



Austerity
isn't working

There is an
alternative...



Public and Commercial Services Union | pcs.org.uk

**“Politics is
about choices
– and there
is always a
choice and
always an
alternative”**

Contents

- 5** Foreword
- 7** Austerity isn't working
- 9** Why inequality has to be addressed
- 8** Society is too important to fail:
There is an alternative
- 14** Conclusion
- 16** What you can do



“The government has pledged to cut 730,000 public sector jobs by 2017 and to cut spending by £80bn. For millions, their jobs, pay and pensions are under threat, as are the local services they use”

Foreword

In September 2010, PCS published the pamphlet ‘There is an alternative: The case against cuts in public spending’. It argued that cuts to public spending would exacerbate the crisis, and outlined alternative ways to close the deficit through investment. We distributed more than 250,000 copies, and tens of thousands of people have read it online.

Since then we have been proved conclusively right – austerity has failed to create jobs or economic growth. As we predicted, the government has attacked jobs, pensions and pay, threatened privatisation and attacked and demonised those entitled to welfare. Yet all of this has worsened rather than improved the economy and people’s lives.

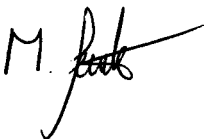
Unemployment is rising, living standards are falling, and in early 2012 official estimates confirmed what our communities have experienced: that the economy is back in recession.

You might wonder why, in the face of such overwhelming evidence of failure, government ministers have not changed course. It is because they want the public sector reduced and privatised, and wages driven down. This is exactly what David Cameron promised, when he said his government would “tear down” what he described as “big government bureaucracy”.

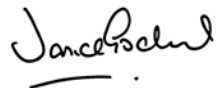
The government has pledged to cut 730,000 public sector jobs by 2017 and to cut spending by £80bn. For millions, their jobs, pay and pensions are under threat, as are the local services they use.

As a union we oppose these policies because of the harm they will cause to our members and because they would make Britain a more brutal place in which to live – with more poverty and inequality, more unemployment, and more misery.

There is an alternative. It’s based on prioritising most people’s need above a few people’s greed.



Mark Serwotka
General secretary



Janice Godrich
President



“Freezing public sector pay and higher unemployment means less disposable income to be spent in the private sector, with a knock-on effect on private sector jobs”

Austerity isn't working

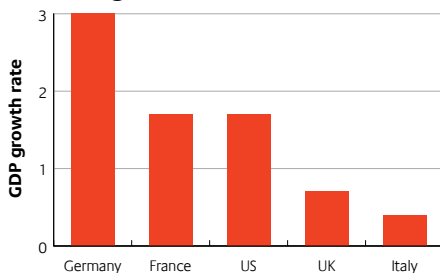
The coalition government argued that Britain's economic ills were a result of too much public spending. Its remedy was to embark on an unprecedented programme of spending cuts, totalling over £80bn.

Alongside this, the government has offered numerous tax breaks to business; including cuts in corporation tax and the small business rate, reducing employers' national insurance and creating enterprise zones. It is also planning to slash business regulation and protection for workers to further remove the 'burdens on business'.

This strategy, the chancellor told us, would bring Britain back from the brink. It has failed quite spectacularly:

- The chancellor forecasted that Britain's economy would grow by 2.3% in 2011. In fact it only grew by 0.7%, less than the US, Germany, France and barely above Italy
- Due to the lack of economic growth,

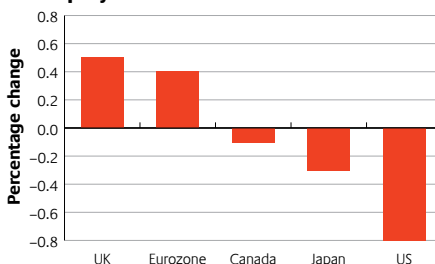
Economic growth in 2011



the government is having to borrow £46bn more than planned

- Unemployment has risen rather than fallen, and is now at its highest for 18 years, with youth unemployment the highest on record.

Unemployment increase in 2011



* The graph shows that UK unemployment grew faster in 2011 than in any other major economy, including the Eurozone area. In Canada, Japan and the US unemployment fell in 2011.

