over 25 years.<sup>13</sup> The costs of the continuing war in Afghanistan and consultancy fees spent on private finance deals and contractors profits in privatised public services might also make a difference. We can also decide to manage the deficit and public spending in a long-term manner, at the same time targeting long-term social issues such as inequality, under-investment in education and human capital and child poverty and strongly regulating the activities of international financiers, banks, hedge funds and the like.

All of these are political choices. We don't have to live in a world where there is no limit to how much of our collective economic output goes to the rich while others do not have enough to eat. We do not have to live in a world where unemployment coexists with a long-hours culture where workers are so stressed that mental health problems are on the rise. We don't have to live in a world where financial traders send millions across the world in elaborate casino operations at the same time as 1.4bn people live on less than \$1.25 dollars a day.

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<sup>13</sup> "Money Spent on Trident Can't Go On Troops", The Times, April 21<sup>st</sup> 2010, [http://www.timesonline.co.uk/tol/comment/columnists/guest\\_contributors/article7103196.ece](http://www.timesonline.co.uk/tol/comment/columnists/guest_contributors/article7103196.ece).