The political economy of endless austerity

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The report of Britain's Office of Budget Responsibility (OBR), published earlier this month on the eve of Chancellor George Osborne's latest budget, casts a revealing light on the economic driving forces behind the Cameron government's austerity agenda and the support for this program by the Jeremy Corbyn-led Labour Party.

It helps to make clear why, some eight years after the eruption of the global financial crisis in 2008, the attacks on the working class in Britain and internationally are continuing, and why they will deepen in the future, notwithstanding any economic growth.

Productivity, which measures the level of output per worker, the report stated, has consistently failed to increase, amid predictions that it would turn around. There had been hopeful signs in 2015, but this "appears to have been another false dawn," according to OBR Chairman Robert Chote.

"With the period of weak productivity growth post-crisis continuing to lengthen," the report noted, "we have placed more weight on that as a reliable guide to future prospects." The implications of that assessment were spelled out by Chote. "Economic developments have disappointed relative to expectations and the outlook for the economy and public finance looks materially weaker," he said.

This means that with the economy continuing to stagnate—the OBR estimates the British economy will expand at the rate of 2.1 percent this year, compared to a rate of 2.75 percent before the economic crisis—public spending on health, pensions and social services will be further cut on the grounds that the resources are simply not available.

The implications for wages are no less significant. According to one estimate, average wages will not return to their previous peak reached at least until 2020-21, that is, some 12 years after the financial crisis.

Chote said the overall situation was characterised by "economic growth losing momentum through 2015, despite the boost from lower oil prices."

In a comment on the OBR assessment, *Financial Times* columnist Martin Wolf said the outlook for productivity was the "most important economic uncertainty affecting the economic prospects of the British people."

Drawing out the long-term trends, he continued: "In its latest forecast, the OBR expects UK productivity levels to be 6.2 percent lower in 2020 than it had hoped in June 2010 and 2.5 percent lower than it had hoped in March 2014. But the biggest downgrades of all are relative to the pre-crisis optimism: the OBR's latest forecast for potential output is 15 percent below the Treasury's March 2008 forecast. Similar downgrades have occurred to the official US forecasts."

And it is not just in the US. The trends outlined in the OBR assessment of the British economy apply across the board—in Europe, Japan and countries such as Australia. They are also present in China, where a consistent feature of recent economic development has been that investment and infrastructure spending is not bringing the overall boost to the economy that it once did.

In making an assessment of these trends and their economic and political implications, it is necessary to puncture the mystifications in which the workings of the capitalist economy are shrouded.

The basis of these mystifications is that economic trends are not the product of a definite social and economic order—private ownership of the means of production and finance and production for private profit—but are the consequence of "natural" economic developments. Hence the position is advanced by government leaders, supported by a myriad of economic pundits, analysts and commentators, that lower productivity necessarily means public spending on social services must be slashed because there are simply no resources to sustain it. Belts must be tightened even further, pensions and allowances further reduced and education cut because there is no money available.

Of course, these assertions are immediately contradicted by the fact that billions of dollars are made available for spending on the military and the provision of seemingly unlimited supplies of cash from the central banks to prop up the activities of the very banks and finance houses whose profit-seeking speculation gave rise to the crisis in the first place.

But this is only the beginning of the story, not the end. While it is implemented by governments, central banks and financial authorities, the political economy of endless austerity is rooted in the very foundations of the capitalist economy itself.

The capitalist mode of production is not some "natural" economic order—mankind did not descend from the trees onto the plains of Africa and divide into wage workers, factory owners and bankers. It is a historically developed socioeconomic order based on the private ownership of the means of production and the drive for the accumulation of profit, the key measure of which is the rate of profit. That rate is determined by the relationship of the total mass of profits to the total capital outlaid to secure it.

Taking a broad view of the capitalist economy as a whole, rather than considering individual firms, the rate of profit is conditioned by two factors. First, it is determined by the division of national income as a whole—between profits on the one hand, and wages and payments on social services, which represent a deduction from the wealth that would otherwise be available to the owners of capital, on the other.

The second key factor is the relationship between the capital laid out on new plants and equipment and the national income that this generates as a result of the increase in the productive forces. An increase in productivity signifies that a given amount of investment generates a greater amount of output per worker, thereby increasing national income.

However, such investment is determined not by social need, but by the drive for profit. If profit rates are trending down, then new investment will be cut back, and productivity—measured by the output per worker—will tend to decrease and the economy will stagnate or contract.

This has been the consistent trend in all the major economies since 2008, with the result that in Europe, for example, investment rates are as much as 25 percent below their pre-crisis trend. Consequently, productivity rates have been trending ever further downwards, with the result that investment is reduced still further. A vicious circle has set in. Lower profit rates lead to cuts in investment, lowering productivity increases and reducing the rate of profit still further.

As a result, corporations, instead of reinvesting the profits they accumulate, use their available cash for speculative activities in financial markets, drawing on the ultra-cheap money provided by central banks for mergers and acquisitions, share buybacks and investment in the property market. While such parasitism boosts the bottom line of the individual firm, it leads to further stagnation in the real economy as a whole.

Herein lies the reason for the relentless drive to austerity. Under conditions where the very operation of the profit system leads to cuts in investment, and the real economy stagnates or even contracts, capitalist governments insist that "there is no money" for social services. "The country must learn to live within its means" is their endless mantra.

But once the mystifications are torn way, the real processes are revealed. The rate of profit, as we noted earlier, is determined by two factors: the increase in national income generated by investment and the division of that income between the owners of capital and the producers of that wealth, the working class.

Under conditions where investment is being slashed, and consequently the growth of productivity, and therefore national income, tends to decline, profit rates can be sustained and increased only by boosting the proportion of national income flowing to the corporations and finance houses—a result that is achieved through the imposition of ever-increasing impoverishment on the mass of the working population.

This endless austerity is not a "natural" development. It is the result of the relentless logic of the profit system that, by its very functioning, produces fabulous wealth at one pole and poverty and misery at the other.

It cannot be broken through appeals for "reform," for it is rooted in the very foundations of the capitalist economy, but only by "the expropriation of the expropriators," as Marx insisted—that is, the ending of the private ownership of the means of production and finance, the institution of public ownership under democratic control and the establishment of a planned socialist economy based on human need.

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