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CUTS MYTHS DEBUNKED

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THE CUTS IN NORTHERN IRELAND

NORTHERN Ireland is unlike any other region of the UK in terms of it enduring violent conflict and inter-communal strife, and also its demographics – we have a younger population than the rest of the UK.

Northern Ireland will suffer more than any other UK region as a result of the cuts and tax rises imposed as part of the deficit cutting budget imposed by the UK government. We will only see the start of it this year. It will get worse over the next four years.

This is because Northern Ireland is more dependent on public spending than any other region to sustain its economy. Cuts in public sector jobs and wages will hit hard, not just among public sector workers but workers in private sector firms, often dependent on state contracts, will also suffer.

The poorer sections of society will suffer most from the increase in VAT to 20%; the assault on welfare benefits will hit Northern Ireland especially hard given the much higher proportion on invalidity and similar type of payments which is a direct consequence of the conflict.

Cuts in capital investment are likely to be an unexpected shock. Public investment generates private sector activity and spin-off benefits. We are constantly told that the private productive sectors of the economy must expand and grow if Northern Ireland is to become a sustainable economic entity. It should be noted that compared to other regions of the UK, after decades of decline, the private sector in Northern Ireland is too small rather than the public sector being too big.

Employment and economic activity in the construction sector has collapsed. Manufacturing has taken a battering. Most of the jobs created in the private services sector are low-skill, low wage jobs. Now they are going to take the axe to the only sector of economic activity left which cushioned Northern Ireland from the worst of the recession to date – state sector activity and public spending.

COUNTERING THE CUTS

THE government and the press say we are in the grip of a debt crisis caused by the 'bloated' public sector. ***In the following pages, we debunk the myths used to justify cuts to jobs and public services...***

MYTH

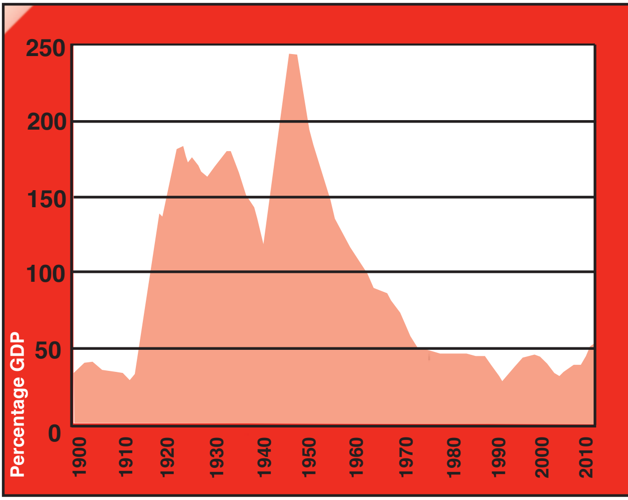
Government debt is the highest it has ever been

THE UK's government debt is at around 70 per cent of GDP (the total amount of goods and services produced in one year). That is certainly high, but it is far from unprecedented.

Government debt never fell below 100 per cent of GDP between 1920 and 1960. It is only in the past decade or so that it has become normal to think of government debt being stable at around 40 per cent of GDP.

Government debt reached 250 per cent of GDP around the end of the second world war, as the result of a 'once in a generation' economic and political crisis. It is worth remembering that after that last crisis, and with public debt something like three-and-a-half times the size it is today, we established:

- The National Health Service,
- The modern Welfare State,
- Free secondary level education, and
- Expanded public housing provision.



RELATIVE DEBT
UK public spending from 1900 to 2010

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MYTH

Government debt is 'unsustainable'

THE overall debt burden is manageable. When you strip out the costs of the bank bail-outs – a one-off which won't recur again – the debt ratio is down to ***56%*** of GDP. Compare that to Japan with a debt ratio of ***194%*** or Italy which has owed over ***100%*** for years; these are countries which have not undermined the welfare state and public services.

