Austerity Politics

Why they are wrong

I am loathe to enter into an arguments about politics but this issue goes much higher than mere party politics, being a question of God's stewardship and righteousness. Bible commentators need to be able to discern the times and comment on matters that affect the social infrastructure of society.

[At the outset let me affirm that I neither support the Tories, the Liberal Democrats or the Labour Party. I am, in fact, opposed to party politics full stop. The Whip system is the bane of Parliament. People ought to vote for the MP of their choice based on calibre and integrity and the MP with the most pro rata votes should be Prime Minister. The MPs with the next 25 best votes should form the Cabinet and all maters of policy should be debated on their merits. Of course, human nature means that this will never happen.]

A glossary is provided at the end of the paper plus some appendices on relevant peripheral issues.

The economic problem

The causes of the depression we are in

Under Gordon Brown the economy was already dysfunctional in that taxes generated by financial and property speculation in the south paid for vast public spending in the north. Furthermore, growth was far too dependent on debt, which was encouraged to get out of hand. Far from presiding over '*no more boom and bust*', Brown was contributing to a very big bust even before the world economies took a plunge during the banking crisis of 2008. It was chiefly the coincidental new development of Internet business and multiple new gadgets creating new markets (e.g. iphones, ipads etc.) during Labour's term of office that kept growth afloat.

Part of the cause of the current double-dip recession in the UK (in fact it is a depression[1]) is the massive overspending of the Labour Party[2] in power coupled with Gordon Brown's de-regulation of the financial system, allowing bankers to run wild with risky speculation of our money. The bursting of the housing bubble then led to a banking crisis and economic stress. This was worsened by the events in Europe, and the collapse of Lehman Brothers in the USA, which left most of our banks exposed to foreign debts.[3] [The sins of investment bankers are widely understood and need no further comment here.] Brown vastly

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[1] Economist Paul Krugman has stated that it is and even the Daily Mail agrees with him, '*I think it's fair to call what we now have 'a depression. We're just coming out (we hope) of the second dip of a two-dip recession and I personally wouldn't bet either that there won't be a third one or that this dip we were in over winter is necessarily at an end now. Krugman is right: times are grim*'. *Mail Online*, By Mitch Feierstein, published: 18:49, 30 May 2012 | updated: 19:13, 30 May 2012. See glossary.

[2] As exampled by Mandelson's car scrappage scheme which wasted millions of pounds and sent perfectly reasonable cars to the scrapheap. The very opposite of recycling from a government claiming to be green. Observers watched fully-working Porsches crushed instead of being sold. Massive damage was done to the second-hand car industry. See appendices for more details.

[3] See Appendix Two for background on the banking failures.

increased our national debt by propping up ailing banks to prevent a complete collapse of the UK banking system.

Another factor was the massive amount of Stalinist regulations, business targets, government assessments and Quango overseers brought in that has severely hampered business development and management, to say nothing of the 'Nanny state' effect on ordinary people riddled with politically correct over-regulation.[4] Some departments of government administration ended up with as many as three separate NGOs managing the same portfolio at a ridiculous cost to the taxpayer.

The spare money in the boom years under Labour was not used sufficiently to reduce deficits but was wasted on creating vast armies of bureaucrats that actually restricted working practices and entrepreneurial projects. International management consultant David Craig has written a book demonstrating how Brown wasted over one trillion pounds.[5] [See the appendices for some examples.]

However, the worst damage to the actual social infrastructure of British society has been imposed by the Tories. Their ideological answer to the economic problem is austerity measures, i.e. the stripping back of the public sector and savage cuts (the worst, of which, are yet to happen). George Osborne's repeated U-turns shows that he has no real grasp of the effects of his policies until the damage is seen by others [in two years the government has made over 30 U-turns]. History will reveal the true crippling damage to the nation's social infrastructure caused by the Tories (heading to be worse than the Great Depression) but the economic situation is also dreadful.

When the coalition government came to office in May 2010, the economy was in a relatively vigorous recovery from the slump of 2008-09, the worst since WWII. This was due to cheap money, a falling pound, temporary tax cuts, infrastructure projects and an increase in global demand. The economy grew by 1.1% in the second quarter of 2010 and by 0.7% in the third quarter of 2010 but then contracted in four of the next six quarters. At this point Britain has not yet recovered more than 50% of the slump initiated by the collapse of Lehman Brothers in 2008. This shows the effects of cuts.

So, the culprits for the mess we are in are bankers, brokers and politicians plus a downturn in the economy (largely caused by the bankers, brokers and politicians). However, austerity measures are solely to be blamed on politicians who are using this strategy due to ideological reasons based on economic fallacies.

The political medicine

Austerity measures – recent history[6]

After the 2008 banking crisis, nations were faced with a cessation of public spending. Following textbook economic principles, and historical precedent, they used fiscal

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4 An example of this rising bureaucracy was the appointment of a middle manager in NHS trusts whose job was solely to go to each department and check that their water taps (US – faucets) were functioning properly and fill in a report. No one thought that the people in that department had the sense to report a broken tap for themselves! Replicate that around the country and see hundreds of thousands of pounds of wasted money. The NHS now has one manager to every two beds (up from 1 to 6 a few years ago). Experts commonly assert that the NHS management is the most useless, inefficient and hopeless to be found anywhere.

5 David Craig, *Squandered*; Constable (2008).

6 I am indebted to a chapter in Paul Krugman's book, *End This Depression Now* (chapter 11, 'Austerians') for the material in this section (see later on Krugman).

measures (taxing less) and monetary measures (spending more and printing money) to offset this and encourage growth.

Yet in 2010, European bankers and politicians turned their back on economic principles and adopted austerity policies (spending cuts and higher interest rates[7]) despite high unemployment.[8] It was at this time that the UK had a change of government. Britain adopted the OECD plan despite high unemployment and low costs of borrowing (unlike America, which ignored this advice and consequently grew the economy).

Austerity became the favoured policy of the EU, especially driven by Germany's Angela Merkel. Thus the European Central Bank raised interest rates in 2010 despite the depressed state of the euro area. The reasons for this were elusive and excuses kept changing. In time it became clear that the real reasons for austerity policies were not sound economics but political ideology. Well-understood principles of economics were rejected in favour of these political opportunities (see appendix one for an economist's view on this).

The logic of these politicians was that cuts were necessary to restore confidence and that this restored confidence would make the cuts expansionary and not contract the economy. The events that followed in Britain and Europe show the fallacy of this argument. Two years down the line things are worse not better and the future bleak.

The politicians and bankers knew that government cuts would reduce demand, encourage an economic downturn and raise unemployment, but believed that the market confidence it would engender would make up for this. Keynesian economists warned that this was foolish under the depressed current conditions. Even the IMF has shown that fiscal austerity depresses the economy.[9] Notwithstanding, they went ahead anyway. [10]

Austerity measures enacted

Consequently, the general position of the EU (driven by Germany's historic fear of inflation) and the British government is to cut national deficits by axing the public sector, cutting benefits and slashing services. At a time of near zero growth, rising unemployment and fiscal uncertainty this policy is almost insane because it reduces taxes and increases dole benefits. One economist has said that this is equivalent to bleeding a very sick man like medieval surgeons; as the patient gets sicker, the bleeding is increased.[11]

Cameron has already axed £18bn from the Dept. of Work and Pensions and the recent budget demands a further £25bn. At the same time affluent middle classes still get child benefit and rich pensioners still get free bus passes and the winter fuel allowance. I have friends who are only moderately well off who tell me that they are embarrassed to receive the winder fuel allowance and don't want it.

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[7] Fortunately the Bank of England has rejected calls for higher interest rates by some politicians and kept then low, mitigating economic disaster.

[8] For example the OECD, or Organisation for Economic Co-operation and Development. This is an association of industrialised economies, originally set up to administer the Marshall Plan after World War II. The OECD provides economic research and statistics, as well as policy recommendations, for its members. The former president of the European Central Bank, Jean-Claude Trichet, also held this view, with others.

[9] An IMF study shows that in 173 cases of fiscal austerity in countries between 1978 and 2009, austerity policies were always followed by economic contraction and higher unemployment. Source: Krugman, p236-7.

[10] Often politicians use the examples of previous countries to prove their austerity will work. However, closer examination of these examples shows that the conditions are not the same. Canada reduced its budget in the mid-1990s while maintaining a strong expansion. Tories appealed to this example for support of cuts. In fact, Canada used falling interest rates in their situation, something Britain cannot do, as they are already too low. Canada also increased exports to the USA but Britain cannot increase exports to a depressed Eurozone.

[11] See Appendix One.

