

## An Age of Unreason

By Ian Griffiths Autumn/Winter 2009

**"For reason in revolt now thunders", L'Internationale, Eugene Poitier, 1870**

It is a year since this political tendency developed its analysis of the world economy entitled **'What is Happening? - The World Economic Crisis and Consequences'**. (In this document referred to as WH, 2008)

In its wake, **redwritings.com** was launched to act as a publication to carry this and future analysis. It also serves to encourage the organisation of like-minded individuals as well as embrace those whose thinking has been transformed by their life experience and their interpretation of the events of the last twelve months.

There can be no doubt that the world has now entered an epoch of unprecedented uncertainty.

There have been periods over the last two hundred years when sectors of the globe, the world economy and the capitalist system itself have faced and endured major crises.

In the nineteenth century it was the laying of the foundations of industrialisation, and with it urbanisation, which created flash points between governments and people, the owners of the banks together with the owners of the means of production and their massed employees.

It was from these struggles in Britain that an organised, politically aware working class emerged and which, in turn, demanded democratic reforms and improvements in living standards, welfare and wages. Throughout Europe there was the decline and demise of the nobility as an authoritative force and the emergence of a strong capitalist class preparing to take the helm of nation states.

The quest of imperialism - defined loosely as a desire of the economically dominant nation states to increase their wealth, territorial ownership and control over raw materials, production and markets - brought an obvious conflict not only between the subjugator and subjugated but also between each individual, competing, imperialist nation which inevitably plotted a course to The Great War, 1914-1918.

The brutality of this war added to existing social inadequacy and inequalities creating the conditions for revolution that in turn rocked Europe from the successful 1917 Bolshevik revolution in Russia through to the failed German Revolution in 1923. The inability of the working class to take power in Europe led directly to the rise of Stalinism and Fascism but also to the inevitability of World War II - albeit together with the inability and failure of the strate-

gists of capitalism to stabilise the post-first war world economy thereby preventing the economic crisis of the 1930s.

Today, the implications of this new age of uncertainty are multiplied because of the global nature of the economy and the increased and increasing competition between the more numerous economic players in what has become a shrunken market.

We have correctly characterised the last twelve months as one of economic depression (WH, 2008) and in this document we reiterate our analysis of this same, ongoing process and crisis.

The ruling class on a world scale, fearful of the connotations and consequences the term depression and its attendant language might summon, prefer to classify the period as "The Great Recession" - albeit a frightening time but one which is less catastrophic, one which is manageable and quickly overcome. Publicly, therefore, they maintain its worst features have passed.

This years' analysis has concerns for readers wherever they live on the globe but for it to demonstrate the true and frightening impact of the depression we will present it in two parts.

The first, though applying specifically to Britain, can also be read as a road map by which to approach the economies of other developed countries. The second part provides an atlas for general world developments within which each individual can plot their own national trends.

### **Part 1. Great Britain - The 21st Century's Sick Man of Europe?**

As the generations of post war Britain, we have assumed from the moment of our first conscious steps in the world, that we would experience progress and an increasing accumulation of comfort and joy. We expect to 'get on' in life.

Apart from three post-war recessions in 1973-74, 1979-82 and 1989-92, of which many of today's young adults have no memory, and the continued trajectory of growth enjoyed thereafter, we have never experienced the effects of economic depression. That was the condition endured by the pre-war 1930s world. However, this time things will be different. The Britain of 2010, for the post-war generations, will be unlike any time before and the

effects of economic stagnation will be palpable and the shock waves disturbing, distressing and regressive.

With this in mind, the politicians and strategists of capital on a world scale are desperate to talk up economic performance, to convey a vision of authority and control, an impression of confidence in their system in order to quell any rumblings of dissent.

In their world they are now cultivating the notion of green shoots and bountiful produce throughout their worldly 'Garden of Eden' none more so than in Britain.

For some of these 'far sighted' horticulturalists, lush vegetation was seen sprouting eleven months ago - most notably announced by Gordon Brown's "...closest adviser on economic policy" (The Guardian, 24/09/2009), Lady 'Shrieking' Shriti Vadera.

On January 14th 2009, and whilst the UK was plunging into an economic abyss, this former banker, business-woman and Parliamentary Secretary in the Cabinet Office announced that she was "...seeing a few green shoots ". Within days she had been forced by weight of opinion to retract and apologise for her crass stupidity.

For this display of 'astuteness' and her obvious grasp of economic reality she has been rewarded with a leading position in the G20 working on "...the reform of the international economic order" no less. This with Gordon Brown's glowing approval and endorsement, "Her expertise is such that there is no one better to do this job," he exalted (ibid).

Such an optimistic description of economic vitality as that of Lady Shriti is nothing more than nonsense but this nonsense, of course, is what the ruling class wish to disseminate as 'reality' for fear of what impact the truth might have upon the consciousness of the masses. Hope springs eternal when everything else has vapourised.

### **A Parallel Universe?**

It is worth reviewing the period that gave rise to the economic term depression, i.e. the Great Depression of the 1930s, and its affect in Britain in order to compare it with today's developments. From the start of the initial recession at the end of 1929, i.e. from the preceding GDP (Gross Domestic Product) peak down to the bottom of the trough took about seven quarters of economic (in)activity, roughly the stage of a depression that we have arrived at as I write.