The Labour policy of cutting a bit less, a bit slower is no alternative. It is still the wrong policy of austerity, which misunderstands the economic problems we face and how to solve them.

The government's policies are failing because the public sector is not the problem, and neither is there too much taxation or red tape on businesses. Instead of solving the crisis, these policies are making it worse:

- Cutting public sector jobs means higher unemployment and fewer people in work paying taxes

- Freezing public sector pay and higher unemployment means less disposable income to be spent in the private sector, with a knock-on effect on private sector jobs
- Cutting business taxes means less revenue to close the deficit and pay off our debt.

Because women are more likely to work in the public sector, to use public services, and to receive child benefit and tax credits, the cuts are hitting women disproportionately. Women's unemployment is the highest it has been since the 1980s.

The government is presenting its plans as simply 'dealing with the deficit', but that is a smokescreen for another agenda. The government wants to cut and privatise public services because it believes in a market for even essential goods and services; that business should be free to extract profit from any public service, even schools, hospitals, welfare and prisons.

When Danny Alexander announced his final plans for public sector pensions in December 2011 he said

“The government’s austerity policies are failing... and they are hitting hardest those who had least to do with causing the crisis”

the cuts in pensions would make them “substantially more affordable to alternative providers”. Cutting pensions is part of an ideological crusade to privatise.

The government's austerity policies are failing. Failing to create jobs, failing to generate economic growth, failing to invest in the infrastructure Britain needs, and failing to protect essential public services.

And they are hitting hardest those who had least to do with causing the crisis.

Austerity isn't working anywhere

It's not just in the UK that austerity isn't working. Greece has been subject to massive austerity, and its economy shrank by 7% in 2011 – leading to rioting in the streets. In Italy, where the government has also been replaced by unelected bankers, the country has fallen back into recession. In Spain the unemployment rate is now 25%, while youth unemployment is over 50%.

In the UK unemployment rose by 0.5% in 2011 and similarly by 0.4% in the Eurozone as a whole. In the US unemployment fell by 0.8% and in Japan by 0.3% – both these countries have invested in an economic stimulus to revive their economies.

Why inequality has to be addressed

We are the 99% – and why attacking us won't work

In recent years wages have been falling. Inflation has been higher than the annual increase in pay. This is true in the public and private sectors. This fall in real wages means we are able to buy less with our money than before, as we have less disposable income.

This has an impact on the rest of the economy. If we are able to buy less as consumers then businesses can sell fewer goods and services. In response businesses have three options: they can reduce prices, which will in turn mean squeezing suppliers (driving down wages or cutting jobs); they might cut the number of staff they employ or reduce their wages; or they might no longer sell enough to be profitable on the high street as famous chains like Woolworths and MFI have found in recent years (resulting in mass job cuts).

Proposals for regional or local pay will

make this even worse – entrenching lower pay in less well-off areas. In areas that suffered most from the destruction of industry a generation ago, the public sector is often a large part of the economy. Cutting jobs and wages will damage local economies.

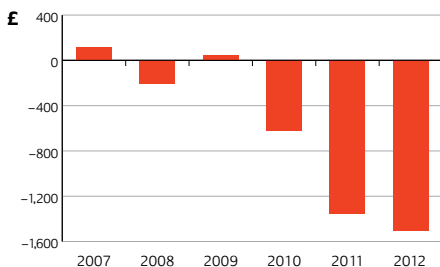
It is not just wages that have fallen either. The real value of social security, including unemployment benefit and the basic state pension, has fallen for over 30 years. Pensioner income has also fallen, and will continue to fall, as employers in the public and private sectors seek to cut their pension responsibilities.