Tax cuts for the rich

While cuts are being made to benefits and local services for the vulnerable, the top level of tax has been cut from 50p to 45p in the pound. In the March 2012 budget George Osborne cut the tax rate for earnings over £150,000, saying, '*it raised next to nothing*'. Loss of government revenue was expected to be in the region of £400m.

This measure was prioritising the richest 1 per cent of the country. Dominic Swords from Henley Business School said: *'Unwinding that 50p down to 45p will have a bigger cost to total tax than he is expecting. Clearly it's a political decision that he's taken to be seen as the champion of enterprise. The net effect of the economics of it is a Robin Hood who is taking from the very wealthy to give to the quite wealthy'*. At the same time 4.4 million pensioners would be worse off the next year when age-related tax allowances are frozen and axed.

Inequality in society is exacerbated by this focus. At a time when bankers lied, committed fraud and destabilised economies but then received fat-cat bonuses and ridiculously high salaries (even in failed banks), ordinary people are threatened with imprisonment for minor debts.

The effect of cuts

As expected, the outcome of these austerity policies is massive damage to the poorest people in society.[12] But the policies don't work. Unemployment has risen (it is heading for 9%), real incomes continue to decline, savings don't grow, manufacturing is depressed and borrowing is still as high as the Labour Party planned to spend.[13] An injection of hundreds of billions of pounds of quantitative easing ('QE', printing money)[14] has not trickled down into real projects and small businesses but is being held by the banks to protect their exposure to foolish lending. Interest rates are already at 0.5% and QE is not working. Therefore, the country is not growing in any discernible measure after over two years of cuts; growth this year is expected to be less than 0.5%.

In the Eurozone the situation is worse where austerity measures imposed by Germany have led to worse infrastructure damage and no growth in many member countries (notably Greece, Spain, Portugal, Italy and Ireland).

It is easy to discern that savage austerity economics are unrighteous by looking at the case of Greece. The cause of Greece's problem was admission to the Euro on the basis of false figures and an altering of the EU's own rules of admission and allowing it to overspend on

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[12] See Appendix Two for information on child poverty.

[13] I believe we are borrowing about 120 billion pounds a year. The UK went bust in 1976 running a budget deficit of 6% of GDP. In 2010 that deficit topped 11%. UK public sector net debt in March 2012 was £1022.5 billion, equivalent to 66.0 per cent of GDP – (note this excludes financial sector intervention.) Source: Office National Statistics publications (page updated May 4th, 2012). The Public sector net borrowing PSNB (annual government borrowing) for 2010/11 was £143.2 billion or 11.7% of GDP. The equivalent OBR forecast for 2011/12 is £122 billion.

[14] The Bank of England buys assets, and those purchases effectively put money into the markets. At 29 Sep 2011 it stood at 199,388. So, of the £199.4bn it had bought so far, the vast majority - £198.3bn - were gilts. The bank makes all this data available on its website. In October 2011, the Bank announced a further £75bn of quantitative easing, and it extended the programme again in February 2012 by £50bn, taking the total size of the programme to £325bn. Central banks try to raise the amount of lending and activity in the economy by cutting interest rates. Lower interest rates encourage people to spend, not save. But when interest rates can go no lower, a central bank's only option is to pump money into the economy directly. That is quantitative easing. The way the central bank does this is by buying assets - usually financial assets such as government and corporate bonds - using money it has simply created out of thin air. The institutions selling those assets (either commercial banks or other financial businesses such as insurance companies) will then have 'new' money in their accounts, which then boosts the money supply. These days the Bank doesn't have to literally print money - it is all done electronically. BBC News.

public policies (and doing nothing to reform tax evasion). So zealous were France and Germany for growth of the EU political project that several countries were allowed into the Eurozone which contradicted the EU's own economic rules of entry. This included Italy whose debt to GDP ratio was 5 times worse than the rules allowed. This was a big gamble that has not paid off. The Eurozone was built on lies and shady politics[15] and is now becoming unstuck. It is impossible to continue unless the EU changes into a single political entity; something that sovereign states are not yet ready to consider. Thus the Euro will collapse unless Germany continues to pay huge sums to bail it out (something the Germans will not tolerate). Both these situations seem impossible to consider but one of them will happen (as Paul Krugman stated on Newsnight[16]).

The situation in Greece

But regarding Greece at this point, the cost of being in this political club is the implementation of severe austerity polices demanded by Germany and the IMF. Most people do not realise the actual repercussions of this on the social infrastructure where savage cuts have been made to benefits, pensions and wages, at the same time as higher taxes and dramatic stock market falls, causing living standards to plummet. Unemployment is running at 22% (54% in under 25s). 25% of businesses have gone bust in the last three years. Women in Labour are unable to get midwives. Upper middle class workers are living on the streets. Formerly wealthy old ladies, who have sold all their possessions, are surviving on soup kitchens. Schoolteachers are seeing children fainting in class due to hunger and doctors report that infants are malnourished. Experts are saying that one possible result in the near future is that Greece ends up as a Third World country. Remember that this is the country of the Duke of Edinburgh.

Any policy that results in such oppression and cruelty is clearly unrighteous. The reason for the savage cuts is demands by the EU in order to reassure the bond markets.

The situation in Britain

A less severe situation is now prevailing in Britain. Savage cuts have meant that the poor, old, weak and vulnerable are affected worst. Local care and day centres (which catered for a range of needs) are now closed. Charities funded by government have lost their grants.[17] Local libraries have been sold off and mobile libraries terminated in rural areas. Many council services to the poor, sick and needy have been curtailed or cut back, even making lollipop men and women who patrolled dangerous roads redundant. Unemployment is rising. Benefits are being cut. Local offices of the Citizen's Advice Bureau are threatened with closure. Damage is being done to environmental protection measures. At a time when most teenagers cannot find work, many youth clubs have been closed – a recipe for trouble on the streets. The list is endless.[18]

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[15] See the excellent programme, '*The Great Euro Crash*', by Robert Peston on BBC 2 [Tuesday, 22 May 2012, 23:50] which explained the historical background to the current Euro crisis. http://www.bbc.co.uk/programmes/b01hy4xr

[16] See appendix one.

[17] Spending cuts could cost charities an astonishing £5.5billion this year (2012). Some of the poorest parts of Britain are being hit hardest, according to a leaked report from charity bosses. Charities are suffering a triple whammy – a 45 per cent cut in state cash and town halls slashing funding, on top of a drop in donations from the hard-pressed public. The study by the Association of Chief Executives of Voluntary Organisations is the first major analysis of how the PM and Chancellor George Osborne are hitting the poor, old and vulnerable. It says: 'We estimate that cuts to the charity sector in the UK in 2011/12 will range from just under £1billion (£970 million) in the very best scenario, to just over £5.5billion in the very worst.' Hardest-hit charities were those in education, training, helping children and families, and groups for the homeless, ex-offenders and people struggling with debt. *Daily Mirror*, 4 March 2012.

[18] See Appendices for an assessment of the effect for women.

Charities across the North-East believe the region is facing the worst spell of poverty since the Depression in the 1920s. Half of charities expect to close or cut services, a report found. Sally Young of Newcastle Council for Voluntary Service said, '*There are queues for advice on welfare and there has been a huge increase in the need for food parcels. The knock-on effect is that more people have to go into hospital or residential care... so the cuts to charities end up costing the taxpayer more.*'[19]

East Midlands activist Rachel Quinn said: '*We're heading for economic disaster with the cost of hospitals dealing with more people and extra pressure on the police.*'[20] Yet at the same time both the police and doctors are staging strikes for the first time as a result in cuts to services, reduced staffing levels and forced changes in their pension contracts.

The Institute of Fiscal Studies has demonstrated that the biggest sufferers in austerity measures are the poorest 10 per cent of families with children. The proves the lie to the Osborne's claim that the cuts are progressive. Speaking of the 2010 budget, it said,

> The impact of all tax and benefit measures yet to come reduces the incomes of lower income households by more than that of higher income households, with the notable exception of the richest 2% of the population, who are the hardest hit. Therefore the tax and benefit changes are regressive rather than progressive across most of the income distribution.[21]

Cuts don't hurt the rich

Now none of these suffering people caused the financial crisis. The rich, and particularly the bankers, caused it but they are not suffering and still get their fat-cat bonuses. This is unrighteous. Cameron says that we are all in this together, but clearly this is a foolish lie. One of the more sinister aspects of this government is that savage cuts, that affect the poor worst, are demanded by a cabinet that is mostly composed of millionaires who have got richer under this while in office.