The 1930-31 fall in GDP from peak to trough was equivalent to almost 8%, whereas we have now reached the position of just about a 6.3% fall from the peak in spring 2008. This 'floor' figure has only been achieved by the desperate launch of the previously untried method of 'Quantitative Easing' (QE) which, in Britain, has flushed billions of pounds of manufactured credit in the form of 'electronic' money into the financial system - as yet an unproven lifeboat that is keeping the economy afloat but not returning its rescued charges to terra firma. (See Appendix for a description and analysis of this QE process)

***In the Great Depression, however, the 1931 economy grew by nearly 2% in the last quarter of that year.***

On the day that I write this section (25/11/2009) the revised third quarter 2009 growth figure has been an-

nounced as -0.3%, an upward revision of 0.1% but one implying that Britain is still mired in recession.

The sad truth concerning UK GDP is that, even during this last decade of a speculative boomlet, the annual average growth recorded barely reached 1.7% per annum compared to the 2.8% achieved during the post-war boom.

Yet for weeks the British public has been regaled with reports of growth, of a developing boom, of a return to 'party time'! We only have to look at The Sunday Times' economic scribe David Smith and his take on the Bank of England forecast (The Sunday Times, 15/11/2009). Under the headline 'Bank says let's party like it's 1994 again' Smith reports an upbeat forecast for the economy, "Though the Bank is enough of a tease not to give us precise numbers, a reading of its charts suggest its new forecasts are for growth of a little over 2% next year rising to 4% in 2011," he speculates.

Even if this rosy scenario does turn out to be true we could still be following the established pattern of 1931. Nowadays, and much more so than then, the three months leading up to Christmas give an enormous, consumer led boost to the economy - as previously stated over 30% of US GDP is generated at this time of the year. It would not be surprising to see all the advanced economies return to an accelerated level of growth over this period when results are reported in January 2010. Indeed, rosy scenario news reports are designed for one purpose, to allay fear and raise consumer confidence in order for people to go out there now to borrow, borrow, borrow then spend, spend, spend!

The trouble is that the first three months of any new year present the converse of this process as the Xmas feeding frenzy ends and people wake up to the reality of drained bank accounts and newly restricted credit limits. This is a traditional pattern and it was just as true in 1932 when reduced economic activity pitched the world economy back into recession, the dreaded W shape that the current capitalist class are dreading.

In today's Britain the problem for policy makers is pronounced. It is clear that without QE there is no knowing how far the economy would have fallen, basically because the banks were effectively bankrupt. We now learn that in October 2008 the Bank of England provided at least one secret loan of £60 billion to RBS and HBOS to enable them to continue trading. This was a bailout on the back of the availability of the £200 billion draw down, Special Liquidity Scheme, the £67 billion to save Northern Rock and Bradford and Bingley and the £300 billion Credit Guarantee Scheme provided for banks in the same month. As we predicted, they had placed an hour-by-hour watch on their cash machines knowing that if there had been a rush by account holders to rescue funds a state of anarchy might have took hold.

As it happened it was only by the subterfuge of the brass-necks, both political and managerial, who manufactured sufficient confidence and 'bullshit' to match public ignorance that in turn prevented the whole system from failing through the winter of 2008-2009.

Even so, the former RBS chief Sir Fred Goodwin has the nerve to take his pension booty to his deathbed. He is but the most profiled of the world's 'zombie' bankers, many of who are still in their positions and about to reward them-

selves millions of pounds of performance related bonuses. RBS alone intends to pay out £1 billion in bonuses to its staff. Unbelievably, Lord Myners, the governments' City minister estimates that unless a government freeze is imposed 5000 City of London employees are set to receive at least £1 million each as their 2009 end of year performance bonuses.

The truth is that the banks have absorbed over a £850 billion of taxpayers' money and on top of that the £200 billion of QE funds yet they are still dysfunctional.

**"What is robbing a bank compared with founding a bank?"** so stated the character 'Macheath' in 'The Threepenny Opera', Act 3, sc.3, Bertolt Brecht, 1928.

Yet at some stage the QE has to stop and then nobody knows what will happen. The credit addicted economy is at best 'getting by' on this continued financial 'methadone' drip combined with extreme and historically low interest rates (the BoE rate has been pegged at 0.5% since March), a competitively devalued pound sterling, a car 'scrapage' scheme and a reduced Value Added Tax none of which can be maintained indefinitely (and not for very much longer) without grave consequences for the financial and economic health of the nation.

There is some credence, however, in the belief that Brown will have to maintain the flow of support and the current policy status quo in preparation for the spring 2010 general election after which the whole thing will fall apart - that is if the economy endures that long without further serious deterioration. With the realisation of a renewed faltering of the economy he could be pushed into an earlier election than planned, probably March.

Therefore, as suggested, it is perfectly feasible that early in 2010, just as in early 1932, the British economy will once more be pitching into recession. Even if this is not the case, the definition of what constitutes a depression has to be considered seriously.

By 1934, the pre-World War II economy had returned to its pre-recession 1929 peak and thus, to all and sundry, the recession was technically over. Yet the economy was still 'depressed' and even then it would take two more years of developing conditions of stagnation and suffering before the Jarrow marchers would be forced on the road to London.

Perhaps the most common perception of the Great Depression is one of outright, generalised, all encompassing poverty as described by the imagery of John Steinbeck's classic 'Grapes of Wrath'. But this was not the case.

As at all other times people need to be fed, clothed and housed and so it is at the time of an economic downturn. Despite a policy of 'mend and make-do', even the most deprived families will need to spend their state benefits, they will shop. 'Things' wear out, breakdown and need replacing.

Those who are maintained in employment also maintain their purchasing power. During the 1930s it was deflation not inflation that took hold allowing those with money to spend and to buy more. Thus it has been the case this year with falling prices combining with extremely low mortgage repayments enabling the employed households a net economic gain.

