Britain: Top economists demand austerity measures

Paul Mitchell
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Twenty top economists have demanded the introduction of austerity measures immediately after the general election due by June. With the UK economy holding the largest budget deficit in peacetime history and among the largest in the developed world, they argue that the next government will have to carry out huge spending cuts very rapidly.

In order to be "credible" with the financial markets, they state, "the government's goal should be to eliminate the structural current budget deficit over the course of a parliament, and there is a compelling case, all else being equal, for the first measures beginning to take effect in the 2010-11 fiscal year."

This can only mean a huge attack on the living standards of the working class.

The economists, who made their demands in a letter published in last weekend's *Sunday Times*, are mainly UK-based, including six academics from the London School of Economics (LSE) led by its director Sir Howard Davies. Other signatories were Harvard economics professor and former IMF chief economist Ken Rogoff and Stanford economics professor Thomas Sargent.

LSE economics professor Tim Besley, who organised the letter, said it proved that that there was a "significant consensus" among economists on what to do about Britain's record deficit. "I don't want this to be seen as us siding with anyone," he claimed. "But it does suggest that the Conservatives are where majority opinion lies." Besley says the current Labour government lacks a "credible" plan to reduce Britain's budget deficit.

Conservative shadow chancellor George Osborne leapt on the letter's publication declaring, "This is a decisive moment in the economic debate in Britain—a moment when Gordon Brown's argument on the deficit has collapsed and a new consensus for more decisive action emerges."

Shadow business secretary Kenneth Clarke added, "The level of cuts we are contemplating will probably exceed those of any modern government...We are going to have to be much tougher on public spending than [former Tory Prime Minister] Margaret Thatcher ever was."

The Tories have staked their bid for office on trying to prove they are more determined to make the type of attacks demanded by the bourgeoisie.

Chancellor Alistair Darling criticised the *Sunday Times* letter. However, the only difference between the two parties is that Labour is more hesitant about making savage cuts too quickly in case they cause the country to go back even deeper into recession. At all costs Labour is concerned that what is being prepared should be spoken about as little as possible until after the election.

Darling tried to reassure his critics that, "We have a credible plan to cut the deficit at a sensible pace... It is the most ambitious deficit reduction plan of any G-7 country". He added that halving the nearly £200 billion deficit within four years was "non-negotiable" and that more details of his plan will be revealed in next month's budget.

With the Liberal Democrats ditching almost all of their spending commitments, there is unanimity between all three major parties that the massive cost of the bailout of the global banking system must be recouped from the wages, living standards and social benefits of working people.

On Friday, the *Financial Times* published two letters from more than 60 other leading economists rejecting the claims made by the signatories to the *Sunday Times* letter that their view had wide support. Signatories include Nobel laureates Joseph Stiglitz and Robert Solow, five former members of the Bank of England's monetary policy committee, and Alan Blinder, former vice-chairman of the US Federal Reserve.

But again, the emphasis of the *FT* letters was that the danger of too "reckless" early spending cuts was that it

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could undermine a fragile recovery. One letter, organized by Lord Skidelsky, a biographer of economist JM Keynes, asked how "foreign creditors will react if implementing fierce spending cuts tips the economy back into recession".

The exchange of letters came as official figures showed that the government had borrowed an additional £4.3 billion in January, the highest amount on record, leading some to forecast that the UK deficit as a percentage of GDP could overtake the 12.7 percent recorded by Greece. There are fears that the financial institutions and money markets may turn their gaze from Athens to London.

The Institute for Fiscal Studies noted recently that "the UK has suffered the largest shortfall in activity relative to its pre-crisis trend of any G7 economy, and has been the slowest of the G20 economies to emerge from recession." Over £1 trillion of public monies has been handed over by the Brown government in various fiscal stimulus packages—including cash injections into banks and state underwriting of their debts. This is equivalent to almost 75 percent of national income.

Last week Bank of England (BoE) governor Mervyn King introducing the bank's quarterly inflation report tried to dismiss comparisons between Britain and Greece but was forced to admit that the economy is still "bumping along the bottom".

"Output has fallen by 6 percent since the crisis began: that's a massive fall, and 0.1 percent or 0.2 percent [the growth rate in the last quarter of 2009] is not going to make a massive difference to that picture; it's going to take a long time for that to be earned back," King explained. The gloom was compounded by the BoE reducing the estimated level of output in 2012 by 1.2 per cent more than it thought in November.

The governor added that there were "formidable headwinds" battering the banking sector and that the BoE's decision to end its £200 billion quantitative easing programme may have to be reversed. Quantitative easing, which is the process whereby the BoE essentially prints money by buying up banks' assets in the form of bonds, has flooded financial markets with cash and allowed the financial oligarchy to artificially boost the value of its assets.

The BoE reported that inflation has been much higher than expected over the past year, causing some analysts to predict that interest rates will soon start to rise.

King also attempted to reassure the financial markets that Britain's AAA credit rating is not about to be revised because of its huge indebtedness. Any downgrading of Britain's debt status would lead to a massive hike in interest rates, currently at a post-war low of 0.5 percent, to stem the flight out of sterling. This would in turn push up debt service costs for government, households and businesses, and lead to a further round of public expenditure cuts and mass unemployment.

The BoE has also pointed to the unprecedented 25 percent fall in the value of sterling since the start of the global crisis. According to Simon Hayes, of Barclays Capital, "In 2008-09, sterling registered an even larger depreciation against the dollar than its 1967 devaluation, the 1976 IMF crisis and its 1992 exit from the European Exchange Rate Mechanism. In trade-weighted terms, the decline was the biggest since figures were first calculated in the early 1980s."

Historically, devaluations have been used to stimulate exports, which are supposed to become cheaper and more competitive. But this has failed to happen, with the BoE reporting that UK exports have fallen sharply during the recession and companies have instead raised prices. There is a real fear that the prolonged weakness of sterling could turn into a currency crisis.

None of the underlying economic problems for working people have been solved by the massive injections of cash into the financial system.

Unemployment has risen sharply—it could reach three million people or nearly 10 percent of the population this year—and amongst young people it is 20 percent. Huge numbers of those in work have seen their wages and/or hours cut. Personal insolvencies and bankruptcies have risen to historic highs and millions have been driven to rely on illegal sources of credit to survive. Income inequality has reached its highest point since the end of the Second World War.

A massive diversion of public funds has already been carried out to protect the wealth of the financial elite. Now, the top economists are throwing their weight behind demands for a fundamental restructuring of British capitalism through the impoverishment of the working class.

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