The cuts don't work, even in economic terms

Despite the savage effect of cuts at the social level, there is no improvement in the nation's prosperity. There has only been a fall of 1% in annual spending since the Coalition came to power. In 2011-12 the total spending was £22.6bn (3.4%) higher than in 2008-9. The IMF expects our national debt to rise faster over the next two years than any other major European country. The Coalition is now borrowing almost as much over five years as Labour did over 13.

Manufacturing is still in sharp decline: '*Hopes of a quick end to the recession have again been dashed by official figures showed that the manufacturing sector suffered a shock fall in output during April. The Office for National Statistics (ONS) revealed a 0.7% drop in manufacturing output between March and April.*'[22] Manufacturers' organisation EEF called the figures '*disappointing*', with production now hovering around levels seen at the end of 2010. Output is more than 4% below its peak in early 2008, living standards are falling and there is no sign whatsoever of the much-heralded re-balancing of the economy.

The talking up of cuts by the government is clearly to impress the bonds market to alleviate stress on the banking system and to advertise Britain as a safe place to invest in. In terms of actually securing the economy, the cuts have not worked. The most recent figures (10 June 2012) show that Britain's economy shrank 0.3% in the last quarter of last year and

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[19] *Daily Mirror*, 4 March 2012.

[20] *Daily Mirror*, 4 March 2012.

[21] http://falseeconomy.org.uk/cure/how-cuts-will-make-britain-more-unfair

[22] *NEBusiness.co.uk*; 'Reality of recession is hitting UK firms hard'; 13 June 2012.

shrank again by 0.2% in the first quarter of this year, the classic economic definition of a recession, following a previous recession (i.e. a 'double-dip' recession). Furthermore, Britain's growth lags behind large European countries like France and Germany.

> Double-dip recessions are extremely rare in the UK. It is quite common for the economy to falter during a recovery with one quarter of negative activity but you have to go back to the mid-1970s, when the first oil shock of 1973-74 was followed by stagflation in 1975, to find a genuine double-dip downturn. In the past, even during the 1930s, recoveries have been well under way by now. This time, despite the massive stimulus that has been chucked at it, four years into the deepest depression of the post-war era Britain is going backwards.[23]

The National Institute for Economic and Social Research demonstrated that Britain is actually doing worse under Osborne's cuts than it did in the Great Depression. By the fourth year after the Great Depression British GDP had regained its previous peak, but this time it is still well below its level in early 2008. And this is before the new recession just announced.

George Osborne's reaction to these figures, in a newspaper article,[24] was to blame everything on the Eurozone problems. However, after a bailout from the EU community chest, the Spanish banking system is now propped up (at least for a while) and Greece has yet to go to the polls. The Eurozone has not collapsed yet and it is questionable how much uncertainty about Greece is affecting the UK at this minute. The growth of France and Germany is clearly not affected by Eurozone uncertainty – and they are in the euro! It is obvious to all, as the opposition has constantly claimed, that Osborne is looking for a scapegoat to excuse his policy that does not produce growth, and growth is the chief thing that counts when fighting an economic depression. In any case our exports prove that the problem is domestic and not the euro since they have been contributing to growth.

> A second recession hard on the heels of the first gives the (accurate) impression that the economy is a disaster area and makes a downgrade more likely.[25]

Opposition by business

After the 2012 Queen's Speech, business leaders (including the CBI, the Institute of Directors and Sainsbury's Chief Executive Justin King) complained that the government had failed to kick start the economy. Plans to reduce red tape did not go far enough and new measures (such as transferring maternity leave to the father) would undermine business. Nothing the government was proposing would boost growth but unimportant issues (such as Lord's reform and crown heirship) were planned instead. There was no strategy for economic development. The British Chambers of Commerce stated that the refusal to, '*invest in housing, energy, schools and transport is the ideological fixation that will destroy them*'. Rachel Sylvester in *The Times* said that the coalition seems increasingly short of common sense, having a lack of grounding in the real world.[26]

Businessmen said that Cameron needed to explain why his attempts to boost the economy have failed, proving that a focus upon cuts with no plans to spend on capital projects to stimulate the economy is not just unpopular with the poor but fails to impress business leaders either.

[23] Ukrecession.com

[24] *Sunday Telegraph*, 10 June 2012.

[25] *The Guardian*, editorial, Larry Elliott, economics editor, guardian.co.uk, 25 April 2012.

[26] Quoted from *The Week*, 19 May 2012.

A practical example that savage cuts don't work

But why is the country not significantly better off having endured cuts for nearly two years? The reason is that they do not fix the economic problem but just hurt the poor. Let me give you an example based upon fact.

A woman worked for a charity providing much needed local therapeutic services to old people. She had little money but had pride to work and not claim benefits. The government cancelled the grant to this charity and it had to become a business. As a result it had to focus on what made the most money and reorganise. This meant that the department the lady worked in was closed down. This obviously had a terrible impact of the old ladies in the area who lost this particular important therapy and social interaction. The personal cost of this is severe but hard to quantify statistically; the net result is that the local societal infrastructure is damaged. However, the lady (now with no means of support) is forced to claim on benefits to just survive. Multiply this situation across the country and the result of cuts is a higher benefit and dole bill, with all the misery of joblessness that adds to social despair.

For this reason cuts do not work, they just add to social misery and bigger benefit bills.

The effect of lowering taxes for the rich

At the same time that this government has made cuts that hurt the poor, it has lowered taxes for the rich. The claim is that this makes Britain more competitive and attracts new businesses to the country and betters the economy. Many economists deny that this will help us now. It may happen in some circumstances but it doesn't happen in a global depression. The businesses do not come because they can't get capital and have their own problems.

The UK now has one of the lowest corporation taxes in Europe [it was reduced to 24% this year and 22% in 2014] and further personal tax cuts was not necessary.

However, the poorest in society see this and it causes deep resentment. Features like this contribute to anarchy. Many have demonstrated that the riots of last year are closely connected with a feeling of helplessness, lostness and the difficulties of joblessness in the young coupled with having nothing to do (the youth clubs have all closed) and not just blind criminality as claimed by the government. It ought to be remembered that the Great Depression of the late 20s and 30s led directly to the rise of Nazism and Hitler through exploiting disaffection.

The problem of ideology

The real reason that this government is following a process of cuts is due to political ideology. The Tories have long wished to savagely cut the public sector and reduce government. Now that may or may not be a good thing but it is stupid to do it in a recession.[27] When you have a problem with unemployment and little money, why make tens of thousands of people redundant and force many onto benefits. To say that the private sector will swallow up the redundant is utterly stupid, as there are no jobs for them. Not only are young people unable to find jobs but highly qualified graduates cannot find them either. Large numbers of skilled people are unemployed or in temporary work because they cannot find a full-time job. Increasingly, unemployment only reduces taxes and adds to the benefits bill.

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[27] I am actually in favour of small government and decentralised administration, but the reduction can only be made when the time is right, when the economy is buoyant enough to cope with mass redundancies.

A better policy

Historical evidence ought to be sought before a country makes a crucial undertaking. If history were considered before the current Afghan incursion we would not have got involved. No empire has survived a war in Afghanistan. It is easy to get in but very difficult to get out, and only at great cost.[28] Sadly, governments fail to even consider such basic wisdom.

The last depression ought to be studied well before any government commits itself to a policy. The way the Great Depression was ended was initially by the New Deal of Roosevelt, which committed government spending to capital projects to stimulate the labour force. This initially worked to a degree but not enough to end the depression because not enough money was spent. However, with the build up to war in 1939 massive sums were spent on replacing munitions and equipment sent to Britain and on building up the armed forces (e.g. many new military bases). This did end the depression and a new period of growth was initiated. The Great Depression was ended by government spending programmes.

What is needed in a depression is growth above all else. Growth is a necessary part of life and countries generally grow at a rate of about 2%. When growth does not occur in any organism death overtakes it. Similarly when a country does not grow it falls into economic death. In a depression governments need to commit themselves to capital projects.

But where does the money come from if we are broke? The money is already there. The Bank of England has produced 325 billion pounds of new money through quantitative easing. This is effectively a loan to the banks, sometimes for bonds. It is a devaluation of sterling since there is no extra GDP but there is more printed currency [the pound has depreciated by 20%]. Instead of this money being dished out to small businesses that need it, the banks are sitting on the money to protect themselves against a run on the banks caused by their own profligate polices in the last decade. This money is going nowhere and not working.