The most important feature to remember, therefore, is that economic activity continues but it is on a more focused but much lower level than it previously was and that general 'demand' is insufficient to generate as much growth in the economy as it did before. The whole economy remains depressed though some sections within it can boom.

Thus there were effectively two economies (and arguably three) running side by side during the Great Depression.

The regions that had been hit the hardest were the traditional manufacturing regions of the north of England, Scotland and Wales. The plight of the unemployed was desperate everywhere but at its most dire and widespread in the manufacturing and mining villages, towns and cities.

The Chancellor of the Exchequer in the 1931 National Government, the Tory Neville Chamberlain, cut welfare support for the unemployed and introduced the dreaded 'means test'. This extended to spying by government officials and informers on the lifestyles of the poor and, even, the content of their cooking pots. A minimum level of survival of the poor had to be observed and maintained by law.

In the south of Britain, by contrast, there was relative prosperity. In those pre-television days the arrival of the Jarrow marchers came as a shock to the middle class, and even working class, families of central and southern England.

The marchers probably passed through the new 'suburbs' of housing that were growing on the outskirts of cities. These were houses built 'fit for heroes' and to create the new, working class, owner-occupiers.

By the end of the decade three million mainly three-bedroomed, semi-detached, garden back and front, bay windowed 'Englishmen's castles' had been completed (see *the commendable thesis 'The Working-Class Owner-Occupied House of the 1930s'* by Alan Crisp, [www.pre-warhousing.org.uk](http://www.pre-warhousing.org.uk)).

Just as we have experienced, this building boom stimulated a growth in the manufacture of desirable furniture, furnishings and durables. Even so, it wasn't sufficient to eradicate the overarching economic woes. This was, however, a very different Britain to that of the northeast. The historian and a contemporary of the period, A. J. P. Taylor was later to comment:

*'Yet, at the same time, most English people were enjoying a richer life than any previously known in the history of the world: longer holidays, shorter hours, higher real wages. They had motorcars, cinemas, radio sets, electrical appliances. The two sides of life did not join up.'* (English History, 1914-1945 (Oxford, 1965) p. 317. - **my emphasis**)

(Thirdly, there was the rural economy in which the direst poverty had long stood side by side with the most opulent wealth. In the 1930s traditional farming methods persisted and there was still a need for the use of extensive manual labour on the land. Though many rural born young adults were forced to flee their homes and families to seek a living in the cities, for those who remained there was at least a reasonable diet provided by the garden, farm and nature's foraged produce. To this extent the suffering of the

rural poor in the 1930s was not as desperate as that of the industrial town and city.)

Are there any comparisons in this for us today? Surely, we can all say, there are no starving 'wretches', no slums of stinking hovels masquerading as homes in the industrial regions or beyond. We only have to look at those who receive state benefits, most have access to everything that those in work enjoy, "Don't they?"

### The 'Undeserving' Poor!

The highest paid of society's so-labelled 'work-shy' and whom both New Labour and Conservatives have already targeted for reassessment and benefit removal are the sick and disabled. They receive incapacity benefit and were, thereby, formerly classified as unable to work.

They currently receive £95.50 per week. From this amount they have to pay some housing costs, heating costs, food, the same rate of council tax and health costs, i.e. optical, dental etc., in much the same way as do their able bodied and reasonably employed and remunerated next door neighbours. This, unfortunately, is where the comparison ends.

In 2009, the average discretionary weekly income of UK house owners, i.e. social spending money after all essential living expenditure has been paid out, was £228.00, up from £205.00 a year ago (Source: Halifax 01/08/2009).

Obviously, any person who has to find all their essential living expenses from an amount less than half of this amount, and that it also constitutes their total weekly income, they will have very little remaining for the social spending money necessary to purchase life's so-called 'luxuries'.

The world has advanced considerably since 1931 and poverty cannot be measured by the criteria that if you have a pair of shoes on your feet you are not poor!

Poverty, and especially the poverty of individuals, can only be measured against the mass of wealth in our society though the world beyond is surely populated by billions of homeless or poorly housed, starving 'wretches' compared to the opulence of a mere thousands of billionaires.

In 1971, playwright John McGrath established a theatre company that he simply named 7:84. The title was derived from a fact recalled from an edition of 'The Economist' in 1966 that identified that 7% of the population owned and controlled 84% of all wealth. Since the 1960s, however, there has been a dramatic shift not only in the method by which personal wealth is accumulated and measured but also in the nature of what constitutes wealth.

From the 1990s 'The Sunday Times' has produced its 'Rich List' naming the richest 1000 individuals resident in the UK with an estimate of their wealth. In 2008, these multi-millionaires were worth a staggering £413 billion, a total just less than a third of UK GDP for that year. It has been subsequently estimated that the so-called 'credit crunch' wiped out over a third of the value of their invested wealth and, despite Camelot's best endeavours, it has also more than halved the number of British millionaires - down from 489,000 in 2007 to 242,000 today thus concentrating opulence further (Centre for Economics and Business Research Ltd. quoted by Hiscox UK, Wealth Review 2009).

The 'Rich List' ranking is based on their business holdings, investments, properties and art treasures as well as their bank balances but an estimate or, rather, underestimate of individual total wealth is all that can be achieved and placed in the public domain. The idle rich have long employed very creative accountants to shift and conceal wealth for tax avoidance and evasion (The TUC estimates that £25 billion of corporate tax is avoided in a total, annual tax evasion of over £70 billion).

However, the economic gains won by workers, the transformation of house 'ownership' and the development of a burgeoning, share-owning, middle class particularly over the last thirty years determines that there has been a shift in the ratios of wealth ownership.

