THREE TRAGEDIES BORN IN THE WOMB OF NEO-LIBERALISM.

At first sight, the Pandemic, Grenfell and Brexit, don't seem to be connected, but they are. They represent the uncivilised outcomes of an unrestrained capitalism obsessed by cutting costs, the state and regulations. The result is that the short-term enrichment of the tiny minority are now being swamped by the longer-term losses that the rest of society will be forced to bear.

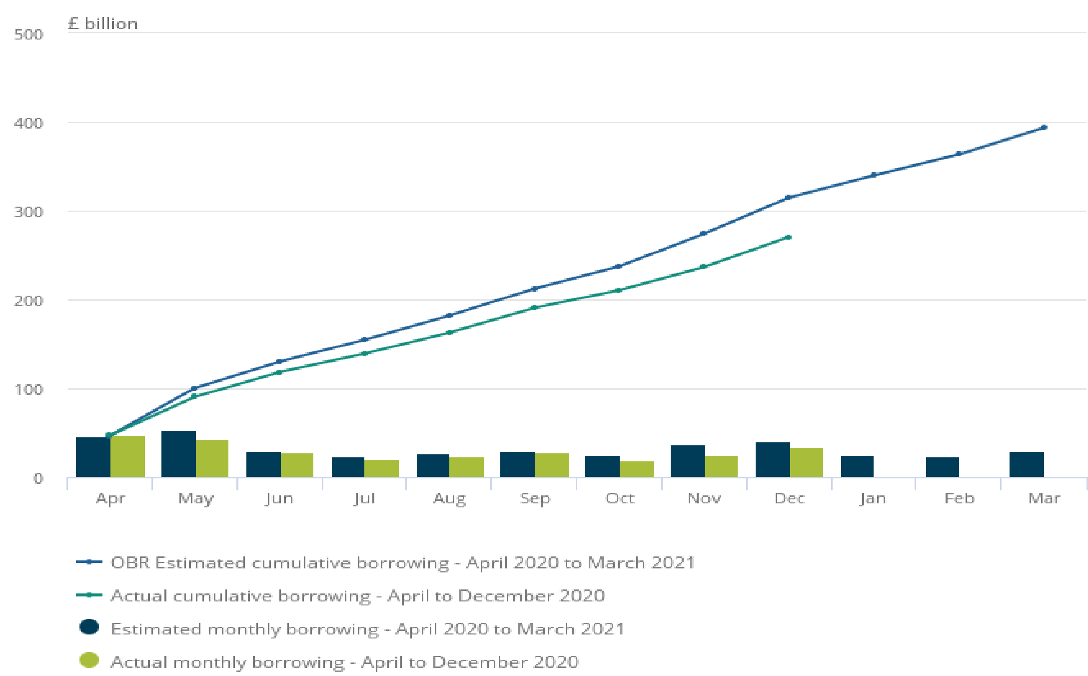
On the 22nd of January the Office of National Statistics released the budget deficit for December completing the data for 2020. This allows us to examine the treasury debt crisis with greater insight. The December outcome was summarised by the ONS thus: "*Public sector net borrowing (excluding public sector banks, PSNB ex) is estimated to have been £34.1 billion in December 2020, £28.2 billion more than in December 2019, which is both the highest December borrowing and the third-highest borrowing in any month since monthly records began in 1993.*" Public sector finances, UK - Office for National Statistics (ons.gov.uk) This brings the cumulative deficits since March to £277.918 billion. In comparison, the largest annual deficit previously was £131.647 billion in 2012 or less than half that amount.

As a result of this data the Office for Budget Responsibility has increased its fiscal year outlook for Public Debt ending in March, which now equals its worst-case scenarios set by earlier studies. Its outlook for the Fiscal Year 2021 is now close to £400 billion, or 20% of GDP.

Graph 1.

