The autumn statement coalition con – the £400 billion extra debt 'success' story

As with every budgetary statement by George Osborne, the use of statistics in his Autumn Statement was very selective. Every time he comes to the dispatch box he uses the 'authority' of the Office of Budget Regulation as an 'independent' body to 'prove' that the "fiscal consolidation" (aka austerity) is working. Leave aside the inaccuracy of the OBR forecasts since it was set up, you have only to read its latest document (Economic and Fiscal Outlook, December 2013) to see that Osborne's presentation of the data is blatant spin which contradicts much of what the OBR says. It's as if he was the manager of a football team that was losing 7-nil, when suddenly it's seven-one, conclusive proof that 'performance' is moving 'in the right direction'.

Way back in 2010, the current account deficit was predicted to be £60 billion for the financial year 2013-14, yet now it is predicted to be £111.2 billion. This massive disparity is ignored. Never mind, the situation has improved because this level of deficit is likely to be less than they thought it would be in March! The 'recovery' is well under way trumpets Osborne. But what sort of recovery? "The march of the makers"? Is the "rebalancing of the economy" which the government said was necessary, taking place? No. The OBR says

"The UK economy has picked up more strongly in 2013 than we expected in our March forecast. Private consumption and housing investment have surprised on the upside, *while business investment and net trade have continued to disappoint*. Short-term indicators suggest that this momentum has been maintained into the final quarter of the year, leading us to revise up our forecast for GDP growth in 2013 as a whole from 0.6 per cent to 1.4 per cent. *We judge the positive growth surprise to have been cyclical, reducing the amount of spare capacity in the economy, rather than indicating stronger underlying growth potential* (my emphasis)."

The upturn in economic activity is based essentially on increased consumer spending and 'residential investment'. The OBR further explains the reasons for their forecast for GDP growth rising from the expected 0.6% increase this year to 1.4%:

"The main explanation for those upward revisions has been stronger-than-expected private consumption growth in 2013. Residential investment has also grown more strongly than expected."

The "unexpected strength of private consumption" is the product of "lower savings rather than higher income". In other words consumers are taking on more debt. The OBR expects private consumption to continue to grow "slightly higher than household income", with "the savings ratio falling marginally".

Looking at the risks associated with the nature of this upturn in economic activity the OBR says

"...household consumption outpaces disposable income in our forecast, with the saving ratio declining gradually. Meanwhile, residential investment grows strongly, *leaving* *households in financial deficit and the gross debt to income ratio rising* (my emphasis)."

The "pick up" that the OBR forecasts next year (2014-15) is said to be "a key judgement". However,

"If productivity fails to pick up as predicted, the consumer spending and housing investment that has driven the recovery through 2013 could falter as the resources to sustain them would be lacking".

The forecasts made by the OBR seem at odds with their analysis, given that "business investment and net trade have continued to disappoint". Look at **Chart 3.27** on business investment (See Appendix – OBR Charts) and you can see what looks like an entirely unrealistic prediction. In March of this year the OBR expected a 2% rise in business investment but now it is expecting a decline of -5.5%. Thereafter, miraculously, it predicts 5.1% increase in 2014 and then a 33.9% increase over 4 years. Yet Business investment is still 28% lower than in 2008.

This steep increase in business investment will take place despite, as you can see in **Chart 3.30**, the estimate that export market share will slightly decline all the way through to 2019! With a 20% depreciation of the value of sterling economists and politicians predicted an 'export renaissance', but it has failed to materialise. Britain's share of world trade continues to decline. It is expected to make no contribution to increased GDP in 2014 and is estimated to add 0.1% to GDP in 2015.

Spending on cars has been a significant component of increased spending, accounting, says the OBR, for nearly a third of household consumption growth since the third quarter of 2011. But much of this has been based on *unsecured credit*. The OBR says

"But UK car consumption is highly import intensive. ...the share of new car registrations met by productive production has fallen by 45% two decades ago to just 14% now. This limits the benefit to GDP growth of stronger car consumption....more than half the contribution to household consumption growth from car consumption was accounted for by imports."

Even export of cars has a limited impact on GDP growth "as domestic car production uses nearly three times more imports for every pound of output than the economy as a whole". So while domestic car consumption is "a good indicator of consumer confidence" and car trade in isolation has helped reduce the UK's trade deficit "the overall effect on the economy has been less positive".