For example, two thirds of homes in Britain are now owner occupied, a massive change on the situation that existed in the 1960s. Then the overwhelming majority of working class families resided in rented, local authority social housing as well as those provided by Scottish Homes in Scotland.

The situation changed with the Thatcher government's 'right to buy' scheme that effectively privatised the best British council housing stock and pitched an unwitting working class to the mercy of the market.

According to the Halifax, **UK house prices have risen by 91% over the last decade** alone taking the median house value to £150,000 after mortgage liabilities have been stripped out (Financial Times, 19/12/2009).

Thirty percent of households are outright owners of their property/properties, thirty eight percent have outstanding mortgage liabilities that average £70,000 per household whilst the remaining thirty two percent do not own their home. Even so, this means that for nearly 40% of households there is only a **notional** value of wealth contained within their occupied property and for another 30% of working class households none at all.

In 2008, according to a most recent disclosure by the quasi-governmental Office of National Statistics ('Wealth in Great Britain', ONS, 10/12/2009), the top 20% of the population owned 62% of total household wealth (the total being estimated at £9 trillion!). Obviously, the remaining 80% appear to be wealthier than they are because significant proportions are classified as homeowners.

This despite the fact that many of them may be struggling to meet their monthly mortgage payments from a minimal wage whilst also attempting to service other acquired debt.

In addition to mortgages, nearly half of households exist with a persistent, credit debt of which a quarter of the national total is owed on credit and charge cards. The average credit and charge card debt exposure in 2008 was £1,500 per household supplemented by a further averaged £1,200 of unsecured debt. The largest group of those in debt are young women between twenty five and thirty five years of age who demonstrate an average individual total debt of £30,000! (Woman's Hour, BBC Radio 4, 21/12/2009)

Elsewhere in their surveys, the ONS defines the top 10% economic group as those people with a personal,

earned income of over £45,000 per annum. This base figure would, by present day standards include many higher paid, skilled members of the working class such as engineers, technicians, train drivers etc.

By coincidence and given the previously quoted, median house valuation of £150,000, the total of these two figures -i.e. house value plus this lowest assessed top earners annual income - roughly equates to the ONS's calculated median household wealth estimate of £204,500 which, given the levels of existing personal, secured and unsecured debt, appears extremely arbitrary.

But there are also many more dual income households nowadays as women make up 43% of the British workforce. Hiscox UK, a firm of specialist insurers for high earners, has published its own report on Britain's wealthy entitled 'Wealth Review 2009'. Based on different ONS tax research, they found that the top 10% of **households** (2.5 million) enjoy an average income of £93,000. G.P.s alone earn an average of £106,072 p.a. whilst FTSE top executives receive **£767,500 rising to an average of £3.5 million per annum if their 'incentives' are added.**

Incredibly, ninety five percent of this top percentage of households did not regard themselves as rich. They argue that it requires an income of £152,000 p.a. to be mortgage free, own more than one property and drive a luxury car. They only feel they are rich when all these needs are met and they have a disposable income of £400 per week for life's little luxuries.

Thus the ONS's 10% of earners is drawn with a very broad brush but, interestingly, they also calculate that the bottom 50% owned only 9% of all wealth and **the bottom 20% received only 2.3% of all earned income - 6.8% state benefits are included.**

If John McGrath was setting up a theatre company in Britain today he would perhaps have seen the title 50:9 as a more demonstrative expose of the Blair/Brown inequitable society.

Therefore, in the twenty first century and especially in an advanced country like Britain, poverty is not only endemic but also relative to an expected and established 'quality of life' and, therefore, by these criteria those on state benefits and low incomes are most obviously deprived.

The big question that remains, however, is why, currently, are things not as bad as the recession's depth suggests? Has capitalism been able to adjust and absorb the pain without it affecting Joe Public?

Despite the deliberate anti-capitalist tenor of this analysis it is a must that, if we are to maintain our credibility and the loyalty of readers, our work must always be welded to the truth. We must report the concrete facts as they are but, at the same time, strip the reporting of any purposeful, over-optimistic 'spin'. Thus the interpretation we provide is drawn from the reality of the situation and a potential direction for events at the time of writing.

Therefore, we have to state that, with equity prices booming (the FTSE index in December 2009 up 44% in value since the introduction of QE in March 2009), company profits holding up and house repossession low whilst prices

(according to the Nationwide building society) back where they were a year ago in October 2008, it is clear that, to date, the economy could have been a lot worse.

Surely, it can be said, both in the 1973 and 1979 recessions the impact on workers was far more severe than we have witnessed this time.

Unfortunately, however, these anomalies only highlight the changed structural nature of the British economy and a time lag of events.

### **From Here for an Eternity**

As we have previously explained the former 'workshop of the world' has been transformed. During the 1970s, the bulk of the working population was employed directly or indirectly in the manufacture of goods.

It is always the industrial structure that is the most sensitive to a fall-off of demand and the first sector of the economy to feel the impact of a recessionary development. As orders from retailers suddenly plunged, reflecting the so-called 'demand' side of the economy, manufacturers traditionally cut production, shut down capacity and laid off a large section of the workforce. Well, that was the traditional response but it has not happened to the same extent this time.... so far!

The British world of work has undergone something of a dramatic metamorphosis since the industrial battles, the privatisations and the financial 'Big Bang' of Thatcher's 1980s.