Figure 1: Figures published by the Office for Budget Responsibility¹ suggest borrowing could increase to £393.5 billion for the financial year ending March 2021

Public sector net borrowing excluding public sector banks, UK, cumulative financial year-to- December 2020 compared with official estimates



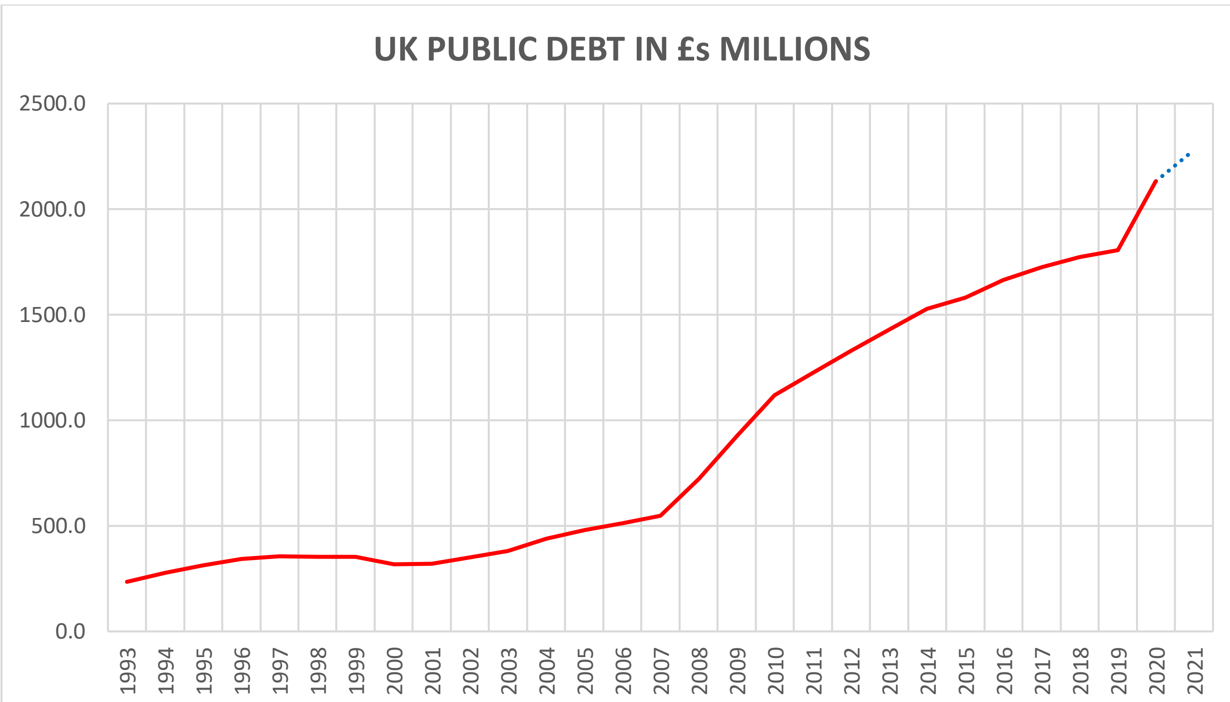
Source: Office for Budget Responsibility and Office for National Statistics – Public sector finances

Public sector finances, UK - Office for National Statistics (ons.gov.uk)

This is a historically significant deficit which explains the panic in the Treasury which occasionally finds its way past the Whitehall firewall.

The second graph provides the upward trend in Public Debt up to the end of 2020. The end projection in blue is the estimated level as at June 2021. It yields a figure just under £2.3 billion. Additionally, what is interesting about this graph is that it shows that it took the Tories 7 years to get a grip on debt despite the advent of austerity. This is a portent for the future. It takes many years to reign in any debt legacy even after the event that caused it is long since over.