The sustainability of government debt is not just dictated by its size, but by its make up. We have already seen that government debt is at a comparable level to other similarly sized economies. Where the UK is in a much stronger position, however, is in the nature of its debt.

Unlike countries such as Greece who tend to owe money to external financiers the vast majority of the UK debt is owed to British financial institutions and wealthy investors – about 70 to 80 per cent of it – the very financial institutions that UK taxpayers bailed out at a staggering cost of ***£850 billion***.

Before the election David Cameron quoted Barack Obama when he said that American taxpayers would get back every cent they spent in bailing out their banks. Now Mr Cameron is proposing a paltry bank levy which he estimates will bring in a mere £2 billion a year.

And the UK's debt is not so short term. Countries such as Greece, the Republic of Ireland and Portugal have average debt maturity rates of between six to eight years, but UK government debt stands out among international comparisons as being much longer term at well over 12 years on average.

This means that the UK has to ask the financial markets to refinance its debts much less frequently, making it less vulnerable to short-term speculative pressures and much more able to continue to finance its debts on a sustainable basis.

MYTH

Government shouldn't get into debt, just as your own household shouldn't

THIS overlooks the fact that, for the past 30 years, governments have positively encouraged households to get into debt.

In fact, it can be prudent for households to take on debt – particularly if they are borrowing to pay for something (a house or educational qualification) that might reasonably be expected to improve the household's income and well being in the long run.

In just the same way it is often sensible for governments to take on debt to pay for investments (such as housing or transport infrastructure) that will make the economy work better and so pay for themselves over the longer term.

But the public economy is also different from the household economy.

What might make sense for a household could, for the government, deepen a recession. When times are hard households tend to tighten their belts – reducing their spending and borrowing. But if everyone does this at the same time, the effect is counterproductive: total demand for goods and services falls, which makes it harder for businesses and individuals to generate an income, and everyone ends up worse off. ***This is called deflation.***

This is exactly what is happening now, which is why it is essential for the government to compensate for households' reluctance to spend and invest.

MYTH

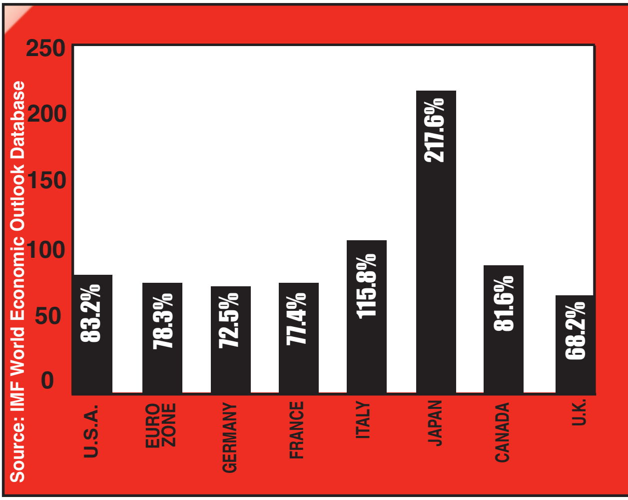
The UK's debt crisis is one of the worst in the world

JUST as the current level of government debt is not unprecedented historically, neither is it substantially higher than that of other countries.

IMF data (IMF World Economic Outlook Database, April 2010) shows the UK has the lowest government debt as a proportion of GDP among the G7 countries (the US, Canada, Germany, Britain, Japan, Italy and France).

Much has been made by Cameron and Osborne of Gordon Brown's 'imprudent borrowing record'. They say that before the spending to stabilise the financial system, public debt was high.

But again, IMF comparisons of the level of public debt prior to 2007 showed that ***the UK is in a much better position than many comparable countries, such as France, Canada, the US and even Germany***, the home of fiscal rectitude.



