Cutting our way to defeat?
There is an alternative

THE CREDIT CRUNCH was never a crisis of the public sector: it was about failure of private markets and an excess of private debt. Growth fuelled by high-risk financial services and a speculative property bubble was simply unsustainable, generating a layer of bonus-fattened super-rich while burying ordinary people under a mountain of unaffordable borrowing. This deregulated agenda was the Tories' 1980s brainchild – so no wonder that shifting the blame to a crisis in public finances is a key objective of Tory strategists. By talking up the prospect of cuts, Ministers have played straight into the Tories' hands.

<u>New Labour – old mistakes</u>

We've been here before. In the late 70s the Callaghan Government, under IMF pressure, embarked on a programme of cuts against the Party's wishes. The result was Thatcher's 1979 victory. Labour voters had lost faith in their Party. Last week's ICM poll shows the same mood today: 36% trust the Tories on public spending but only 14% trust Labour. Nick Clegg's talk of "savage" cuts should have been a gift to Labour in the many constituencies where we face a Lib Dem challenge. But Ministers' rhetoric about public finances has seriously hampered the fightback.

<u>It's the economics...</u>

Talk of reducing public spending isn't just bad politics, it's bad economics too. The point is that we don't <u>need</u> to cut public spending. On the contrary, in a recession and as we move into recovery, it's essential to maintain investment, jobs and services.

> ***"It is abundantly clear that paying to keep people in work pays – especially and even particularly if what they do has long term benefit that saves cost into the future"***
> **– Richard Murphy, Tax Research**

The British economy's reluctance to emerge from recession compared to other G20 countries has much to do with their pumping far larger amounts of public cash into their real economies rather than simply bailing out their failed banks. In Germany, Denmark, the US and elsewhere, the fiscal stimulus was up to 2% of GDP compared with just 1% in the UK. Not surprisingly, those economies have fared much better over the crisis than the UK. Here, manufacturing output has fallen more than 10% in the last year, and unemployment has risen 38% compared with a G20 average of 29%. As a result tax revenues have fallen sharply while the cost of redundancy and benefits has added strain on the public purse.

> ***"Economically and morally, it is wrong for public sector workers to pick up the tab for a crisis they did not create"*** **– Graham Turner, author of *The Credit Crunch* and *No Way to Run an Economy***

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Nor is the slashing public sector jobs, pay and pensions the answer. These are already some of the lowest paid workers in the country. And as the TUC recently revealed, the cost of funding tax relief on private pensions – most of it claimed by those on the highest incomes – is more than twice the cost of providing public sector pensions. Meanwhile the fall in tax revenue has been exacerbated by Government's failure to get serious about corporate avoidance. Collapsed US investment bank Merrill Lynch revealed last year that nearly $30bn in sub-prime mortgage losses had been charged through its London operation. It would never have paid UK corporation tax even if it returned to pre-crisis profit levels.

In other words, the real question is <u>who</u> pays for the crisis: the poorest and most vulnerable, or the wealthy individuals and corporations who did so well out of the debt-fuelled boom? For Labour activists there can only be one answer.

<u>The alternative</u>

Conference needs to hear an alternative agenda to New Labour's talk of cuts. We <u>can</u> fund new investment and continuing improvements to services. The starting point is to take effective measures against tax avoidance and re-establish progressive tax rates.

> ***"So far the focus has been on cutting expenditure. There has been virtually no debate as to whether we should raise taxes instead"***
> **– John Grieve Smith, author of *There Is A Better Way, A New Economic Agenda For Labour***

But equally important is making proper use of public ownership. Government's acquisition of big stakes in Northern Rock, Bradford & Bingley, RBS and Lloyds TSB established the principle. There is now an overwhelming case for extending public ownership to key parts of the service and industrial sectors. In the short term that would save thousands of jobs, like those at Vestas. In the longer term it would earn revenue to repay public debt and fund services.

The late John Smith understood this last point when he opposed the Tories' sale of the Government's remaining BT shares, pointing out that with the shares went the <u>income</u> they generated. If the state had kept rather than sold a 49.8% holding in BT in 1993, it would now be receiving an annual profit share worth about £2.6bn. The accumulated annual profit share from BT alone between 1992 and 2007 would comfortably have exceeded the capital proceeds from the Major Government's <u>entire</u> privatisation programme (about £13bn).

The LRC and LEAP invite delegates and others to make sure these and other alternatives to New Labour's disastrous cuts agenda are brought to the floor of Conference and around the fringe. To join the debate, go to www.l-r-c.org.uk and http://leap-lrc.blogspot.com

LRC fringe meeting: *Not the Labour Party Conference*

Monday 28th September 7pm til late

Ballroom, Ramada Jarvis Hotel, Kings Road, Brighton

Speakers include: **Katy Clark MP, Jeremy Corbyn MP, John McDonnell MP, Mark Serwotka (PCS)**

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