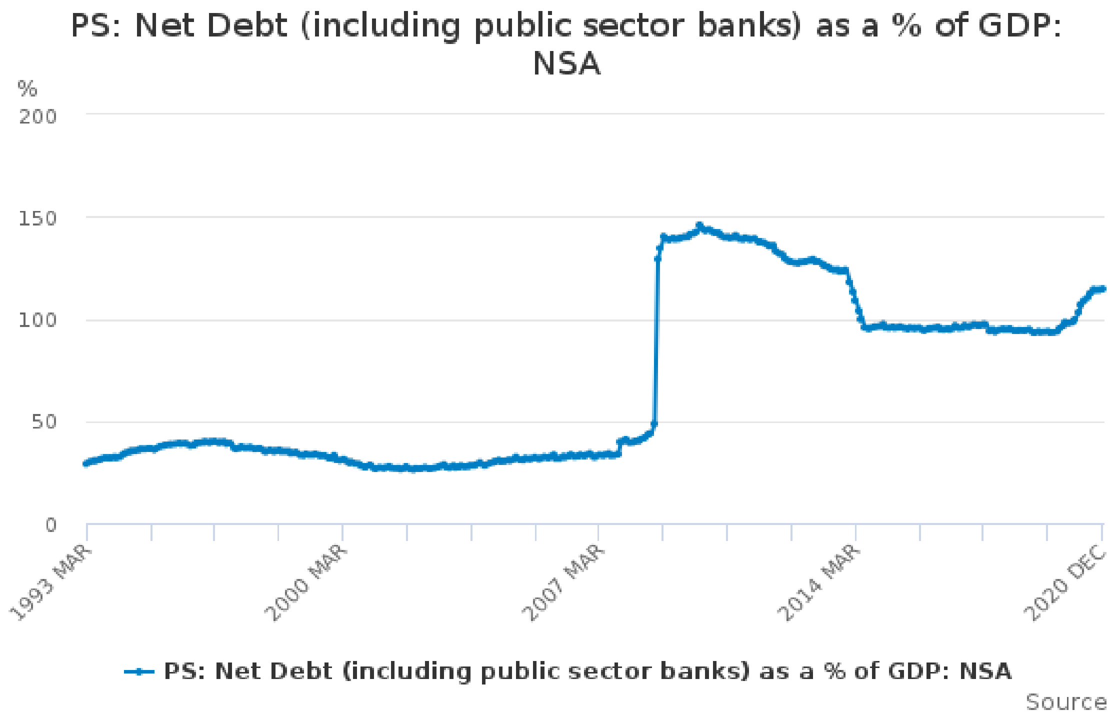
Graph 2.



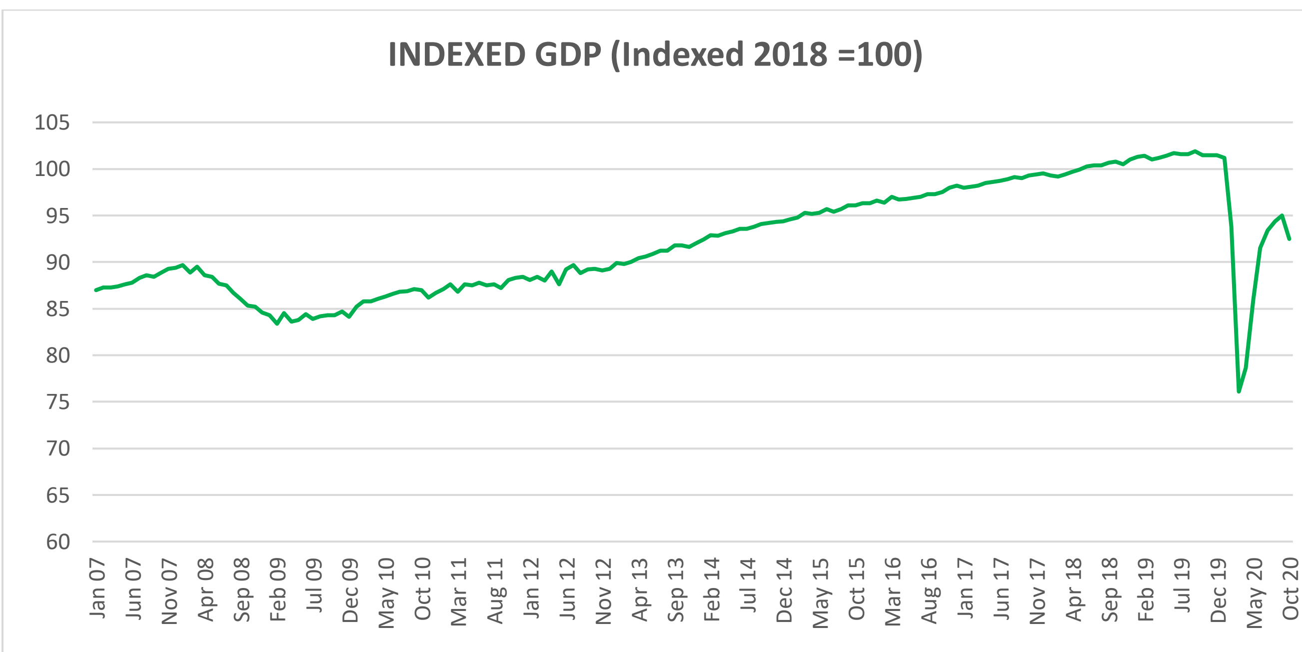
Of course, debt has to be put into perspective. For example, this debt of over £2 billion is just half of what the US will have incurred during the pandemic with its two and one pending Relief Bills. The best measure of manageable debt is to contrast public debt against GDP which the next graph does. I have used the metric which includes debt relating to the banking system as it provides the most accurate comparison with 2008 when the financial heart of the City stopped beating. At its peak, following the financial crash, debt reached 146% of GDP compared to 115% in November 2020. My estimate for June 2021 remains at 125% which may not be the peak as it will take the government a few years, even under the best of circumstances to reverse the rise, as was the case post-2008.