COMPARING NATIONAL DEBT BURDEN
Government debt as a percentage of GDP (2009)

MYTH

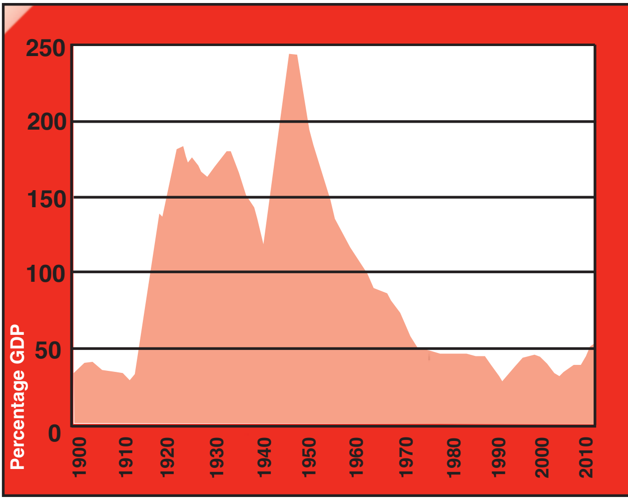
Public spending got ‘out of control’ under Labour

LEVELS of public spending are now about the same as they were in the early 1990s, at the time of the last economic crisis. This is because spending always rises during a recession as a result of welfare spending on unemployment.

In fact, levels of public spending as a proportion of GDP were much lower for most of the 2000s than they were than at any point since the 1960s.

Where Labour did spend more in the years after 2000, it was necessary to repair the visible effects of long-term under-investment. Who can forget schools and hospitals with buckets in the corner to catch the leaks, or grim city centre landscapes with crowds of homeless people sleeping rough?

Rather than cutting such spending, ***the crisis could be an opportunity to build the infrastructure of a more energy-efficient, green economy.*** That would prepare us for the longer-term structural barriers to growth presented by climate change and the depletion of natural resources.



NUMBERS GAME
UK public spending from 1900 to 2010

MYTH

The UK has a big public sector compared to other countries

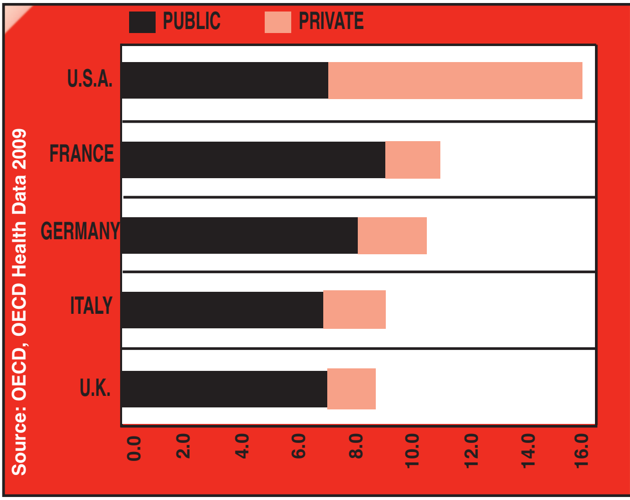
PUBLIC spending in the UK is lower as a proportion of the economy than in the likes of France, Italy, Austria and Belgium, as well as the Scandinavian countries (*OECD World Factbook 2010*).

And spending on core areas such as health and education remains comparable or low in relation to other OECD (broadly speaking, 'rich') countries.

For example, the UK spent just 8.4 per cent of its GDP on health in 2007, roughly half that spent in the United States (once 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.

The UK is not profligate in public spending and does not have an oversized public sector compared to similar countries.



NATIONAL HEALTH...
Spending on health as a share of national income in selected major economies (2006)

Graphic: Red Pepper

MYTH

We are all in this together

THERE is a myth widely propagated by the media that everyone will feel the pain from the impact of this 'emergency budget.' This is not the case.

The collective wealth of the top 1,000 multimillionaires in the 2010 Sunday Times Rich List has climbed to £335.5 billion, up £77.265 billion on 2009. This is a 29.9% increase, easily the biggest annual rise in the 22 years of the Rich List.