As explained, our economy now has acquired a 'rentier' appearance with a larger emphasis on financial and service sector 'industries' and a comparative decline in extractive and manufacturing output (see WH, 2008). Workers are now more likely to be employed in a call centre or restaurant than a factory or pit. We still have oil and petrochemical industries, pharmaceuticals, iron and steel making, engineering and motor vehicle manufacturing but all at only a fraction of their former importance and size. Today these industries are also less labour intensive, instead employing much more technology and robotics operated by trained and highly skilled technicians.

The first deep collapse of manufacturing output since 1945 occurred in 1973-1974 recession. It recovered only to collapse again in two subsequent recessions, the deepest being the 1979-1981 slump with a fall in GDP of 6%, marginally less than at present. Despite the decimation of manufacturing industry during the Thatcher years, however, by 1997 manufacturing output was 8% above its 1974 low.

When Gordon Brown first stretched his legs at the Treasury in 1997 he proclaimed,

**"It is essential that consumer spending is underpinned by investment and industrial growth". Furthermore, he concluded, "Britain cannot afford a recurrence of the all too familiar pattern of previous recoveries: accelerating consumer spending and borrowing side by side with skills shortages, capacity constraints, increased imports and rising inflation."** (First Budget speech, July 1997).

**Industrial output in autumn 2009 is 2.7% below the 1974 low but November's output 8% below that of September!**

Furthermore, the fact that many FTSE (Financial Times Stock Exchange often referred to as 'Footsie') listed companies have been able to register healthy, third quarter 2009 profits is estimated to be due less to market performance than to cost cutting and accounting methods. Particularly, this has been achieved by raising capital through rights' issuance and new issues (printing new company shares for sale thus, indirectly, absorbing QE funds), borrowing on bond markets (\$900 billion borrowed in the euro and dollar markets by investment grade companies this year according to Thomson Reuters), de-stocking, wage restraint, capacity closure and redundancies (e.g. Corus on Teesside).

Despite forecasts to the contrary, therefore, it is important to note that it has again been the industrial sector and regions (apart from Scotland and the East Midlands) that have lost the larger proportion of jobs by sector to date. The significant change this time is that it is the West Midlands with the highest unemployment rate (10%), and that London now registers the third highest regional jobless figure (9%). The total number of those unemployed to date is 2.46 million and the trend is increasing (Source: ONS, 11/11/2009).

Because the slump originated in the financial sector it was thought that it would have been in the banks, financial houses, insurance companies and in the City where the largest proportion of jobs by sector would have vanished. Probably, due to the bailouts and QE this has not happened. Whilst the retail wing of the banks have shed staff, the 'new' money has enabled the commercial and investment bankers and the city traders to resume their previous speculative activity and thereby the financial industry, generally, has been able to maintain a higher level of employment.

The one sector that has taken a noticeable hit is retailing. Every 'High Street' has a plethora of empty shops with no indication that provincial town centres will ever recover. During the last twelve months over twelve thousand independent traders became insolvent, the most prominent being 'Woolworth' whilst the major chains have closed down over seven thousand branches (Local Data Company, 31/07/2009).

Many retailers have survived the year through discounting, even the mighty Tesco had to issue its January customer voucher scheme in mid-December; so fearful was it of trading conditions.

According to Deloitte, December provides 12% of total annual retail sales yet in November sales were down on October's figures despite a 3.1% rise on the same time in 2008. The figures do not bode well for pre-Xmas sales and all that has resulted over the year is that profits have become concentrated into fewer companies, based on out of town retail parks and partly with on-line traders. It is estimated that 4.3 million shoppers went on-line to spend £120 million with internet traders on Christmas Day! (Interactive Media in Reetail Group reported in The Independent, 26/12/2009) Furthermore, because retailers have de-stocked most savagely it is difficult to see a great deal to entice shoppers into the stores or, if this is first step is achieved, then part with their money in the traditional 'New Year Sales' in 2010 - which got underway on Boxing Day in an attempt to avoid the reintroduction of the 2.5% VAT cut.

Overall, however, unemployment figures could have been a lot worse than they are currently and there are significant reasons for this anomaly.

Firstly, though, we have to state that our cause is not to cheer lead an economic depression and the wholesale closure of workplaces with obvious loss of employment.

Anti-capitalists such as ourselves are not opposed to local, small scale enterprise and businesses which, if supported and carefully monitored, provide obvious, much needed employment and tend to be the most innovative producers of the goods that society needs e.g. green technology, health aids, etc., etc.

Within a genuine equitable society small business owners would recognise and benefit from the more even distribution of resources and wealth.

Rather, we stand for the takeover and subsequent control and management of the major stakeholders - those large-scale producers, banks, insurance and finance houses and giant retailers - within the economy by the establishment of **democratic** management structures and ownership replacing the current directors' boards and shareholders.

With this form of oversight the profits generated would be directed to benefit the majority in society rather than a minority of privileged stakeholders.

The banking fiasco that we have all witnessed, and as previously explained we will all pay dearly for, is a clear expression of the madness and rapacious greed of capitalists and their system.

Many small scale manufacturing employers, those employing less than one to two hundred workers or so, have used some genuine methods in an attempt to ameliorate the impact of the slump on their businesses and workforces. The previous period has been one of competitive survival for many of these producers in the established capitalist countries. Some small workshops have been forced to work on the borderlines of profitable existence due to competition from imported goods and outsourced production. The response has been to employ methods such as wage cuts and restraint, cuts of overtime and to normal hours, extended holiday breaks - all in an attempt to overcome closure and unemployment. Even in the boom, margins for these manufacturers were critical.

But the major multinational manufacturers have also introduced these methods and, it has to be said, with the connivance of right wing trade union leaders and local representatives.