If a part of this money was used in necessary capital projects it could do so much good to stimulate the economy and solve local problems. It must not go into projects that have on-costs (such as building a new hospital, which would require doctors and equipment, and thus new revenue) but into things like long awaited arterial road links, improved airports, vitally necessary new housing or development of ports. These projects pay in every sense. Firstly, there is the tax revenue they generate which must be in excess of 30 per cent (through personal taxes and VAT). So the government gets a third of it back quite quickly. Then there is the factor of getting thousands of people off benefits and the dole queue by giving them construction jobs. The net financial effect of this is impossible to quantify but it must be significant, to say nothing of the enhanced moral effect of getting people into jobs. Then there is the increased benefit to the commerce of the country. More houses enable workers to be nearer jobs and more efficient and produce revenue (council tax and utility bills etc). Better roads make the country more attractive to businesses and more efficient.[29] New or redeveloped ports and airports enable us to tend for new international business or tourism.

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[28] For people who do not know the history of the two Anglo-Afghan Wars or the Russian invasion, see the two excellent programmes [‘*The Great Game*’] by Rory Stewart on BBC 2. http://www.bbc.co.uk/iplayer/episode/b01jb9fn/Afghanistan_The_Great_Game_A_Personal_View_by_Rory_Stewart_Episode_1/

[29] For instance Worthing, situated on a national arterial bottleneck which has sought a ring road since the mid-50s, is losing commerce due to road problems. Brighton is only 15 miles away and yet can take over an

Government spending on capital projects produces a wide range of beneficial effects to the social and mechanical infrastructures of the country. The British government commitment to housing in the 50s, despite being broke by war spending, produced a golden age of, '*you have never had it so good*'.[30] [In 1950 UK debt as a percentage of GDP was over 250%. This went down to 50% in 1975 and then started rising again.[31]] The repayment of the war debt only ended relatively recently and spending was necessary in the 50s even though the country was broke. It worked as many countries adopted Keynesian policies.

So history affirms it and common sense affirms it but Tory ideology denies all this, which is why we are in a mess.

Recent history shows that spending not cuts is required since Britain and the Eurozone has engaged in severe cuts for nearly two years and most of their economies have contracted, not expanded. If cuts create more unemployment then they are not only contributing to an initial contraction of the economy now, but are creating bigger problems for the future as the national tax base is greatly reduced and the benefit bill is increased. Even if the economy begins to expand it will take some time for many unemployed people get back to being tax-payers.

But on top of the facts and figures about fiscal deficits, the sheer truth is that cuts create a terrible effect on the social infrastructure, causing moral problems that can last for decades.

Support for this option

Now I am no economist and do not claim to understand the abstruse mechanics of global economies. But there is a Nobel prize winning economist that does and I am shocked and thrilled to find that he is saying exactly the same thing.

I found Paul Krugman[32] debating this issue on Newsnight recently[33] with a Tory MP and a business leader in favour of more cutbacks, both hawks supporting austerity.[34] His calm responses to their attacks showed up the poverty of their arguments as he quietly explained that they had missed the big picture. 1) We are in a depression because there is no demand. 2) You can make cuts to the public sector and benefits when you are in a boom but not in a recession. 3) What is needed to end the depression is growth. 4) Only the government has the money to spend to get us growing and out of recession. 5) Specifically, he wants the government to increase spending by 2% of GDP.

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hour to get to at certain times of the day (it once took me two hours!). A relatively small investment of a few million pounds would alleviate this situation and provide a stimulus for the creation and expansion of businesses in Worthing, Lancing, Sompting and Shoreham. Further assistance for the expansion of Shoreham Airport would lead to even more job creation in the area. This is to say nothing about the on-benefit of better road circulation to tourism and leisure in the South of England since the bottleneck is on the main Folkestone-Honiton arterial road system.

[30] Prime Minister Harold Macmillan.

[31] Source: IMF.

[32] Paul Krugman is the recipient of the 2008 Nobel Prize in Economics. He writes a twice-weekly op-ed column for the New York Times and a blog named for his 2007 book "The Conscience of a Liberal." He teaches economics at Princeton University. His books include "The Accidental Theorist," "The Conscience of a Liberal," "Fuzzy Math," "The Great Unravelling," "Peddling Prosperity," and two editions of "The Return of Depression Economics," both national best-sellers.

[33] Programme aired on BBC 2, 30 May 2012. Krugman's chief comments can be found in the appendix.

[34] Venture capitalist and Conservative donor Jon Moulton and Conservative Member of Parliament Andrea Leadsom.

Both the MP and the venture capitalist argued that the British government has to reduce spending if the country is to dig itself out of the economic slump. But Krugman countered that such a strategy could cause Britain's economy to implode; the public and private sectors need to circulate money to each other in order for anyone to prosper. He said, '*We are not a household; we are an economy. Your spending is my income, and my spending is your income.*'

Heartened by his common sense I immediately downloaded his book '*End this Depression Now*'.[35] His arguments are well presented and make eminent sense. I was tempted to summarise a number of his points proving that, in a depression, spending must be undertaken by the government to stimulate growth, but I will desist and encourage you to read it instead. A man who has accurately predicted many of the economic effects of the last ten years ought to be listened to. Instead he is attacked by right wing politicians.

Here is a quote from his opinion column in the *New York Times* (10 June 2012) regarding the recent Spanish Bank bailout,

> Unemployment in the euro area has soared, and all indications are that the Continent is entering a new recession. Meanwhile, inflation is slowing, and market expectations of future inflation have plunged. By any of the usual rules of monetary policy, the situation calls for aggressive rate cuts. But the central bank won't move.
> And that doesn't even take into account the growing risk of a euro crackup. For years Spain and other troubled European nations have been told that they can only recover through a combination of fiscal austerity and "internal devaluation," which basically means cutting wages. It's now completely clear that this strategy can't work unless there is strong growth and, yes, a moderate amount of inflation in the European "core," mainly Germany — which supplies an extra reason to keep interest rates low and print lots of money. But the central bank won't move. … Put all of this together and you get a picture of a European policy elite always ready to spring into action to defend the banks, but otherwise completely unwilling to admit that its policies are failing the people the economy is supposed to serve. … Whatever the deep roots of this paralysis, it's becoming increasingly clear that it will take utter catastrophe to get any real policy action that goes beyond bank bailouts.[36]

Even faced with empirical economic evidence, the commitment of politicians to the dogma of ideology regarding austerity measures is unswerving. Money is not directed to help the unemployed in Spain (50% of young people), instead tinkering around the edges with bank support is done instead. The makes the likelihood of further bailouts for Italy, Portugal, Cyprus and other countries more likely (as well as a further bailout for Spain) but there is not enough money in the EU pot to do this. Failure to tackle growth will mean an implosion and the end of the euro, followed by a global knock on effect – all because politicians are blind to common sense and determined to follow ideology.

The opposing economic doctrinal systems

The argument about to cut or not to cut is usually framed in opposing economic theories, Keynesian versus free market polices.

Keynes

British economist John Maynard Keynes advocated the use of fiscal and monetary measures to alleviate the negative effects of a depression. In other words, this school of

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35 Paul Krugman, W. W. Norton & Company; (April 30, 2012).

36 http://www.nytimes.com/2012/06/11/opinion/krugman-another-bank-bailout.html?_r=1

thought proposes stimulation of the national economy, by the government, through injecting spending into the economy in capital projects thus increasing employment and fiscal revenues to get the economy working and create demand. Debt is not considered as a bad thing but a necessary means to an end for countries in economic crisis.

This sort of policy was notably enacted by Roosevelt to end the Great Depression. [Roosevelt had meetings with Keynes and read his books, but it is disputed how much he influenced American policy in the 30s.]

History shows that as Keynes's ideas were adopted by leading Western economies during the 1950s and 1960s, and there was considerable success in most governments adopting his recommendations. Economist John Kenneth Galbraith said that, '*one could not have had a better demonstration of the Keynesian ideas*' in the rebound of western economies from massive wartime spending.

Free market capitalism

Free market policies (usually the province of right wing conservatives) believe (without firm evidence) that deregulated free markets will lead to full employment if workers are flexible in their wage demands. The problem is that in a depression there is no demand and high unemployment, which stifles any growth. With nobody spending and everybody cutting back, recession gets worse. People trying to save find that their money is worth less.

Keynes was criticised by Milton Friedman and other economists who did not believe that governments could regulate the business cycle with fiscal policy. Keynesian economics were then officially discarded by the British Government in 1979 and Keynes went out of favour until 2007.

The Christian viewpoint on this situation

Governments are put in place by God and he expects them to govern, in this delegated authority, for the benefit of the whole nation. The government of this country, by its own definitions, is a representative of the people elected to govern the country in the best interests of the whole people. The way God expects rulers to govern is on the basis of righteousness; governments must do what is ethically right and according to God's law. He expects governments to be more careful over the weak, poor and vulnerable than for the rich.