The GDP data is not yet available for December, thus annual GDP figures for 2020 are currently not accessible. Graph 4 represents the latest release on the 15th January which covers November.

Graph 3.



Graph 4.



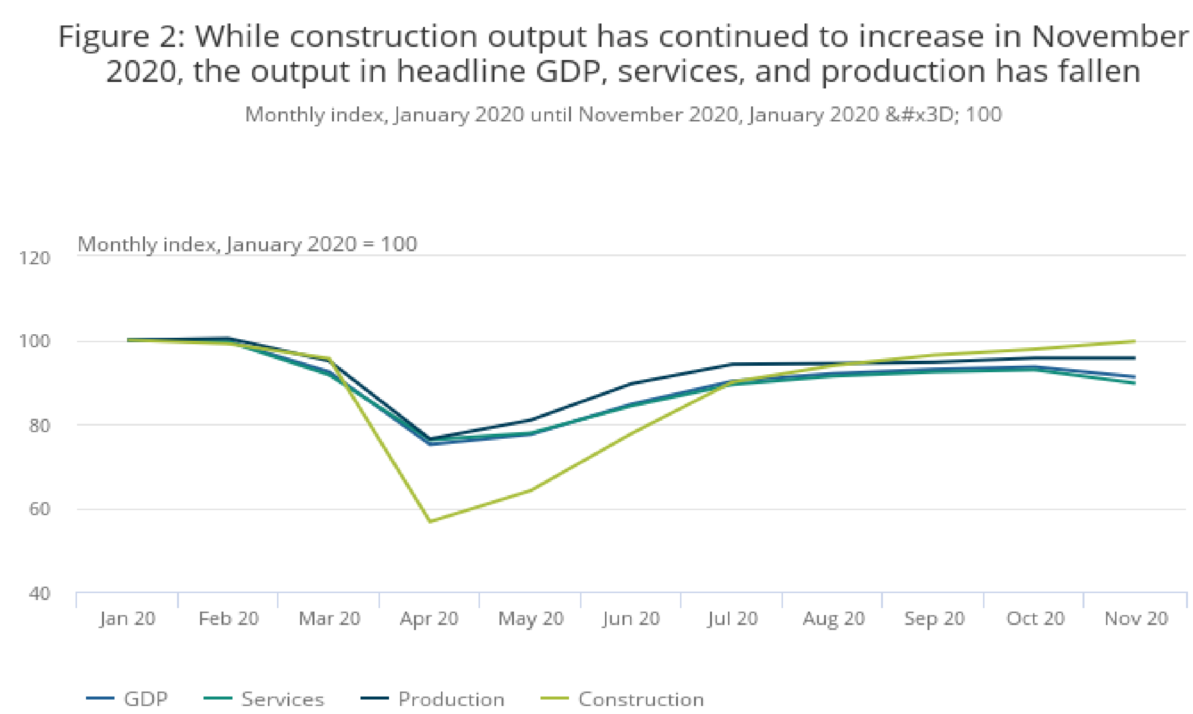
[GDP monthly estimate, UK - Office for National Statistics (ons.gov.uk)]

GDP peaked in October 2019 at 101.9. Interestingly, even before the Pandemic struck in March, GDP was declining primarily because of Brexit uncertainties due to the delayed conclusion of the negotiations. By February, before the plunge, it had already fallen by 1%. Turning to the latest data, the following summary is provided by the ONS: "*November GDP fell back to 8.5% below the levels seen in February 2020 compared* *with 6.1% below in October 2020. GDP fell by 8.9% in the 12 months to November 2020, compared with an annual decline of 6.8% to October."* This was due to a first estimate 2.6% fall in November. At the moment economists are divided whether there will be a fall in December because of the partial re-opening of the economy prior to Xmas whose sales disappointed. On the balance of probability, it is likely that when the data is delivered in February, the UK economy will have contracted by over 9%. When looking ahead, the outcome for March 2021 vs March 2020 is likely to be a contraction of between 11 and 12%.