"Fiscal consolidation"

When the government set its course for "fiscal consolidation", the OBR predicted that the current account deficit would be zero by 2015-16. Instead (as you can see from the table below) the deficit will be £**176.8 billion over target** for the four years from 2012-13. The Public Sector Net Debt is estimated to be £**257 billion higher** in 2018-19 than the forecast for 2015-16 in the 2010 budget.

One of the government's targets was for public sector net debt to be falling as a share of GDP by 2015-16. However, it has continued rising and will (according to the Autumn Statement 2013) peak in that year at 80% of GDP. In 2018-19 the OBR predicts it will be 6% higher than in 2012-13 at 75.9% of GDP.

The reason for this failure to get anywhere near their original targets is precisely because the scale of their austerity package has depressed economic activity. Even the OBR admits that the “fiscal consolidation” had depressed GDP by 1.5%. Look at the receipts below and you can see the scale of the problem.

Over 4 years from 2012-13 income tax collected will be **£99.7 billion less** than forecast in 2010. Corporation tax raised is forecast to be **£57.8 billion less** than forecast in 2010. Government receipts overall in those 4 years are forecast to be **£190.3 billion less** than expected. These figures give the measure of the “success” of the government.

Financial Year		**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Current account deficit	*Budget June 2010 Forecast*	£-65.0 b	£-40.0 b	£-17.0 b	£0			
	Autumn Statement 2013	£-92.8 b	£-86.3 b	£-68.3 b	£-51.4 b	£-22.8 b	£3.1 b	£28.0 b
	Difference	**£+27.8 b**	**£+46.3 b**	**£+51.3 b**	**£+51.4 b**			
Public Sector Net Debt	*Budget June 2010 Forecast*	£1,162 b	£1,235 b	£1,284 b	£1,316 b			
	Autumn Statement 2013	£1,182 b	£1,269 b	£1,365 b	£1,451 b	£1,515 b	£1,554 b	£1,573 b
	Difference	**£+20 b**	**£+34 b**	**£+81 b**	**£+135 b**			
PSND as % of GDP	*Budget June 2010 Forecast*	69.8%	70.3%	69.4%	67.4%			
	Autumn Statement 2013	73.9%	75.5%	78.3%	80%	79.9%	78.4%	75.9%
	Difference	**+4.1%**	**+5.2%**	**+8.9%**	**+12.6%**			
Public Sector Net Borrowing	*Budget June 2010 Forecast*	£89 b	£60.0 b	£37.0 b	£20.0 b			
	Autumn Statement 2013	£115.0 b	£111.2 b	£96.0 b	£78.7 b	£51.1 b	£23.4 b	£-2.2 b
	Difference	**£+26.0 b**	**£+51.2 b**	**£59.0 b**	**£+58.7 b**			
Income Tax	*Budget June 2010 Forecast*	£167.6 b	£181.4 b	£195.2 b	£208.5 b			
	Autumn Statement 2013	£152.3 b	£155.5 b	£167.3 b	£177.9 b	£189.5 b	£201.2 b	£214.0 b
	Difference	**£-15.3 b**	**£-25.9 b**	**£-27.9 b**	**£-30.6 b**			
Current Receipts	*Budget June 2010 Forecast*	£621.9 b	£661.9 b	£700.1 b	£737.0 b			
	Autumn Statement 2013	£593.3 b	£618.8 b	£646.6 b	£672.7 b			
	Difference	**£-28.6 b**	**£-43.9 b**	**£-53.5 b**	**£-64.3 b**			
Corporation Tax Receipts	*Budget June 2010 Forecast*	£50.8 b	£54.1 b	£56.9 b	£59.4 b			
	Autumn Statement 2013	£40.4 b	£39.5 b	£41.5 b	£42.0 b	£42.4 b	£43.9 b	£44.7 b
	Difference	**£-10.4 b**	**£-14.6 b**	**£-15.4 b**	**£-17.4 b**			

Extracted from Budget documents and OBR Forecasts

The consequences for much of the population have been drastic, as we show below.

Earnings

The depression of the value of earnings continues. From 2008 real weekly earnings decreased by 7.6% , leaving them lower than in 2003 (ONS Patterns of Pay 1997-2012 - 28th February 2013). Yet many public sector workers have lost much more. They suffered a wage freeze prior to the coalition government, with some in the civil service (for instance those at the top of the pay scales) having had no increase since 2008. CPI inflation over those years was 16.5%. Even, with the rather rosy estimates of the OBR, they admit that the pre-recession value of earnings in 2008 will not be regained until 2018. However, the detailed summary of the OBR's forecast shows average earnings increasing against CPI. Their estimate of the increase of average earnings above inflation, over 5 years from the end of 2013-14 is shown as 18.4%. CPI, of course, excludes housing costs. The OBR estimates it will increase by 13%, but RPI by 18.4% over this period. This suggests that workers will not regain the ground lost by 2018, so far as the value of their wages is concerned.