The essential way of ruling righteously is to ensure that the people are protected, nurtured, and not oppressed in any way. It is true that the country should ordinarily live according to its means (GDP) but a country is not a household and it does not function economically like a household. It is sometimes necessary for countries to borrow significant sums in order to manage the storms of the global economic system. Such a case was Britain in the Second World War and the period afterwards. Despite massive debts, the country managed to start the first National Health Service and build thousands of new homes to rebuild the country after the effects of the Blitz.

Well-governed nations are safe bets for investment in debt and holding a national debt is a normal part of current government (not that it is an ethically good thing but it is a fact of life). The debt must not be allowed to rise about a reasonable percentage of GDP. Thus a country like America can manage a debt of trillions since it is a relatively modest proportion of GDP. Just as an individual does not sin in borrowing a mortgage to buy a house and slowly pay it off, so countries do not sin to borrow in times of economic stress.

In boom times sensible countries can reduce their deficits and reduce the size of government since there is enough money to pay for the effects of that reduction.[37] However, in times of depression that is not appropriate. Action must be taken to stabilise the economy and to produce growth so that the people are not damaged unnecessarily.

The most damaging feature of austerity politics is that the net effect on the population is devastating. By definition, any government policy which causes devastation to the majority (or even a minority) of the population is unrighteous and an offence to God. The worst aspect of the current cuts is that the very poorest and most vulnerable in society are being severely damaged, while the rich are made more affluent.

Without any doubt, the austerity measures imposed by the coalition are an offence to God. What is ironic is that according to the best economists, it is also unnecessary.

Paul Krugman:

> The depression we are in is essentially gratuitous: we don't need to be suffering so much pain and destroying so many lives. Moreover, we could end this depression both more easily and more quickly than anyone imagines – anyone, that is, except those who have actually studied the economics of depressed economics and the historical evidence on how policies work in such economies.[38]
> There is a growing body of excellent work … on fiscal policy – work that by and large confirms that fiscal policy is effective.[39]

Christina Romer[40]

> The evidence is stronger than it has ever been that fiscal policy matters – that fiscal stimulus helps the economy add jobs, and that reducing the budget deficit lowers growth at least in the near term. And yet, this evidence does not seem to be getting through to the legislative process.[41]

Glossary

Assets
Things that provide income or some other value to their owner. Fixed assets (long-term assets) have a life of more than one year, for example buildings or a brand reputation. Current assets can quickly be turned into cash.

Bailout
The financial rescue of a struggling borrower.

Bear market
When prices are falling and investors, fearing losses, tend to sell.

Bond
A debt security, or IOU. The bond states when a loan must be repaid and what interest the borrower (issuer) must pay to the holder. They can be issued by companies, banks or governments to raise money. Banks and investors buy and trade bonds. [BBC News]

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[37] The recent Labour governments not only failed to do this but used its tenure to spend profligately.

[38] Krugman, p223.

[39] Krugman, p107.

[40] Chief economics advisor to Barak Obama; the head of the US Council of Economic Advisors.

[41] Krugman, p237.

Bull market
When prices are generally rising and investor confidence is high.

Deficit
The amount by which spending exceeds income over the course of a year. Trade deficit refers to exports minus imports. In the case of the government budget, it equals the amount the government needs to borrow during the year to fund its spending.

Deleveraging
Essentially, reduction of debtload by repaying debts. It can also occur by bankruptcies and debt defaults, or by the borrowers increasing their incomes, meaning that their existing debtloads become more manageable. Western economies are experiencing widespread deleveraging, a process associated with weak economic growth that is expected to last years. Households are deleveraging by repaying mortgage and credit card debts. Banks are deleveraging by cutting back on lending. Governments are also beginning to deleverage via austerity programmes - cutting spending and increasing taxation. [BBC news]

Depression
A long and severe recession of an economy or a market (e.g. the housing market).

Double-dip recession
Two periods of recession following on from each other (perhaps with a short period of recovery in between). Multiple periods of recession are a depression.

ECB
The European Central Bank is the central bank responsible for monetary policy in the Eurozone.

Equity
The value of a business or investment after subtracting any debts owed by it. The equity in a company is the value of all its shares.

Eurozone
The 17 countries using the Euro as currency.

Fiscal policy
The government's borrowing, spending and taxation decisions. If a government is worried that it is borrowing too much, it can engage in austerity; raising taxes and/or cutting spending. Alternatively, if a government is afraid that the economy is going into recession it can engage in fiscal stimulus, which can include cutting taxes, raising spending and/or raising borrowing. [BBC News]

Gearing
The ratio of a company's loan capital (debt) to the value of its ordinary shares (equity).

GDP
Gross domestic product. A measure of economic activity in a country, namely of all the services and goods produced in a year. There are three main ways of calculating GDP - through output, through income and through expenditure.

Hedging
Making an investment to reduce the risk of price fluctuations to the value of an asset.

Inflation
The upward price movement of goods and services.

Leverage
In financial terms this is another word for 'gearing'. Its common modern sense is the use of loans to purchase stocks & shares and then quickly sell them off at a profit.

Liquidity
Converting something into cash.

Liquidity crisis
A situation in which it suddenly becomes much more difficult for banks to obtain cash due to a general loss of confidence in the financial system. Investors (and, in the case of a bank run, even ordinary depositors) may withdraw their cash from banks, while banks may stop lending to each other, if they fear that some banks could go bust. Because most of a bank's money is tied up in loans, even a healthy bank can run out of cash and collapse in a liquidity crisis. Central banks usually respond to a liquidity crisis by acting as "lender of last resort" and providing emergency cash loans to the banks. [BBC Ness]

Liquidity trap
Essentially – nobody spending. When zero interest rates are not low enough to induce sufficient spending to restore full employment. Nervousness about the economy leading everybody to cut back on their spending and to hold cash, even if the cash earns no interest. [When you are not in a liquidity trap, printing lots of money is inflationary. But when you are not, it isn't. Krugman, p152.]

Monetary policy
Essentially the use of money in a country. The policies of the central bank (such as the Bank of England). A central bank has an unlimited ability to create new money, which allows it to control the short-term interest rate. Monetary policy is used to control inflation and encourage growth.

Quantitative Easing
In very simple terms this is when the central national bank 'prints' more money (nowadays it is done electronically) and distributes it to other banks to create liquidity. It is done by buying financial assets, i.e. government debt (bonds) and corporate bonds. Banks selling those assets then have more money in their coffers, which is meant to be lent to customers and used to stimulate the economy. The idea is that when times are better these bonds are bought back. QE is done when interest rates cannot be lowered further to encourage personal spending.

Recession
A period of temporary economic decline, during which trade and industrial activity are reduced, generally identified by a fall in GDP in two successive quarters.

Stagflation
The combination of inflation and stagnation - an economy that is not growing while prices continue to rise.

Slump
A sudden severe or prolonged fall in the price, value, or amount of something; e.g. *a slump in annual profits*. A prolonged period of abnormally low economic activity, typically bringing widespread unemployment. Economic depressions create slumps.

Appendix One

Paul Krugman

Comments on Newsnight. [42]
Transcript
"We've now had about two years of experience with austerity here and elsewhere, and what we're seeing first of all is that austerity really does contract the economy, that the notion that it would inspire business confidence and lead to expansion not contraction has been decisively proved wrong by experience all across Europe, including here but even more so on the continent.

"Secondly there's now growing evidence austerity in these conditions doesn't even work in fiscal terms, because it shrinks the economy now and also shrinks the economy in future, it hurts the economy's long run potential, which reduces future revenues, which worsens the long-run budget position. I've used the analogy, it's like medieval doctors, who thought that you could treat a sick patient by bleeding, and the patient of course got sicker, so they said let's bleed even more and that's essentially what's happening here.

"We have a debt problem which is real but the treatment is making things worse, even in purely fiscal terms.

"If you try to have a situation in which everyone is trying to slash at the same time, in which the private sector is trying to slash spending because it feels it has too much debt, and in which then the government is also saying well we have too much debt so we're all trying to slash then we run up against the fundamental fact that we are not a household we are an economy, and that your spending is my income, and my spending is your income, and if we are both trying to do this slashing at the same time, what we end up doing is producing a depression that leaves us worse off.