The threat of closure and redundancy has been used as a means to drive down wage costs and conditions from which they are unlikely recover despite the holding up of company profits and dividends. One former employee of Corus on Teesside, an overhead crane driver, encapsulated this end result when he said, "I get £10 an hour, which isn't great but we'll have a £6-an-hour economy after this. People won't get out of bed for that now but you wait, there'll be thousands fighting for it soon." (The Guardian, 19/12/2009)

Earlier in the year the car manufactures shut down capacity only to rake in profit from the numerous 'car scrappage schemes' that were introduced across Europe and the US. By November 2009, 15.7% more cars had been produced than a year earlier and new car sales, down 30.5% in March, were up 57.6%. The downside of this figure is that of the 112,948 vehicles produced in November 78% were exported thus demonstrating the limit of the domestic market. All this export growth, however, has been on the back of a devalued pound (25% off the 2007 peak) and devalued workers who suffered loss of real wages, loss of wage growth, cuts in hours and conditions to achieve this end of year bonanza for employers and shareholders.

A desperate skill shortage also exists due to a persistent and ongoing lack of sufficient training investment.

The Engineering and Technology Board estimates that, for the UK economy to develop, a further 587,000 engineers will need to be trained over the next seven years. The current output is 40,000 a year though many of these are classified by the board as poorly skilled.

Thus, the engineering industry's bosses have shown a reluctance to lay-off, and thereby lose, the highly skilled personnel who provide the foundations of their profit. There is a fear that these workers could be lost to a competitor once the economy picks up.

During the last few years the British economy has relied upon immigrant workers to fill large sections of the low paid, low skilled work sector. Many of these jobs were the first to go in the recession but the holders of these positions have returned to their countries of origin in Eastern Europe and, therefore, do not appear on the official unemployment figures. By the peak of the influx in 2008 over three quarters of a million east Europeans were registered as working in Britain but throughout 2008 there was a steady increase in the numbers returning home and this has accelerated through 2009.

There has also been a significant move into part-time employment. In the three months to September 2009 the number of full-time jobs fell by 80,000 but this was compensated for by a rise in part-time employment of 86,000 people.

Part-time work now occupies 7.7 million people in the UK, an increase of 40% in twelve months. 997,000 of these workers said that they have taken part-time positions because they could not find full-time employment (Source: ONS).

During the 1980s, youth unemployment became endemic in Britain. The Thatcher government introduced one worthless youth training scheme after another in an attempt to massage the unemployment figures whilst, at the same time, cutting back on genuine training costs and apprenticeships.

Many more of our young people now extend their education beyond the legal school leaving age of sixteen years. There has been a flourishing of further and higher education during the New Labour years. We should not forget Blair's mantra in the early days of government, "Education, education, education!"; he even went as far as Russia to lecture the Kremlin on his vision.

Twelve years later and it could be argued that some of the expansion that has taken place has been a cosmetic exercise designed, once again, to massage the figures of stubborn youth unemployment and one which has been largely paid for by the educational participants themselves, the students, through higher course fees and student loans.

(Note 1: the number of students in higher education in 1995 was 1.5 million, today over 2.3 million are enrolled. Note 2: Under New Labour free access to higher education came to an end. The average graduate from England currently completes their university life with a debt of £15,750! It is calculated that students starting their three year course this autumn will incur an average debt of £23,000 by their graduation in 2012.)

Former colleges of technology and polytechnics were 'rebranded' as universities in an attempt to engender an artificial 'equality of outcomes' and an individual participant's pride of achievement.

This in turn facilitated access to the university campuses of private business in what can best be described as a part industrialisation of the higher education system and a privatisation and commercial control of the service and its content.

The result has been the explosion of the graduate population yet, overall, the outcome and quality that has been achieved and demonstrated is dubious. There have been wide scale reports of falling standards of student comprehension and plagiarism, whilst many of these have been censured, covered up and censored.

Oxbridge and the traditional 'red brick' universities, despite 'manufactured' government protestations, are allowed to exercise a degree of selection and intellectual elitism whilst elsewhere standards remain variable.

It is as though New Labour set out to replicate the American system whereby the Ivy League universities educate and influence the future generations of the 'chosen' - not only those who are the spawn of the ruling class but also those selected as compliant future leaders in all fields of management and governance for the capitalist system - thus perpetuating the required 'rule by elite'.

By contrast, the US state universities provide an education intermediate between high school and this favoured caste but their first degrees are not generally accepted as adequate for professional employment thus necessitating the 'Masters' industry.

Meanwhile, UK literacy and numeric achievement has barely budged since 1997. Therefore, though one in five young adults are unemployed the figure would be much higher at any time given the numbers currently absorbed by the further and higher education systems.

Finally, many workers themselves, under the threat of losing their jobs and, with no demonstrative leadership but rather the betrayal of their own right-wing leaders, have complied with many employers' demands of cuts to both hours and earnings in a belief that this action would secure their own and their family's futures.

As stated, some of the measures that have been introduced in small workshops and factories have been desperate and honest appeals for survival but there are many of

those large enterprises that have taken advantage of the situation to maximise profit. It should not go amiss, therefore, that in large scale companies, whilst workers have demonstrated a great deal of loyalty to their employers, executive pay continued to balloon by around 10% on average in the twelve months to September 2009 - **more than three times that of the average staff increase.**

In fact, as explained earlier, the FTSE 100 companies' executives shared an income package of over £1 billion (The Guardian, Business, 14/09/2009). The Financial Times points out that boardroom pay has doubled over the last decade. Under the political and financial oversight of New Labour, directors and CEOs have been encouraged to enrich themselves to levels previously unknown. **Executives today receive an income eighty one times greater than the average of their total employee wage bill** - both the salaried and the waged, management and workers, skilled and unskilled (Financial Times, 28/11/2009).