Housing

Construction, including housing, was the sector suffered the most in the recession. Between quarter one in 2008 and quarter 2 in 2009, output in the sector declined by 17.8% (ONS, October 16th 2012). One of the key components of the coalition government's austerity measures was a 60% cut in the previous government's "affordable homes" programme. Decline in housebuilding was inevitable. In 2012-13 almost 100,000 less net additional homes were added to the stock as compared with the last pre-crash year, 2007-08 (See A strange form of progress – the reality behind the coalition government housing propaganda)[1]. New Housing Minister Kris Hopkins recently said that the housing market bequeathed to the coalition by the previous government was a “smoking ruin”. Yet so successful has the coalition's housing strategy been that they have failed by 20,000 to measure up to the level of house building achieved by the "smoking ruin" in its worst year under New Labour. (See Net additional housing supply declines in three straight years under the coalition [2])

Government measures such as Funding for Lending and Help to Buy have increased mortgage and sales activity. Yet without an increase in house building, prices are being driven up, worsening the gulf between earnings and house prices. The OBR estimates that between the end of 2013-14 and 2018-19, house prices will rise by 27.9% in comparison with average earnings by 18.4%. Given the shortage of housing you would take a bet that the projection of the OBR for house prices was more likely to be near the mark than the projection for increase in average earnings. However, even if both projections were to prove correct house price inflation will rise steeply in comparison to earnings and would make mortgages unaffordable for more and more people, especially the younger generation weighed down by the burden of education debts, and struggling to find full-time and permanent jobs.

1 http://martinwicks.wordpress.com/2013/11/24/a-strange-form-of-progress-the-reality-behind-the-coalition-government-housing-propaganda/
2 http://keepourcouncilhomes.wordpress.com/2013/11/11/housing-supply-declines-in-3-straight-years-under-the-coalition-government/

Help to Buy, which is being lauded as a success by the government, will add to the level of dubious debt. Although buyers only have to stump up a 5% deposit, they will take on a 20% 'equity loan' from the Government's Homes and Communities Agency. Whilst free of interest for the first five years, they will have to pay an annual fee thereafter which will rise above inflation. Moreover, if the value of the property rises then the buyer will have to pay 20% of whatever the price is. It might be described as a 'mortgage debt escalator' [3]. With a mortgage you know what you will have to pay back, with Help to Buy you don't.

The OBR is somewhat sceptical of the 'success' of Help to Buy. By September it had lent £200 million in England, though the forecast for take-up "assumes nearly £4 billion of loans" over the 3 years of the scheme's expected life. The government's liability is £12 billion (including the guarantees to lenders) associated with £130 billion of mortgage lending, but, says the OBR, it "is unlikely to be used in full".

One of the consequences of the government's housing policy, combined with its employment policy, is that housing benefit spending estimates have had to be raised by £1.8 billion by 2017-18. This was the amount that the government said it would save through its cuts to HB spending in its June 2010 budget! About half of this, the OBR suggests, is as a result of the increase in the proportion of employed people who receive housing benefit. More than 300,000 have been added to the number of recipients since the coalition came into office, more than 200,000 of them in the private rented sector. This is another indication of the downward pressure on wages. (DWP Housing Benefit Release May 2013)

Employment

Another supposed 'success' of the government is in the increase in job numbers. Unemployment has not risen to the extent that might have been expected given the scale of the economic crisis. In November of this year there were 2.47 million unemployed. When the coalition government came to power the equivalent figure was 2.510 million. Workforce jobs have climbed from 30.753 million to 32.486 million, an increase of 1.733 million. The number of people in employment has risen from 28.829 million to 29,953 million in September 2013, an extra 1.224 million.

However, when you look at the overall picture then these figures can be misleading. For instance, the household population, 16 and over, has risen from 49.711 million to 50.975 million, an increase of 1.264 million. So despite the increase in the number of jobs the employment rate has only risen from 71.8 to 72%, just 0.2%. This is hardly a roaring success.

TUC research has suggested that 4 out of 5 new jobs are low paid. The structure of employment also shows that a greater proportion of of those working are in precarious employment, and commonly are in and out of work. In the table below you can see

- an increase of those in part-time work only because they have been unable to get a

3 http://keepourcouncilhomes.wordpress.com/2013/11/19/help-to-buy-a-mortgage-debt-escalator/

full-time job;

- an increase of men over retirement age now working;
- an increase of those in temporary jobs because they could not get permanent employment
- an increase in 'self-employment'
- an increase of people on “government supported and employment training programmes”, which includes people working for their paltry Job Seekers Allowance, who are in reality *not* in paid employment.