"[As 30s economist Irving Fisher, Keynes's contemporary, said] in times like this, when everyone tries to pay down debt at the same time, what happens is, the more people try to save, the more they owe. We're actually worsening the debt problem by not having the government act as the fly-wheel, the stabilising factor, when the private sector is engaged in this ferocious deleveraging…

"I certainly look at the US and it's true here as well, if I think about the future generation, I think that the crime we are committing against the next generation is not that we're going to leave them with more debt, that's a venial sin, the crime is that all of these students are graduating from college with no job prospects, are graduating from college with debts that they have incurred to get an expensive education and then there are no jobs – that damage that we are inflicting, the damage we are inflicting on the next generation by not having jobs for them, which is the result of misguided austerity right now, that is the great sin…

"The average young person is not going to start a business, there has to be an expanding economy which is not happening, and is not happening because we're not providing the necessary support, and by the way, I think you [Andrea Leadsom], you've just given me confirmation of something that people like me tend to say which is that actually none of this is at all about fiscal responsibility, it's all about exploiting the current situation to pursue an ideological goal of a smaller state, and, we can argue about whether the British

[42] Programme aired on *BBC 2*, 30 May 2012.

state is too large, but look at Sweden, which is actually weathering this very well with a much larger state than you have, that's a great diversion, that's suggesting that you're not actually sincere, it's not really the budget deficit that's the concern, you're looking for a way to exploit this debt, deficit situation... You're mingling together concepts that are really quite separate...

"You're totally missing the point of what it means to be in a depression. We are in a depression where there are vast numbers of workers idle, who want to work, there's vast amounts of potential capital which is going nowhere, because there's no demand, so, at this point in time, the private and the public sector are not competing for resources, there are these unemployed resources and the point is to put them to work.

"Now, give me a recovery in the UK or in the US and I will become a fiscal hawk, I will be very happy to talk about finding ways to economise on government spending, finding ways to raise more revenue, which I think at least in the US has to be part of the solution, but not now, not under these conditions...

"We have survey evidence from the United States about what it is that is holding private businesses back, and overwhelmingly, the answer is lack of sales, there just is not enough demand, constraints on capital are not an issue, they would like to have more skilled workers, but no more so than usual, issues about financing are a small issue, concerns about future government regulations, well they always complain about that but no more than usual, what has changed is there's no demand, there isn't a market there, and that's what these austerity policies are making worse, they are actually inhibiting the private sector as well as the private...

"Every one of those success stories turns out to involve, either, a situation where interest rates were quite high to start with so you can bring them down, or a situation where you have a large currency devaluation, which is not going to work now because you have to have some prosperous economy to devalue against, and there's nobody out there right now. Estonia? No, it just doesn't fit the story at all."

Quotes from '*End This Depression Now*'

On austerity and fiscal policy

> It's one thing to cut spending or raise taxes when the economy is fairly close to full employment, and the central bank is raising rates to head off the risk of inflation. In that situation, spending cuts need not depress the economy, because the central bank can offset their depressing effect by cutting, or at least not raising, interest rates. If the economy is deeply depressed, however, and interest rates are already near zero, spending cuts can't be offset. So they depress the economy further - and this reduces revenues, wiping out at least part of the attempted deficit reduction.
> So even if you were worried about a potential loss of confidence, or at any rate worried about the long-term budget picture, economic logic would seem to suggest that austerity should wait – that there should be plans for longer term cuts in spending and tax hikes, but that these cuts and hikes should not take effect until the economy was stronger.[43]
>
> The biggest contribution of rising inequality to the depression we're in was and is political.[44]

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43 Krugman, p193-194.
44 Krugman, p84.

On banking regulation

> The savings and loan mess had provided an expensive demonstration of how deregulated bankers could run wild; there had been near-misses that foreshadowed the crisis to come; and economic growth had, if anything, been lower in the era of deregulation than it had been in the era of tight regulation. Yet there was (and still is) a strange delusion among some commentators – by and large, although not entirely, on the political right - that the era of deregulation was one of economic triumph.[45]

On the rising fortunes of the rich

> Last fall the … Congressional Budget Office put out a report detailing the rise in inequality between 1979 and 2007; it found that Americans in the 80th to 99th percentiles … had seen an income rise of 65%. … But the top 1% saw its income rise 277.5%, and, as we've already seen, the top 0.1% and the top 0.01% saw even bigger gains.[46]
>
> The top 0.1% are … corporate executives or financial wheeler-dealers [plus] lawyers and people in real estate.[47]

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45 Krugman, p72.

46 Krugman, p76.

47 Krugman, p77-78.

Appendix Two

Background issues

The failure of the banks – a recent example

To illustrate how stupid and ruthless bankers were, and still are, I will take the case of JP Morgan Chase, America's biggest bank. This was a bank which emerged from the 2008 banking crisis (initiated by the collapse of Lehman Bros.) relatively unscathed and the chief executive (Jamie Dimon) gave the impression of someone who actually understood what was happening in his empire. This view is now changed.

In May this year (2012) JP Morgan admitted that it made $2bn losses from a series of risky trades in its London office. These trades were hedges against other investments conducted by a French trader called Bruno Iksil (the 'London whale'). Dimon initially dismissed the story in April but was forced to admit later that he was '*dead wrong*'. And that the bank made '*a terrible, egregious mistake*'. The bank's reputation is now severely dented.

The losses stemmed from derivative bets conducted in the bank's Chief Investment Office headed by Ina Drew, who resigned after the announcement. The office decided to hedge the entire portfolio by selling credit default swaps against a corporate bond index. It effectively hedged against a hedge. (Yes, this is confusing.) The US Dept. of Justice is investigating the matter.

The question being asked is, 'if a bank like JP Morgan can't manage its own risk, what does that say about the state of the rest of the industry'?

The chief point is that even after the near collapse of the world banking system in 2008 caused by greedy and utterly stupid risk-taking by bankers, no one has learned any lessons. It is still going on now. JP Morgan's failure is the same as banks in the run up to the 2008 crisis. Simon English stated in the London Evening Standard, '*The bank is now in crisis mode. Its self-confidence is battered and its hard-won reputation for prudence is in tatters.*'[48]

This shows that bankers still cannot be trusted and that much firmer regulation is required.

Dimon was a fierce critic of financial reform under the Dodd Franck Act and the Volcker Rule which both aimed to protect depositors by restricting proprietary trading. The behaviour of his bank shows that Wall Street needs much more regulation.

Child poverty in the UK

All governments pledge to end child poverty and they all fail. Despite many promises by Tony Blair, child poverty improved little under a Labour government; something that years ago would have been inconceivable.[49] Cameron is now pledging to do the same, yet he makes benefit cuts which worsens the situation. Former Labour health minister Alan Milburn has formally warned the government that austerity measures are increasing child poverty. UNICEF has also warned the coalition that cuts will have a devastating effect on child poverty.

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48 Quoted from *The Week*, 19 May 2012.

49 Blair promised to eliminate child poverty by 2020 and halve the number by 2010. Child poverty actually fell by a quarter at huge costs (£1m in state spending for every six children lifted out of poverty) and then flatlined in 2005. Labour gave many benefits to those just under the poverty line to lift them out of it, but the plight of the poorest got worse. By focusing on benefits and not job creation Labour exacerbated the problem.

At this point in time 19.6% of UK children (2.6 million) are defined as being in relative poverty and 21.8% in absolute poverty. The government is legally bound to fix this and aims to cut these rates by 10% and 5% respectively.

However, the Institute for Fiscal Studies calculates that, far from falling, the proportion of children in poverty will rise to 24% (3.3. million) and those in absolute poverty to 23%. The government's response – it is considering scrapping the two current measures.

Relative child poverty is defined as being in a family with an income of below 60% of the current national average. Absolute poverty is where the income is below 60% of the national median income recorded in 2010/2011. The World Bank measures absolute poverty as an income of £1.25 a day. The British standard is ten times higher than the World Bank criterion. Thus many economists view poverty as a lack of access to basic needs, such as nutrition, shelter, education etc. By this criterion, millions of British children are poor. This, in turn, leads to educational failures and the greater likelihood of committing crime in later life and being jobless and sick.

According to the OECD the most important factors are whether parents are employed and whether they live in a single or two-parent household. Children of single jobless parents have a poverty rate 14 times higher than those with two working parents.

The Institute of Fiscal Studies says that the coalition's plans (e.g. the pupil premium to assist poor children in schools) are insufficient. 300,000 children have fallen into poverty since the start of the current economic crisis, i.e. before the welfare cuts began! Benefit cuts and increased unemployment will raise the number of poor children, but it will take time for these figures to be published. European countries have much better child poverty rates.