This is a huge number but understated because of the reciprocal actions caused by the financial support provided by the treasury. Michael Roberts quotes a figure for a loss of GDP from the Pandemic equal to 80%. This is way off the mark. *Indeed, the economic cost of the pandemic during 2020 has been equivalent to 80% of US 2020 real GDP output, if you take into account the lost GDP, premature deaths, long-term health impairment and mental health.* [Biden's four years ‹ Michael Roberts Blog ‹ Reader — WordPress.com]() The best way to assess the total loss is the contraction in actual GDP plus the rise in public debt which theoretically is a claim on future value production though this is mitigated by the Bank of England or the FED monetising the Debt through purchasing its own debt. This yields a figure of between 30 and 35% annualised in the UK and between 25 and 30% in the USA.

The fall in GDP was mainly felt in services as Graph 5 below shows.

Graph 5.



Source: Office for National Statistics – GDP monthly estimate

The Brexit Bills fall due.

It is difficult to untangle the contraction in economic activity and the concomitant rise in debt due to Brexit, from that generated by the Pandemic. One useful report that seeks to do that and which was presented to Parliament in December is titled - *End of Brexit transition period: Economy impact* by Daniel Harari 18th December 2020. [End of Brexit transition period: Economic impact - House of Commons Library (parliament.uk)]

All the quotes that follow are taken from this report. What makes this report so useful is that all the major estimates prepared by public and private bodies can be found in one place. "*As a result, effects from the pandemic swamp expectations of any Brexit-related impacts in 2021. For example, GDP is expected to have declined by over 10% in 2020. The Bank forecast that GDP will be around 1% lower than it otherwise would be in Q1 2021 as a result of businesses adjusting to new trading arrangements. Based on a free trade agreement, it expects GDP to be 4% lower in the long run compared with remaining in the EU.18 The OBR has said that around one-third of that 4% has already occurred.19 In other words, the OBR estimates that the impact of Brexit to date is to lower GDP by around 1.4%. This is mainly a result of weaker business investment.UK long-term GDP impacts of Brexit (2018 Govt analysis) % difference in GDP level in 15 years compared to staying in EU ranges between a fall of 4.9 and 6.7%.*"

It appears that the figure of a long-term loss in GDP of between 4.9% and 6.7% first arrived at in 2018 has been downgraded to 4%. I believe it will be closer to the 2018 figure than the currently accepted figure of 4% because of the way the residual damage done to the economy by the pandemic will interact with Brexit. More, the clunkiness of trade compared to seamless trade is only now making itself felt. All estimates were based on the foreseen, but what is becoming increasingly apparent, although it is still early days, is the extent of the unforeseen. It is clear that small importers and exporters on both sides of the channel have seen their margins wiped out by higher-than-expected transport costs, unexpected tariffs and the 205 million additional forms HMRC reckons will have to be completed annually. Indeed, British newspapers this weekend reported that Department of Trade officials actually advised smaller manufacturers with substantial sales in Europe to open their own distribution hubs in the EU to mitigate these problems. Seems not so much about taking back control as the EU taking back jobs.

These are not teething problems but actual and unavoidable structural barriers. The government has not helped. It promised 40,000 custom officials by December 31st but on January 1st there were only 12,000. Track and trace, followed by this mess, my, my, how Johnson and his crew excel at over-promising and under-delivering. Worse than liars these government ministers are delusional incompetents. They are testimony to the merits of private education.

Thus, the hit to GDP from Brexit will be higher than expected. They are unlikely to be offset by gains from trade deals with other countries. In any case the new Biden Administration has indicated it is in no hurry to complete a trade deal with the UK given the new Administration antipathy towards Britain's decision to quit the EU and its focus on rebuilding the US economy first.

Similarly, with the EU. They are in no hurry to negotiate a service agreement with the UK. This targets the City of London. Why should they rush to agree equivalence for financial services when each day that passes sees business bleeding from the City of London. Britain chose to leave the EU. The EU did not encourage the UK to leave, hence their reluctance for the City to remain the financial heart of the EU. The City of London is being attacked on all fronts, particularly from the Far East. Little by little Shanghai will become the new London. London will be caught between New York, Frankfurt and Shanghai attached only to a small island itself fracturing rather to one of the three economic blocks. Sure, London has scale, and scale equals liquidity, but scale by its size can also disguise accelerating trends until it is too late to reverse them.