One has only to recall the conditions of the early 1920s and the miners' defence of their working conditions. Their slogan then was, "Not an hour off the day, not a penny off the pay" and their determined struggle led to the 1926 General Strike - albeit that they were later betrayed by the right-wing majority of the TUC leaders.

It is our contention that in 2010, especially with the conditions that will unfold should there be a double dip to the recession, unemployment will deepen and workers will once again become increasingly militant in defence of their jobs and conditions. Even if this economic prediction proves wrong it won't be long into a recovery before workers will start to demand a restoration of pay and conditions. Either way the storm clouds are gathering.

This is the nightmare that politicians and bosses are dreading but it is the public sector where the biggest fuse for an explosion of conflict exists. Whatever the economic growth figure prevailing in 2010, it is clear that the incoming government, whether Tory, New Labour or coalition, will be set on a programme of cuts to service provision and on a collision course with service recipients and public sector workers.

The cost of underpinning the first year of this downturn has already come at an enormous future cost to the taxpayer. Combined with this the government's borrowing requirement has ballooned.

But the taxpayer has yet to feel the real squeeze as we approach a General Election in the UK. In its wake, however, Britain will enter an age of austerity, unprecedented in the post-World War II period.

With industries in recession, profits squeezed, incomes reduced and sales depressed it is obvious that the normal sources of state revenue are not going to provide sufficient income to support and maintain spending on government and local government services at levels necessary to address needs and at the same time meet debt repayment requirements.

Every individual will suffer to one degree or another but the real victims of this economic catastrophe are likely to be those in the most need, the poor, the disabled, the sick and the burgeoning numbers of the elderly in care. Only the police and the armed forces are those most likely to escape

real pain in payment for the 'services' they will be required to render.

Even before 2007, the gap between incomes of the rich and the poor was widening. The latest Joseph Rowntree Foundation/New Policy Institute report (03/12/2009) highlights a growing inequality as early as 2004. They identify that, even before the peak of the boom, **earned** income poverty, debt and unemployment (particularly youth unemployment) were becoming more entrenched at the same time as company profits, housing gains, equity values and the accumulation of the rich were increasing.

**The simple deduction is that we have endured a wealth transfusion from the poor to the rich enabled by a government that still purports to be the representative of 'labour'.**

Most significant is the number of households with at least one adult in employment but surviving on less than 40% of average earnings. The numbers grew steadily from the mid-1990s and, therefore, throughout both the Blair and Brown administrations.

**Waged poverty is now higher than at any point in the last twenty-five years!**

**The number of children trapped in the employed income poverty of their parent(s) is 2.1 million, the highest it has ever been. When this figure is added to the total of those children whose parent(s) are unemployed or incapacitated and dependent on state benefit income we find that 4 million children are growing up in deprived conditions!**

The burden on national and local government services that such poverty engenders will only multiply as unemployment continues to grow through 2010. It is not just the direct loss of National Insurance, Income Tax and Council Tax revenues that makes service payment more difficult. The newly unemployed are likely to spend less thus reducing VAT receipts and other indirect tax gains such as fuel revenues.

In addition job seekers allowance and allied income support levels mushroom, unemployment and the incumbent new poverty places extra burden on health provision, housing, social services etc.

Thus at one end of the system there is a drying up of inputs whilst, at the other, service provision costs rise and the 'Micawber Principle' is established. (In Charles Dickens' novel 'David Copperfield', the character Wilkins Micawber declares, "Annual income twenty pounds, annual expenditure nineteen pounds nineteen shillings and sixpence, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and sixpence, result misery.")

The miserable result to date has been an explosion of government debt, an estimated year end borrowing requirement of £178 billion, and to correct the deficit will cost every family an average of £2,400 per year as cuts and tax increases are introduced over coming months and years.

The UK fiscal deficit stands at 11.6% of Gross Domestic Product (GDP - £1,500 billion in 2008) whilst the budget deficit is projected to increase from what was a manageable 2.6% of national income in 2007, to 13.2% in 2010. Gross

debt is set to double from 44% of national income to 98% by 2014. The credit agency Moody has declared that Britain and the US will "test" the lower limits of their current 'AAA' rating. A fall to a 'AA' rating means that a country's credit worthiness becomes suspect and borrowing becomes more expensive.

Britain's problem is that if it is to maintain existing spending it would require an ever-inflating debt yet, at the same time, it is obvious that the demands for its services are set to multiply. This is the 'circle that cannot be squared' and capitalism knows only one solution, austerity. In other words, swingeing cuts to services and reductions in the numbers, wages and conditions of the people who provide them. An 'independent' think tank, Reform, is stating that if the structural deficit is to be eliminated then 15% of the public sector's 'front line' workforce has to be made redundant, i.e. over a million jobs. They say that the NHS should bear the brunt of the job losses!

Despite the inadequacies of much of the trade union leaderships we previously identified (WH, 2008) the recent strike by Leeds City Council refuse workers provides a stark warning for the 2010 government which chooses to cut the pay, conditions or jobs of service providers and indicates the potential for a generalised public sector workers' strike.

Thus, for the new UK government of 2010 there will be the choice of conflict with its people through a direct cut of expenditure or conflict with the wealthy through increased taxation.

One thing is for sure; given the analysis that we are presenting for the UK there can be no self-generated economic growth. Britain is like a rudderless ship tossed about on the ocean and defenceless against the vagaries and turmoil of external events.