The effects of changes in education[50]

The government has made cuts to education spending by forcing university graduates to pay for student loans. This can effectively mean that a student can leave university with anything up to £30-40,000 of debt hanging round their necks. The government defends this by saying that graduates earn more and don't have to pay until they are earning about £21k.[51] But the reality of facing paying off a £40k debt, at the very time that you are likely to be needing to buy a home for your family and face the current massive mortgage payments on overpriced houses, has clearly put students off. This comes just at the time that the country needs graduates. It has also recently cut courses and places at colleges.

Currently the cost to the state per degree student is £18,800 but UK graduates contribute to the economy ten times what is costs the state to educate them to degree level. An IPPR think tank and UCU academics union report suggests graduates bring in £180,000 more than those with A-levels over their working life.[52] It also warns that reforms, which lead to fewer graduates, will limit the country's ability to compete on the world market.

The report shows that in 2000 the UK had the third highest number of graduates among advanced industrialised nations. By 2008 it had fallen to fifteenth because competitor nations invested at a faster rate. China quadrupled its number of graduates between 1999 and 2005 and is expected to become the world's largest producer of PhD scientists and engineers. India is planning 800 new higher education institutions by 2020. The research

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[50] Source: *Graduates 'economy boost' set out*; by Hannah Richardson, BBC News education reporter. BBC News, Saturday, 9 June 2012.

[51] From the April after they graduate, borrowers pay back 9% of any earnings over £21,000.

[52] *Further, Higher? Tertiary Education and Growth in the UK's New Economy.*

suggests that the number of students graduating in the UK is likely to fall further, following tighter restrictions on student numbers, with 15,000 fewer higher education places in September 2012 compared with the previous year and around 25,000 fewer places in English universities.

Recent UK reforms to the higher education system have led to reductions in courses available in key areas such as science, technology, engineering and mathematics (STEM) skills. A recent study found that the provision of single subject STEM courses has gone down by 15% over the past six years in England.

The implications for industry are job losses. The report quotes a warning from car manufacturer Nissan's head of design and development Jerry Hardcastle, '*In India they are churning out hundreds of thousands of graduates and we are churning out a small number and that will restrict our ability to expand. We can't have any shrinking of mechanical engineering graduates - we need more engineering graduates. If they're not available here, the jobs will move to India, Brazil and China.*'

The report calls on the government to invest urgently, noting it invests just 1.7% of public expenditure on tertiary education, compared with 2.3% in France, 2.8% in Germany and the OECD average of 3%.

The net effect of government cuts to education? Future job losses and the direct implications of this on GDP.

The effect of cuts on women

The Women's Budget Group is a group of independent experts who have been working with the Treasury to analyse the effect of economic policies on women. This is what they said about the impact of the 2010 Spending Review:[53]

- Lone parents and single pensioners – most of whom are women – will suffer the greatest reduction in their living standards to public service cuts. Lone parents will lose services worth 18.5% and female single pensioners services worth 12% of their incomes.
- Overall single women will lose services worth 60% more than single men as proportions of their incomes, and nearly three times the amount lost by couples.
- The cuts will lead to hundreds of thousands of women losing their job. 53% of the jobs in the public sector services that have not been protected from the cuts are held by women. The pay and conditions of all public sectors workers, 65% of whom are women, are likely to deteriorate.
- Cuts in welfare spending fall disproportionately on women's finances. Child benefit is paid almost 100% to women; while 53% of housing benefit claimants are single women. Both benefits have been cut significantly in real terms and eligibility has been tightened.

Gordon Brown's squandering of taxpayer's money

Source in part: David Craig, *Squandered*.

Between the years of 1997 (when New Labour came to power) and 2008, the amount of money spent on public services increased by over 80% (equal to 55% when inflation is taken into account). This is why the health service, the police, and education had an influx of huge numbers of pointless managers and useless assessment systems.

[53] http://falseeconomy.org.uk/cure/how-cuts-will-make-britain-more-unfair

In health Labour spent £269 billion more than if spending had been kept at 1997 levels. In education the figure is over £185 billion. In policing and justice the figure is $80 billion. In Social Security benefits the figure is £343 billion; and this was despite sustained economic growth and falling unemployment. With other services, the total is over 1 trillion pounds. [Craig; p8-9.]

In spite of this huge spending increase, the education system was falling apart with downgraded exam results and teenagers entering university unable to spell, write properly or do mental arithmetic. Universities began to set up remedial courses to provide basic education for undergraduates who could not even write a letter properly or conduct a decent telephone conversation.

Policing was also at an all time low under Labour, suffering disrespect in local communities. Home Office statistics showed that detection levels were worse than in Victorian times, despite massive investment in computer systems and expensive forensic equipment. Problems with rising low level crimes caused national public anger and the ASBO system proved to be utterly useless. We could continue in this vein, but let us examine the NHS a little more closely.

Hospitals began to fail dramatically; the number of operations cancelled for non-medical reasons rose over 30% in the first six years of Labour government, mostly due to poor bed-management, despite a massive increase in the number of managers. Scandal after scandal, detailing poor treatment, appeared in the news; even involving needless fatalities [malpractice led to tens of thousands of unnecessary deaths;[54] Craig; p27.]. MRSA and other hospital acquired diseases appeared for the first time. GP salaries went through the roof (raised by 63%) but services were reduced and out of hours visits by GPs virtually ended. A 2007 poll of 3,000 doctors showed that 72% did not believe that the money had been well spent and that there was no improvement in patient care.[55] 55% of senior doctors have medical insurance because they do not want to be treated by the NHS should they fall sick. Complaints by patients rose by 45% between 2004 and 2006. Between 1997 and 2007 the rate of nurses and midwives emigrating had doubled, usually stating that the cause was low morale in the NHS. This caused the NHS to spend £800 million a year on agency nurses. [Craig; p29.]

Labour's tendency to install useless tiers of unnecessary management is best demonstrated in the NHS. Between 1997 and 2007 the number of managers doubled from 20,000 to 40,000 but the number of hospital beds fell from 250,000 to less than 180,000. In ten years the NHS went from 12 beds per manager to less than five (it is now I manager to 2 beds). As the numbers of managers rose, the NHS spending on management consultants increased ten times to over £600m a year. That is £15,000 of consultancy for each manager in the NHS. The UK now has half the number of hospital beds pro-rata than Holland, France and Germany. Patients were often put into beds that are still hot from another patient who had just been discharged or died ('hot-bedding'). MRSA and other infections is directly linked to lack of clean beds. Patients in a hospital where bed occupancy rates were over 90% were 42% more likely to contract MRSA than in hospitals where occupancy was below 85%. Moreover, the number of hospital cleaners on minimum wages halved since outsourcing was introduced. [Craig; 23, 25-26.]

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[54] The NHS's own estimates show that 34,000 people a year die unnecessarily in hospital; that is nearly 100 people a day. [*Patient Safety Report*, 2007.] However, many have shown that these figures are far too low.

[55] *The Times*, 19 February 2007.

The number of people leaving hospital with malnutrition doubled from 74,000 a year in 1997 to over 139,000 a year in 2007, with the elderly suffering most. Often old people were simply unable to reach food left on the table when nurses left them alone. Nurses complained that this was because they had to leave the wards to complete a flood a new paperwork. [Craig; 24.] My own father died in hospital three years ago through malpractice. He went in with a simple leg complaint but was given no water for two days and fell out of bed twice because there were no beds available with rails. His kidneys failed and he died of a heart attack. I could also mention that the ambulance called for by a GP took 12 hours to reach him, but the ambulance station was less than two miles away.

The NHS corporate IT system, launched in 2003 spiralled out of control quickly. Projected costs ran from £2.3 billion over 3 years, to £6bn in 2006 when it should have been finished, to £9bn and then £12.4bn, with a project completion date of ten years hence. By 2007 the project was in meltdown with nothing having been achieved. Ministers were in self-denial and hired PR firms to cover the mess up. [Craig; p31-32.] Enough of the NHS.

It is not extreme to say that the Labour period of governance was guilty of the greatest tenure of gross stupidity and incompetence than has ever been seen in British politics. Books were even written demonstrating how even political lying was raised to professional status by ministers and Prime Ministers, usually to cover up mistakes and failures.[56]

And all this is to say nothing about a series of foolish and illegal wars that cost billions and resulted in over a million civilian fatalities in Iraq alone, plus initiating (with GW Bush) the War on Terror.

The Labour government presided over a singular spending spree where it seemed that every pound spent went to making the country more ineffective and inefficient.

The problem of mismanagement in boom and bust – dead wood

A common problem in all organisations, unless they are really well managed from the top, is the making of wrong choices in spending money or in cutting money. Both the Labour party in spending and the Tory party in cutting made these mistakes.