Grenfell a tragedy waiting to happen.

Grenfell was the tragic consequence of 40 years of deregulation. It is not necessary to detail here this cost cutting exercise carried out by both the Tories and New Labour. That task has been admirably done by the Fire Brigades Union in a pamphlet titled - *The Grenfell Tower Fire: A CRIME CAUSED BY PROFIT AND DEREGULATION* The Grenfell Tower fire: a crime caused by profit and deregulation | Fire Brigades Union (fbu.org.uk).

The task of this article is somewhat different. It briefly examines the financial cost of correcting these free regulatory passes. 1.5 million flats are currently unsaleable because of safety concerns. It is likely that the rise in house prices is in part due to the lack of sales of these cheaper properties which would have reduced the average spend. The government has set aside £1.5 billion or a laughable £1,000 per property to remedy defects. The best estimates for fireproofing high density properties, including flats, ranges from a minimum of £15 billion to £40 billion. That is equivalent to building 150,000 new homes.

The amounts needed are beyond the financial reach of most leaseholders and owners. As a result, the call has gone out for the government to pay for these remedies as it is accused of being morally responsible for this state of affairs. But the government did not benefit from deregulation, the property developers who lobbied for these changes did. Ultimately the responsibility lies with them. The whole residential building industry needs to be nationalised, and past and present owners should be sued to return the fortunes they made to pay for this. Only then should the government cover the difference. Let us be honest, the building industry, and here we refer to the major players, were not so much laying bricks as printing money.

Just as in the case of customs officials, or track and trace personnel, the governments record of failure remains unblemished. There are only 300 qualified fire safety officers to inspect 40,000 blocks of flats.

But it is not only fire safety that is the issue. Over the last forty years, the appearance, quality and size of homes has been progressively shrinking. I have detailed this in an article written in 2016 linked below. Even in the Depression Years in the 1930s, the square footage of houses was 46% bigger than what is being built today, where built-in cupboards are included in the cubic measurement of bedrooms. Not so much a case of levelling up but of sizing down. We are going to be left with a legacy of unfit and perishable housing stock. the-eu-and-the-enemy-within-pdf1.pdf (wordpress.com) Neo-liberalism has created a pastiche economy, a parody of what should be.

Conclusion.

The Tory Government is in trouble. It is caught between its lies and the reality of a bankrupt exchequer. This is visible over the debate concerning the retention of the popular and necessary Universal Credit £20 stipend due to expire at the end of March. Despite the alarm of its own back benchers, the government refuses to give a guarantee that this stipend costing £6 billion a year will be retained. £6 billion is of course not anywhere close to the amount the government wasted through its corrupt tendering processes and failed responses to the pandemic.

Similarly, with the erosion of workers' protections including the 48-hour directive. The Chancellor knows that he will have to raise taxes. So that we are all in this together he expects to raise Corporate taxes. But he knows that if he does, he has to throw these corporations a bone. That bone is trashing the rules on workers employment and conditions to help employers ratchet up the rate of exploitation.

You can fake news, but you cannot fake reality. Many workers who voted Leave are now arriving at the conclusion that they were fooled and robbed by the tax dodging leaders of the Brexit campaign both in and out of government. They are beginning to recognise there are no advantages only disadvantages. That the government's handling of Brexit mirrors their disastrous handling of the Pandemic. This explains the Channel 4 report which shows a 7.5% swing away from the Tories in their northern "red wall" constituencies and why the Tories have lost their 20-point mid-year lead over Labour, despite the Labour party being led by a media endorsed and promoted tin can.

We live in a delusional world where promises of levelling up, levelling better, levelling greener, levelling happier abound. The purpose of such myths is to disarm workers, to ensure that workers are unprepared for the attacks to come, to give the advantage to the capitalists who know full well that their promises are not worth snot. But prepare we must. Our Maxim must be: ***2008 never again, this time the capitalists must pay.*** We need to defend against cuts to working conditions, to benefits, and through organising a successful defence to prepare the conditions to advance.

Instead of levelling we should be revelling in the struggle to build a new society fit for human beings, because the old offers us only misery, degradation, disease and global warming.

Brian Green 25th January 2021.