Of the 29 government ministers entitled to attend Cabinet meetings, 23 have assets and investments estimated to be worth more than £1 million.

The major banks, whose shoring up with £850bn of public money led to this crisis, have already returned to profit. Northern Rock, RBS and Lloyds banking group, all saved by state bailouts, announced they had returned to profit in July 2010. HSBC also recently announced its profits had doubled to £7bn for the first six months of 2010. ***The return of six-figure bankers' bonuses has also been widely reported.***

Benefits and public service cuts will disproportionately impact the less well off. The average annual cut in public spending on the poorest tenth of households is £1,344, equivalent to 20.5% of their household income, whereas the average annual cut in public spending on the richest tenth of households is £1,135, equivalent to just 1.6% of their household income. ***In any case the rich do not rely on public services like the rest of us do.***

Even the director of the Institute for Fiscal Studies, Robert Chote, has stated that the cuts "are likely to hit poorer households significantly harder than richer households".

A study published by the House of Commons Library concluded that 72% of the tax and benefit cuts will come from women's income as opposed to 28% from men's. ***Women will pay three times more than men to meet deficit cuts, even though women still earn and own far less.***

Increasing VAT from 17.5% to 20% is a regressive form of taxation, in that it is paid at a flat rate on products regardless of the purchaser's income or wealth. The lowest paid will end up paying disproportionately more of their income as a result. Its increase means that the least well-off will shoulder a larger tax burden.

MYTH

Spending on the public sector is 'crowding out' private sector growth

IT IS argued that public spending comes at the expense of overall growth, because potential investment is being re-directed into taxation to fund an 'unproductive' public sector. But in fact investment in public infrastructure and services is essential to private sector productivity, and so is no less critical to future growth than private sector investment.

Furthermore, the UK is not a highly taxed economy. The OECD's comparative figures on taxation as a proportion of overall economic output show the UK way down the list, only just above the average.

It is sometimes suggested that taxes hit the private sector in such a way as to discourage job growth. Again, though, the data shows the UK to have very low levels of taxation per job: far lower than the OECD average.

The second way in which the public sector might be said to be crowding out private sector growth is by taking workers it needs, but this would only really be the case where the labour market was operating close to full employment.

With official unemployment in Northern Ireland doubling in the last two years (with a further unaccounted for 44,000 currently seeking employment and an additional 519,000 people recorded as 'economically inactive' in Northern Ireland) this is clearly not the case.

And in many areas of public provision – from child protection to education and training to care for the elderly – there is a pressing need for more, not fewer, public service workers.

Finally, some argue that public investment 'crowds out' private investment, because government borrowing pushes up interest rates and inflation. But there is no evidence that this is currently a problem – real interest rates are low, and the economy is still operating well below its potential output, which means there is lots of room for non-inflationary public sector expansion.

In fact, in current circumstances, public spending is more likely to stimulate private sector investment by maintaining levels of demand and preventing a deeper collapse of economic activity.

MYTH

The financial crisis was caused by a lack of money in circulation

THIS one is true to some extent, but it requires careful explanation. The system of finance capitalism pursued in the UK and US since the 1970s has continuously recycled economic surpluses away from the poor toward the rich.

In both countries, the share of economic output taken up by wages (as opposed to profit) has fallen, and inequality has risen. The very affluent have got wealthier, at the expense of the rest of the population. In 2007/08 the richest tenth of the population had more than 30 per cent of total income (*'Income Inequalities', poverty.org.uk*).

In the post-war period, part of the role of the state was to redistribute economic surpluses to the wider population so that they could keep spending on goods and services. This was seen as so important precisely because large inequalities had been identified as one cause of the 1929 stock market crash and the subsequent depression.

For a while, the problem that rising inequality presented for growth was overcome by the use of credit and the super-exploitation of workers in the developing world, which allowed consumers to keep buying cheap products. This is one of the factors that fed the debt crisis.

So, yes, there is not enough money in circulation – but this is precisely because it has been captured by the super-rich.