Redistribution: to the 1%

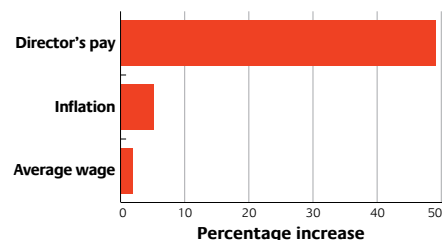
Why is this happening and where is the money going? At the same time that wages and other income has been squeezed for the majority of people, a few people at the top are doing better than ever. Average pay for the top

The effect of inflation on your wages

(How much worse off you are every year)



2011: Wages v inflation v director's pay





“These policies have combined to leave Britain the most unequal it has been since at least the 1930s. Inequality is a cause of this crisis, as well as a growing symptom”

directors of Britain's biggest companies has increased by an eye-watering 49% in the past year alone. A few at the top are getting very rich by cutting pay and pensions for the rest.

While the value of workers' wages in the UK has fallen, corporate profits have increased as a share of GDP from 13% in the mid-70s to 21% today. In this same period, government has massively cut corporation tax and income tax for the highest earners, so that now the poorest fifth of people pay more in tax, as a proportion of income, than the richest fifth.

Although taxes are lower now on the wealthiest and corporations, these groups are guilty of massive tax evasion and avoidance. The total UK tax gap is estimated to be over £120bn every year. This means that in some companies top directors pay less tax than the cleaners, and some companies with billion-pound UK operations avoid paying tax at all.

In the last 30 years, public transport, electricity, gas, and telecommunications have all been handed over to the private sector. Fares and bills have increased for the many, while big profits have been made for the few. Privatisation does not just change who delivers a service, but gives multinational companies an asset and income stream that was collectively owned and created by us all.

These policies have combined to leave Britain the most unequal it has been since at least the 1930s. Inequality is a cause of this crisis, as well as a growing symptom. The causes of the crisis lie in grinding away people's

“The banks were too big to fail, but so too is society. There is an alternative to this misery”

income, cutting government tax revenues, privatising public services, and deregulating to allow flagrant profiteering.

This is because the bulk of people – the 99% – have been left worse off, not able to maintain the spending that keeps the retail and service sector of the economy afloat. It also means people have been borrowing more – racking up unsustainable personal and mortgage debts, often just to make ends meet. This means more of people's income is paying interest payments to banks, instead of supporting jobs in the real economy.

Millions of people are unable to find work, unable to pay their rent or mortgage, and unable to save for their retirement or a rainy day.

The banking sector was the primary cause of this crisis. In the consumer market, it loaned money freely and created a colossal credit bubble. In international markets, it took massive risks, while governments failed to regulate or even understand the complex mechanisms financial institutions used.

The banks were too big to fail, but so too is society. There is an alternative to this misery.



“Some of the banks that were bailed out by the government are still using loopholes to avoid paying tax, and are advising their corporate and wealthy clients how to as well”

Society is too important to fail

There is an alternative

In the UK, the bank bailout means that some banks are publicly owned, while others remain dependent on public guarantees to survive. The finance sector is too big to fail: it holds our money, our savings, our mortgages and even our pensions.

If something is 'too big to fail' what does that mean? It means that society cannot function well without it; and therefore in reality the government must guarantee its existence.

This happens more often than we think. When the part-privatisation of the London Underground failed a few years ago, the government stepped in. When the franchise running the east coast mainline rail services failed, again the government stepped in. And when many UK banks looked like failing the government stepped in to bail out some and underwrite the entire system.

This is why the banks never base their head offices in tax havens – because the state there is too feeble to be able to bail them out if anything goes wrong. Instead they have hundreds of

“It feels like we have nationalised the debts while the profits are privatised”

subsidiaries in tax havens to avoid paying the taxes that fund the education, healthcare and transport needs of their workforce.

A banking system that works for people not profit

Some of the banks that were bailed out by the government are still using loopholes to avoid paying tax, and are advising their corporate and wealthy clients how to do as well. They are still paying their directors six and seven figure bonuses on top of fat cat wages. They have also laid-off thousands of their own staff to maintain the greed at the top. It feels like we have nationalised the debts while the profits are privatised.

Another ongoing misdemeanour by the finance sector is commodity speculation. In the case of food this is fuelling inflation, estimated to have added £260 to the average household food bill in the UK, and has left millions across the world facing hunger and starvation.