The problem in badly managed organisations is that dead wood rises. The proportion of bad managers to efficient managers is very high. Due to discrimination law, it is often the case that useless managers are promoted out of a department because disciplining them is often near impossible, or at least very difficult. This is especially the case if the inefficient manager is of ethnic origin[57] or a woman.[58] Thus dead wood rises. Some of the senior management of large corporations, especially public bodies, are utterly incompetent. A classic case is the NHS.[59]

When money is given to a badly managed company to be spent, or when cuts are demanded, the decisions on how this is applied in detail are given to the executive and then passed down to department directors and managers. If the executive (at all levels) is filled with incompetent and biased managers, then the decisions made will be wrong.

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[56] For example, *The Rise of Political Lying* by Peter Oborne.

[57] This is not a racist statement but a statement of fact. There are good ethnic managers and bad ones, like everywhere else. However, bad ones often play the race card to avoid discipline.

[58] See previous note which applies. This is not a chauvinist statement and it does not refer to all women; just bad female managers.

[59] '*Hospitals cannot reward excellence nor can they sack the incompetent. Instead miscreants are promoted, re-employed in another job or at most, reprimanded in a soft voice and offered a training course.*' Harriet Sergeant, *British Medical Journal*, v.327 (7427); Dec 6 (2003).

When money is available, bad managers concentrate upon building up their empire, not on focusing upon customer's needs. When cuts are demanded, the line of priority is to protect one's own empire at all costs. Thus all badly managed organisations pass the knife down to lower levels of staff and protect their own.

Another factor that people fear to speak about is the level of loyalty, in some organisations, to a secret society such as the Freemasons. Fellow Freemasons are protected in cuts even if they are dead wood. Loyalty to the secret society overrules required efficiencies.

Apply this to public bodies such as the police, education or the NHS and you have the reason why, in the cuts, managerial jobs are being protected but lower levels of front-line staff (including nurses) are being cut. This makes the organisation less able to do its job.

Despite the cuts, the current level of managers to beds in the NHS under the Tories is 1 to 2. Notice also that despite massive increases of back room office staff in the police force by Labour (required to process unnecessary paper work) cuts in the police budget have recently been shown to lead to rising crime levels. Front line staff are easier to axe. The very people that should go remain, while the people that should remain are cut.

Cuts will never be apportioned to the right places (dead wood managers) when the decisions on how to apply the cuts is given to the dead wood managers.

The fearful prospect, if this continues, is that the country is filled with organisations that are utterly incompetent. Indeed, it is already a cry from customers today that nothing works and customer care in almost every area is a complete shambles. If organisations are inefficient, then the economy will never grow properly. For proof that high value companies can be utterly incompetent, just look at the banking crisis.

Aside: the NHS management system – almost nothing but dead wood
The NHS is so badly managed and so over-managed that it is hard to actually fathom how it works at all. Decent people who work in this monster of an organisation explain that it continues simply because it is filled with front-line staff who are dedicated to the principle of patient care. Many of these often work longer hours than they are paid for, and this includes some office staff with real job descriptions.[60] Unlike these, the layer upon layer of unnecessary, high paid, managers with no real brief seem to actively work against patient care.

Any patient who spends a couple weeks in hospital quickly learns about managerial incompetence and the disgust of medical staff for hospital managers. Blazing rows between consultants and senior managers are not uncommon.[61] The situation is so bad that a senior consultant, John Riddington Young, has written a book on it[62] and appeared on BBC 2's *Newsnight* explaining the massive levels of inefficiency. He states that if 98% of the NHS managers were sacked overnight the hospital system would immediately work more efficiently. Riddington Young calls these managers 'Stasi' after the East German secret police force. Reviewers of his book on Amazon, who themselves are NHS professionals, say that this word is fitting, or even normal parlance by doctors. The President of the Royal College of Surgeons agrees, saying that, the morale of surgeons in the UK is at the lowest

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[60] Departments like governance and estates, including fire risk assessors, are dedicated and work very hard. I know as I have a friend involved.

[61] My own highly regarded specialist consultant had a shouting match with the CEO of Worthing Trust in his own clinic office.

[62] *The Hospital Revolution*, Metro Books Ltd (2 Jun 2008).

point known in their lifetimes, adding, '*frustration and despondency is at an alarming all time high*'.[63]

At the exact time of writing (12 June 2012) a professional survey of NHS satisfaction showed a drop from 70% in 2010 to 58% in 2011, being the biggest fall in one year since the King's Fund survey of more than 1,000 people began in 1983.[64] King's Fund chief economist John Appleby stated, '*It is something of a shock that it has fallen so significantly*'. Riddington Young would not be surprised at all.

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[63] Ibid, Prologomenon.

[64] The King's Fund, '*The British Social Attitudes*', 2011 study.

Update

BBC News 26.6.12 [I-Pad app]
The UK government borrowed more than expected in May, the Office for National Statistics, said as tax receipts fell and spending rose.

Public borrowing, excluding financial interventions such as bank bail-outs, hit £17.9bn, compared with £15.2bn the previous year.

May's figure was higher than many analysts' expectations of about £14.8bn.

The weak figures could add to concerns over the health of the economy.

The increase in borrowing was driven by a 7.3% fall in income tax receipts and an 11.7% jump in welfare benefits.

Economists said May's figure suggested the government would struggle to meet its target of trimming total borrowing in 2012-2013 to £120bn.

Vicky Redwood, chief UK economist at Capital Economics, said she expected the government to overshoot "significantly".

"The main problem remains a sharp slowdown in tax receipts. And with the economy probably still in recession, receipts are likely to remain weak," she said.

A spokesman for the Treasury said: "It is too early in the financial year to draw conclusions about the year as a whole, especially as today's public finances data include a number of one-off factors and temporary distortions."

Rachel Reeves MP, Labour's shadow chief secretary to the Treasury, said the figures indicated the coalition government's attempt to cut spending had backfired.

"As we consistently warned, if you choke off the recovery and push the economy into recession, the government ends up having to borrow more not less," she said.

Official data released on Thursday is expected to confirm the economy shrank by 0.3% in the first three months of 2012.

Britain's total public sector net debt, excluding financial sector interventions, rose to £1.013 trillion, according to the ONS. This is equivalent to 65% of GDP, a record for the month of May and the third-highest level on record since the series began in 1993.

Yahoo news 25.7.12
Economy shrinks by a shock 0.7%
Press AssociationPress Association – 2 hours 23 minutes ago

Britain is thought to be in the longest double-dip recession since the Second World War.

The UK's recovery hopes have been dealt a further blow after shock figures showed the economy shrank by a worse-than-expected 0.7% between April and June.

Dire construction and manufacturing output drove the biggest decline in GDP since the height of the financial crisis three years ago, alarming forecasters who had expected a much smaller 0.2% fall.

An extra day's bank holiday for the Queen's Diamond Jubilee and the wettest April to June period on record played a significant part in the fall, according to the Office for National Statistics (ONS). But economists said the figures also laid bare an "underlying weakness", with some branding the quarter a "disaster".

Although the figures are a preliminary estimate and may be revised, they show the UK economy has now contracted for three quarters in a row, making it the UK's longest double-dip recession since quarterly records began in 1955.

Pressure mounted on the Government on Wednesday to do more to stimulate growth as Chancellor George Osborne faced renewed criticism that his austerity measures are choking off the recovery.

Shadow chancellor Ed Balls said: "These shocking figures speak for themselves. As we warned two years ago, David Cameron and George Osborne's ill-judged plan has turned Britain's recovery into a flatlining economy and now a deep and deepening recession.

"And with Britain just one of two G20 countries in a double-dip recession and borrowing now going up as a result, it is clear that this Government's plan has failed. If these figures don't make the Chancellor wake up and change course, then I don't know what will.

"Thank goodness the Olympics will give our economy a much-needed shot in the arm. But this short-term boost is not enough - we need a plan B now to get the economy moving again and radical reforms to set Britain on a new course for jobs, growth and long-term prosperity. The longer the Chancellor refuses to act, the heavier the price our country will pay."

TUC general secretary Brendan Barber said: "The Government's austerity strategy is failing so spectacularly that it has wiped out the recovery completely." The UK's economy is 0.3% smaller than when the coalition came to power in the second quarter of 2010, the ONS figures showed.

Mr Osborne said he could not use the Jubilee as an excuse and said the "disappointing" figures highlight the UK's "deep-rooted economic problems". He said: "We're dealing with our debts at home and the debt crisis abroad. We've made progress over the last two years in cutting the deficit by 25% and businesses have created over 800,000 new jobs. But given what's happening in the world, we need a relentless focus on the economy and recent announcements on infrastructure and lending show that's exactly what we're doing."