MYTH

Cutting public spending will help us avoid economic disaster

A RANGE of economists, from Larry Elliott of *The Guardian* to Nobel prize winning professors like Paul Krugman and Joseph Stiglitz, are warning that making cuts now raises 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:

- ***Exports,***
- ***Investment,***
- ***Household spending, and***
- ***Government spending.***

Over the past two years, governments around the world have stepped in to bridge the gap in the first three by providing debt-financed public sector stimulus packages.

There is precious little evidence 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 reining in spending.

As such, any austerity programme may prematurely remove the foundations of the recovery and lead to a return to recession – a 'double dip'. This 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.

How will that help to stabilise the world economy? How will it 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 a golden opportunity to move toward a more economically, socially and environmentally sustainable national and international economic system. For a while all countries were so concerned about the whole system that there was at least a chance to overcome narrow self-interest and look toward a more co-operative and sustainable future.

We are about to squander a once-in-a-generation opportunity for progressive change – unless, that is, we organise and campaign for an alternative.

MYTH

Workers in the public sector are overpaid

IT IS true that very recently average wages in the public sector have moved marginally above those in the private sector. This is mainly because privatisation has pushed many low-paid jobs out to the private sector.

The trend is not that public sector wages have risen sharply, but that private sector wages have fallen – a characteristic of the economic crisis. If we take a longer view, since the 1990s average public sector pay has not seen significantly more growth than the private sector.

And when private sector wages are split up to consider different sector and occupational patterns, a rather different picture emerges. Wage rates differ widely, with the average pulled down by very low wage sectors such as distribution, retail and hospitality.

What the data shows, therefore, is not that public sector workers are overpaid, but that some private sector workers are severely underpaid.

It should be noted that compared to other UK regions Northern Ireland public sector wages are relatively low and average public sector earnings here are below the UK average. Also, average private sector earnings in Northern Ireland are 20% lower than the UK average.

MYTH

There is really no alternative to cuts

THE BEGINNINGS of an alternative have already been discussed. For example, Unison's alternative budget (*'We can afford a fairer society', Unison Alternative Budget 2010*) suggests that almost £4.7 billion could be raised each year from introducing a 50 per cent tax rate on incomes over £100,000.

About £5 billion could be raised every year from a tax on vacant housing; and the IPPR think-tank has estimated that a 'Robin Hood tax' on financial transactions could raise another £20 billion a year (*T Dolphin, Financial Sector Taxes, IPPR 2010*). ***It is estimated that the UK economy is suffering from a loss of £123bn in tax revenues each year.***

A massive ***£25bn*** of this is through tax avoidance perpetrated in equal amounts by private companies and the top 10% of earners in the UK.

A total of ***£28bn*** is lost through unpaid taxes which cannot be collected as the HMRC does not have the staff required due to current cuts.

Another ***£70bn*** is lost through tax evasion which again cannot be addressed as the government has cut the number of HMRC staff.

Instead of continuing to cut jobs out of the HMRC, the government should properly resource them to pursue an aggressive tax compliance campaign.

All these taxation measures would be 'progressive' in the sense that they would divert wealth from the rich to the poor, in contrast to measures such as the government's VAT increase, which hits the poor hardest.

In addition, some of these ideas might have behavioural advantages: they could work against destabilising speculative financial flows, or lead to fewer empty houses.

Similarly, we could look at spending that really should be cut. For example, while estimates of the true costs of replacing the Trident nuclear weapon system vary widely, they tend always to come in above £80 billion over 25 years. ***£4bn could be saved this year by cancelling this unnecessary programme.***

Getting rid of the cost of the war in Afghanistan, massive consultancy fees on private finance deals and contractors' profits in privatised public services would also make a difference.