A financial transactions tax (popularly known as the Robin Hood Tax) would raise revenues to pay back the debt, but is also designed to deter financiers from speculating on markets – which can have highly volatile and disruptive effects on the real economy – and to instead invest in something productive, like new businesses or infrastructure.

This is precisely what we need: investment to create jobs, not to create short-term returns for a wealthy elite. But although a Robin Hood Tax deters speculation the problem with our finance sector is that its sole purpose is to maximise profits.

The banking collapse, which caused such economic damage and required a £ 1.3 trillion bailout, means the finance sector has lost the right to carry on as before. It must now act in the public interest; publicly owned and controlled.

This would enable government to direct investment into new infrastructure that will create jobs and meet public need: renewable energy, public transport and new affordable housing. These investments may only produce a modest return, but they do produce a return: through energy bills, fares, rents or sales – and additionally because the jobs created will move people off of benefits and into work, paying taxes.

The money, real money, that is held by

the finance sector is ours anyway: our pension funds, our savings, and the cash in our current accounts. The rest of it is credit – electronic money (as over 90% now is) created out of thin air by the banks to lend. The banks are given the right to create credit by governments.

We therefore need the government to ensure that when banks create credit, or lend or invest with our savings or pension funds, they are doing so in our collective interest.

That means investing in infrastructure like new council housing for the nearly two million families on council house waiting lists, not lending recklessly and creating a housing bubble (and inevitable crash). It means investing to create new jobs in renewable energy rather than speculating on food prices to profit from starvation. And it means investing in new businesses and ideas, not getting windfall dividends and bonuses for merging existing businesses and laying-off staff.

Conclusion

The UK may not be facing the same grave situation as Greece, but this government is leading us down the same path.

Essential public services are being cut back and privatised, 730,000 public

sector jobs are scheduled for the chop – with a knock-on effect in the private sector too – and people’s living standards have been falling for three years now, both for those in work and even more so for those unemployed.

“It is our job to campaign to change the political consensus which threatens everything our movement has ever fought for”

There are social consequences too, which have clear financial costs. Research from previous recessions shows that the increased financial pressures push more people into depression and substance abuse, means couples are more likely to separate, and suicide rates increase.

Our public services and welfare state are affordable. How can £30bn of welfare and tax credit cuts be necessary when there is £30bn to give back to businesses in tax breaks? If university fees have to be trebled, then why is Trident replacement essential? Why does the government spend huge resources on £1.2bn of benefit fraud, while £120bn of tax is avoided, evaded or uncollected?

Politics is about choices – and there is always a choice and always an alternative. Because there always is an alternative, the devolved administrations in Scotland and Wales have abolished prescription charges and, in Scotland, university tuition fees too.

In Westminster, George Osborne says there is no alternative to austerity.

Labour says the alternative is the same just a bit slower and slightly less severe. They are both wrong. There is no need for a single job to be cut or a single penny to be taken away from public services. There is an alternative.

It is our job to campaign to change the political consensus which threatens everything our movement has ever fought for.

So whether it's writing a letter to your MP or local newspaper, going on a demonstration or taking strike action, we all have a duty to campaign to defend jobs, services and the society we live in.

There is an economic crisis – one of rising unemployment, inequality and economic stagnation. Austerity isn't working, and is not producing the economic growth that the government promised it would. But it is not just growth that matters. If we value people's lives as more important than simply making more transactions, then the relevant tests for judging an economic recovery are:

- Is unemployment falling?
- Are people's living standards rising?
- Is inequality reducing?
- Is the tax gap closing?

These are the tests against which we should measure the government's economic strategy and proposals.

Austerity isn't working

There is an **alternative...**

What you can do

- **Spread the word.** Download this pamphlet from the PCS website and send it to your friends, or share it on social networking sites
- **Get involved** in campaigns and events, and keep informed at pcs.org.uk
- **Unite** with other local trade unions and community groups to campaign against austerity
- **Recruit** your colleagues to the union – there's never been a more important time to be in a union and defend your job, pay and pension
- **Lobby** your local politicians against public service cuts and against the attack on our jobs and conditions
- **Support** protests, strikes, occupations and direct action against the cuts.