We are presenting a perspective for Britain in 2010 that, given the existing weakness and the intended withdrawal of government intervention, will be one of renewed economic contraction or, at best, stagnation.

Without QE funds it is most likely that the stock market gains that have been achieved throughout the year will be reversed. At any rate, given the parlous state of manufacturing and future cuts in public expenditure a combination of results are likely to cause a serious correction of this extended "suckers' rally".

As in the case of other world stock markets, the long-term trend of stocks' value will resume its downward path. The FTSE 100 lost 22% of value over the last decade whilst, by comparison, gold has gained 400% in value (more on this phenomena in our world view).

In the housing market there has been a gradual fall back of first time homebuyers, the drivers of the former extended housing boom. In November 2009 first time buyers purchased only 19% of houses sold down from 45% six months earlier. Most house purchases are by people at the top end of the market, those downsizing upon retirement and those forced to relocate due to employment changes. Investment in housing was down 24% over the year with no sign of recovery. Worse still is the collapse of worldwide commercial property values (again more later)

According to the Bank of England bank lending to businesses continued to contract in the last quarter of 2009,

down by a further £4.8 billion in October reflecting the lack of business investment.

It is investment that is the indicator of an optimistic capitalist class. They restart their interest in capacity growth, restocking, re-employment and new technology when they consider that the bottom of a recession has been reached and growth is likely to take off, i.e. recovery, yet, in Britain, investment has continued to shrink by 19% through 2009.

For the first time since July 2009 a majority of business leaders (53%) detected no green shoots of recovery according to a ComRes survey conducted for The Independent newspaper in early December (17/12/2009).

With the potentials which will arise from new unemployment generated from public sector spending cuts, the return of a 17.5% VAT rate, the reestablishment of stamp duty on house sales, the fragility of the pound and with it Britain's credit rating, the withdrawal of QE and the danger of an enforced interest rate hike we have to say that, in our opinion, **the outlook for 2010 is bleak.**

**Therefore, we announce that, combined with these historically ephemeral features, it is the persistence of the persistent, toxic, poison of debt combined with the intransigent limitations imposed on the income of the working masses - i.e. the consumers who buy back the goods they produce and who are the market of first and last resort, the procreators of economic growth - that underpins this analysis as much as it did our original perspective.**

In most of the advanced capitalist countries the picture is virtually the same. Corporate debt, sovereign debt, the remaining identified and the undeclared toxic debt as well as the ever-burdensome personal debt threaten the livelihood and survival of billions of ordinary people. To this mix we must add the latest speculative gestures of the financiers who, on a global scale have created new stock market, property (China) and commodity price bubbles waiting to explode. **Debt is the labyrinthine misery from which capitalism cannot escape.**

The world is a far more dangerous place now that this economic uncertainty has spilled into the realm of the endemic political instability resulting from the collapse of Stalinism and the death agony of American imperialism.

These conflicts underline the relationships between the different sectors and individual nations of the world.

Previously we have explained the tenuous nature of global relations (see: The World Economy - An introduction to a Dogfight). It is with this background that world economic relations are set to develop.

**Part 2 of this new analysis, "The World - An Economic Bear Pit" will follow shortly.**

## Quantitative Easing – British Style

The simplest definition QE that we can offer is that it represents direct government intervention into the economy in an attempt to induce change.

Because - and particularly so in this recession- 'demand' suddenly grinds to a halt, the government is attempting to jump-start and then lubricate this side of the economy - the 'Easing' - with a 'supply' of manufactured liquidity - the 'Quantity'.

Before this technical age this would have meant printing more sterling denomination and swilling this into the system, through ordinary people's wallets and purses, so that spending would start with sufficient volume to stimulate new orders of manufactured 'things' - i.e. goods and services. (As an aside there are many economists who believe this should have been the approach this time. So far it would have meant about £3,300 for every man, woman and child to spend on whatever they like.)

The difficulty with this cash approach is that there is no guarantee that individuals will go out and spend the largesse they have been afforded in the way in which the government would like. For example, they may just decide to stuff it under their mattresses for a future, rainier day than this one or, they may put in the bank or speculate on the stock exchange or, equally as risky, the next runner at Kempton Park. Even spending it on goods and services might not benefit the domestic economy. Many manufactured 'things' are now imported and thus the action of purchasing a particular range of goods only serves to stimulate some other nation's economy rather than our own (again, it is estimated that this has been the impact of much of the car 'scrappage' scheme). Then there is the big question of inflation. It is a 'proven' that when too much money chases too

few 'things' in an economy the result is a rise in prices and once underway inflation is very difficult to control - think Zimbabwe!

So instead the government has created billions more of the now predominant 'electronic' money upon which we all depend. (Your bank account, whether it be in credit or debit, is nothing more than a series of numbers on a statement, the real money doesn't exist, its ethereal. All that there is a representation of its value and of what you are worth)

But this new money has not been pushed directly into the real economy, instead it has been distributed to the banks, financial houses and other bodies in return for their previously acquired government securities, or 'gilts' (these are forms of government stocks which are traded like other equities). The money exchanged is then placed in the general retail banking sector in the hope that it will be borrowed by businesses and even home-buyers in order to create and stimulate demand in the broader economy.

To date it has not "worked like that" to copy a phrase from a pre-crash banking advertisement. Instead it appears that much of the money has moved from the banks either into speculation on the stock, bond and currency markets or into the accounts of large banks and companies where it has been used to pay off debt and rebuild their own capital through new equity sales. At some stage it will find its way into the broad economy, many months or years from now when, in our opinion, it will create an explosion of inflation.