	March 2010	Sept 2013	Difference
Part-time	7.713 million	8.085 million	+ 372,000
Self-employment (as main source of employment)	3.922 million (13.6% of all employed)	4.147 million (14% of all employed)	+ 225,000
65+ working (men)	471,000	619,000	+ 148,000
Part-time workers in job because unable to find full-time job	1.066 million (14.1% of all employees)	1.457 million (18.5% of all employees)	+ 392,000
Temporary jobs of which could not find permanent job	1.467 million (502,000) (5.9% of all employees)	1.601 million (606,000) (6.3% of all employees)	+ 134,000 + 104,000
People with second jobs	1.076 million	1.155 million	+ 84,000
“Government supported and employment training programmes”	123,000	175,000	+ 52,000

As you can see there have been 148,000 more men over retirement age working. We can't give an equivalent number for women because the statistics in 2010 were based on a retirement age of 60, which is now over time being equalised with that of men. However, there has undoubtedly been an increase of women working over retirement age. The combined numbers of women of 50-59 working, with those over 60 working (in 2010) was 3.654 million. For September 2013 in comprises 4.042 million. More people are working beyond retirement age because they are struggling to survive on their pension.

Overall these are significant numbers of people working in part-time or temporary employment, self-employment (some of which is bogus, imposed by employers on people who were previously employees), to which, of course we can add growing numbers of people on the ultimate precarious employment, zero hours contracts. The chartered institute of personnel development recently estimated, on the basis of research, that there could be a million people on these contracts. For these people an upturn in economic activity, in itself, will do little or nothing to improve their circumstances.

Self-employment, often associated with 'entrepreneurial' activity is to a large degree a case of people trying to scrape a living for want of the ability to find any stable permanent employment. This is reflected in the striking statistic that in 2010-11 over 2 million self-employed earned less than £5,000 a year from their self-employed work, and over 3 million below £10,000 a year (See [The 'self-employment conundrum'](http://martinwicks.wordpress.com/2013/12/06/the-self-employment-conundrum/)) [4]. The ONS says that 83% of the increase in self-employment was people over 50, suggesting that many turned to self-employment following redundancy. Those with pension income who do some self-employed work numbered 851,000.

Rather than the same "scroungers" of propaganda on permanent benefit (a 'life-style choice'), the reality is that many people are regularly moving in and out of work. The Joseph Rowntree Foundation has recently reported that over last two years 4.8 million people have claimed Job Seekers Allowance. The shortage of full-time and stable employment means that many people have to scramble for whatever they can find, time and again.

The £400 billion debt 'success' story

The coalition explanation for the economic crisis is designed to pin the blame on Labour and to ignore what happened prior to 1997. It's as if the global economic crisis had never happened and the crash in Britain was simply the result of Labour's 'economic mismanagement'. The debt is presented as the result of New Labour's profligacy with public sector spending.

Yet the greatest global economic crisis, at least since the 1930s, was a crisis of 'neo-liberalism' and 'globalisation'. Whilst it was triggered by a crash in the financial sector, it was ultimately the result of the changes in the infrastructure of global capitalism, wrought by the 'deregulation' initiated by Thatcher and Reagan in the 1980's. All the supporters of the 'free market' orthodoxy which came to dominate economics and government policy, are culpable.

Far from public spending being at the root of the crisis, one of New Labour's major crimes was to allow private debt to boom on a huge scale. In the seven years from October 2000 to October 2007, mortgage debt rose from £525 billion to £1,200 billion and unsecured consumer credit from £125 billion to £225 billion. Gordon Brown encouraged what he would later discover to be "irresponsible lending". But the Tories worshipped at the same shrine of deregulated and globalised capital, and they supported New Labour's spending plans right up to the crisis in 2007-08.

Prior to the eruption of the global crisis, public sector net borrowing in Britain, as a percentage of GDP was 2.5% in 2006/07, lower than the last six years of the previous Tory government (it was as high as 7.6% in 1992). As a result of the crash the current account deficit rose steeply to an historic level owing to

- the steep decline of economic activity, producing a collapse in government receipts, and
- the cost of bailing out the banks.