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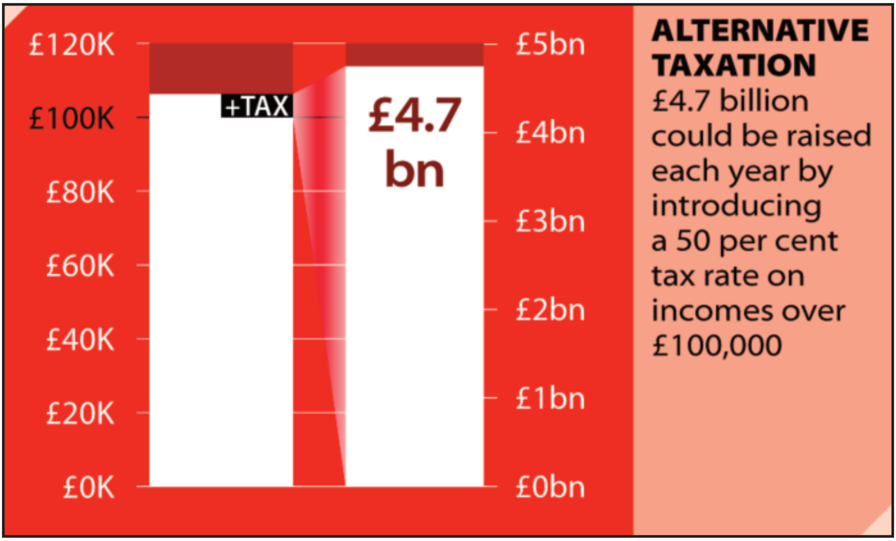
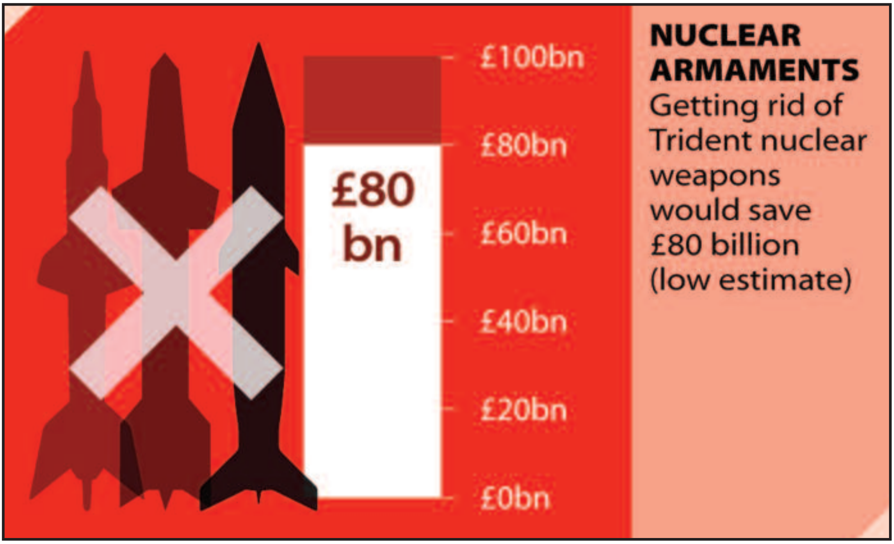


Graphic: Red Pepper



Graphic: Red Pepper

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We could also decide to manage the deficit and public spending in a long-term manner, targeting social issues such as inequality, under-investment in education and child poverty, and strongly regulating international financiers, banks, hedge funds and the like.

All of these are political choices.

We ***DON'T*** have to live in a world where unemployment co-exists with a long-hours culture in which workers are so stressed that mental health problems are on the rise.

We ***DON'T*** have to live in a world where bankers gamble millions across the world in elaborate financial casinos at the same time as 1.4 billion people live on less than $1.25 a day.

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, yet others do not have enough to eat.

History tells us that there is more than one way out of an economic crisis.

Thanks to Dr Alex Nunn of Leeds Metropolitan University and the Transpennine Working Group of the Conference of Socialist Economists.
www.alexnunn.net   *csetranspennine.wordpress.com*

red pepper

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