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4 http://martinwicks.wordpress.com/2013/12/06/the-self-employment-conundrum/

The scale of the crisis can be seen by the massive decline in output between the first quarter of 2008 and the second quarter of 2009. Manufacturing output declined by 12.5%, construction by 17.8%, distribution and catering by 7.8%, transport and communications by 7.8%, and utilities by 7.8%.

The coalition government has done nothing to 'rebalance' the economy. It has failed to act decisively against the tax evasion and avoidance which is robbing us of billions in tax income every year. It has failed to close down the tax havens. It is, as we have seen above, creating the conditions for an upturn based on the same dependence on consumer spending and housing debt which was symptomatic of the New Labour years. As for “the march of the makers”, manufacturing jobs have declined by 97,000, since the coalition came to office, and construction by 39,000. “Fiscal consolidation” has dampened productive economic activity. For all its talk of tackling the deficit *the coalition government has added more than £400 billion to the overall national debt* since 2010.

Yet the government's basic problem is that real life experience of the majority of the population stands in stark contrast with the fairy tale of the 'success' of its “fiscal consolidation”. It is in fact visiting upon the country a social disaster as cuts in welfare and state spending are producing an unprecedented decline in services, whilst the population continues to be fleeced by the privatised utilities. As wages decline in value the price of life's essentials continue to outstrip earnings. The medicine is further weakening the sick patient.

Deep in trouble the government which supposedly set its major priority as cutting debt is promoting increased debt to create the chimera of a 'recovery'. It's purpose is to save the Tories electoral bacon. The cost is £400 billion and rising. The human cost is increased misery visited upon the poor, with more people joining their ranks.

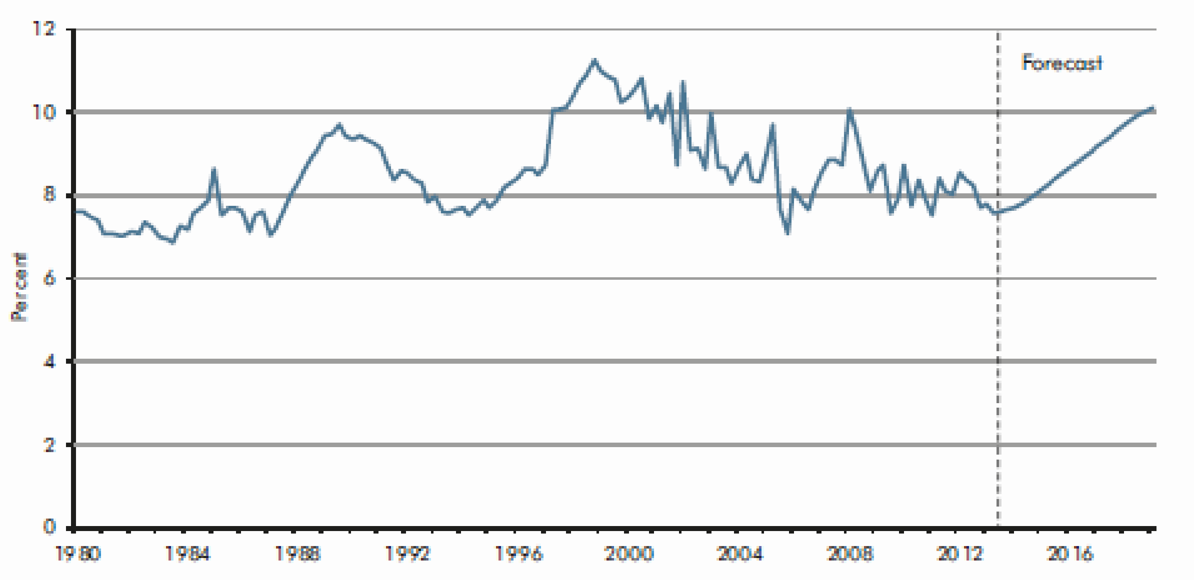
Patient explanation of the real facts behind the government's propaganda is needed to challenge their attempt to paint a disaster of their making as a 'success' story. As Cameron recently admitted in his speech to the City of London, the real driver of their policy is not 'dealing with the deficit' but producing a 'leaner state'. The purpose of that is to open up the public sector to be plundered by big business to an unprecedented degree.

Martin Wicks

December 16th 2013

Appendix: OBR Charts

Chart 3.27: Business investment as a share of real GDP



Source: ONS, OBR

Chart 3.30: Export market share

Source: ONS, OECD, OBR. UK export share defined as exports divided by UK export markets, where exports series have been adjusted to account for the effect of VAT Missing Trader Intra Community (MTIC) fraud.