Injustice and economics

On 30 May 2014 Sutton for Peace and Justice hosted a public meeting 'Our economy was destroyed and the poor were blamed', which examined the myths that allow inequality to persist and how we might do to move to a more equal and happier society.

S4P&J member Mike McLoughlin started the meeting with a plain talking presentation to set the scene and prompt discussion. The following article sets out what he said; Part one is based on ideas contained in Daniel Dorling's 2010 book, 'Injustice, Why Social Inequality Still Persists' and Part two discusses the dominant economic ideas the Government follows and why they are wrong.

Part one: Injustice, why social inequality persists

Beveridge in the 1940s identified five areas in need of change and stated how to bring about the changes that were needed to make the post war society fairer: **ignorance** (lack of education), **want** (lack of money/goods particularly food), **idleness** (lack of work), **squalor** (lack of comfort) and **disease** (lack of health).

Significant impact was made on all these with vast improvements to the education services, the development of a comprehensive benefits system, full employment due to rebuilding after the war in particular house building (over a million new homes were built), removal of squalor with new housing replacing slums and better standards being enforced and the greatest response of all the National Health Service.

But today we have five myths that ensure inequality and poverty persists: ***elitism is efficient***, ***greed is good***, leading on to ***exclusion is necessary*** and ***prejudice is natural***, which all taken together result in despair being inevitable for the growing number of deprived people.

These myths have proved very potent in getting the general population to accept growing inequality. For a prolonged period from the 1920s to the mid to late 1970s inequality in most things fell. For example in 1920 the income share of the highest paid 1% of the population stood at 18.5% of the total which continually fell to 6% of the total by the mid seventies. Then as Thatcherism / Reaganism took hold, it rose until it was 17% in 2005 and rising. So inequality has returned to 1920s level.

The idea that some are born to rule is an old one. Since Plato's praise of aristocracy as the government of the best, the ways of endorsing the idea of ranking by inborn worth has varied. Some have just taken it as self evident that some are superior in all things. In 1733 Alexander Pope, the poet said, "Order is heaven's first law, and, this confessed some are, and must be, greater than the rest". Even in 2014 an Ofsted inspector was quoted in the Daily Mail as saying, "the difference is, middle class children have better genes – get over it". Could he have been confusing their genes and their jeans?

However, there have always been those who doubted. Darwin in The Voyage of the Beagle said, "If the misery of our poor is caused not by the laws of nature but by our institutions, great is our sin" and Stephen Jay Gould, who conducted a detailed study on how IQ testing was used in the USA to justify elitism said in his 'Mis-measure of Man', "Determinist arguments for ranking people according to a single scale of intelligence no matter how numerically sophisticated have recorded little more than social prejudice". Binet the inventor of the IQ test said, "the IQ scale does not permit the measure of intelligence or buttress any theory of intellect and we may not designate what they measure as intelligence, they do not define anything innate or permanent, are not for ranking normal children or marking children as innately incapable".

So the justification for elitism by 'scientific' testing appears virtually non-existent. If there are distinctions to be made then the present measuring method is faulty or we would have to believe that when we are born inheriting money and power always guarantees ability.

'Greed is Good' hardly needs to be refuted by any right thinking person but if you read any recent speech by Boris Johnson you will find it there probably together with at least two more of the myths.

It is practiced but not questioned that to make the rich work harder you must pay them more and to make the poor work harder you must pay them less and that we can't control the financier's greedy bonuses or they will go somewhere else for more. Bankers feel no shame in accepting single bonuses of over £5,000,000 in one year. In mid-January 2014 an OXFAM report stated that the 85 richest billionaires now have as much wealth as half the world's population (3,500,000,000 people) while a third of the world's population lives on less than £1.50 a day. Greed is good but only for the grossly greedy.

Elitism is necessary and greed is good lead to exclusion being necessary and prejudice being natural otherwise the rule of the 'elite' would be questioned. We unthinkingly exclude many in our society, for example, until very recently anyone with disabilities found accessing public transport and public buildings difficult and we have a society in which car ownership is almost a necessity ignoring the fact that 25% of the population have no access to a car.

Under the present government exclusion has attained new heights, for example, if your wages are so low that you need benefits then it is implied you are a scrounger on society and not 'hardworking' and therefore need sanctioning – despite the fact that 60% on benefits are in work. If you need housing benefit then you must not have a spare bedroom for relations to stay like everyone else, because it's not 'fair' on taxpayers even though there are very few smaller properties available for those who would be able to downsize.

Prejudice is growing and claimed to be natural. Any morning's issue of the Daily Mail will inform you of who you may be prejudiced against without any guilt i.e. immigrants / asylum seekers / people in favour of overseas aid / those not in favour of renewing Trident / people on benefit / schoolteachers or social-workers / those who believe humans cause climate change, etc., etc., etc. Prejudice was always widespread but it used to be something to hide (unless you were a member of the BNP) but now it is expressed aloud and often approved in the media and in Parliament.

The fifth myth, despair is inevitable, means that the powerful decision-makers don't need to worry much about the consequences of decisions they make, just make the pills available and the people will accept their lot and not be a problem. As a result of this between 1992 and 2006 in Scotland prescriptions for antidepressants quadrupled and in the four years starting in 2007/8 antidepressant use in England increased by 28%.

As a result of the unacknowledged belief in these five myths we have:-

- The Government impose the "Bedroom tax" while maintaining it is unfair to tax incomes over £150,000 at 50%.
- We tolerate destitution in this country (single refused asylum seekers) and clamour to cut the tiny 0.7% International aid budget.
- We have Food Banks even in rich boroughs and shows like 'Benefit Street' elicit anger instead of pity.
- We are moving inexorably towards a rationed and privatised health service.
- The 2008 crash occurred because of the greed of financiers but people have been convinced by the overwhelmingly right wing press that it was because of over-spending on benefits. Even the BBC, afraid of the Government, does not question this.
- Your children and grandchildren may never be able to own a house or flat.
- General justification for penalising the poor and rewarding the rich.

So if we believe in justice we must challenge the myths, because elitism is not efficient, greed is not good, exclusion is not necessary, prejudice is un-natural for humans and despair is not inevitable. And it has been shown that more equal societies are more successful and happier.

Part two: How the present unjust economic system arise and is enabled to continue

Referring to the 2008 crash, the Queen on a visit to the stock exchange asked "Why did nobody notice it?" She was told, "At every stage, someone was relying on somebody else and everyone thought they were doing the right thing". She could have asked, "Why didn't politicians and policy makers take notice of those economists who saw the crash coming and why do they continue to take the advice of economists discredited because they didn't see it coming?"

The first reason for the crash is financial de-regulation since the nineteen seventies. Most of us assume that the Bank of England creates all the money used in the UK economy. But, only 3% of all the money in the UK economy comes from the Bank. Because of deregulation, a small number of private companies, the banks, have in effect a licence to 'print' money. Without debate in Parliament, without legal basis to sanction it our government surrendered the power to create and control the money supply—to the private finance sector. This was an unannounced huge privatisation.

When a bank makes a loan it simply creates a new customer account and types a figure into it. Banks don't need to wait for deposits to make loans. They can create almost as much credit as they like. Martin Wolf a financial journalist said in the Financial times, "The essence of the contemporary monetary system is the creation of money, out of nothing, by private banks often for foolish lending."

Between 1945-1971 under the Bretton-Woods system, largely designed by the British economist Keynes, the credit, interest rates and cross-border flows were regulated by central banks and the state. This resulted in an unprecedented stable financial period. But in 1971 Anthony Barber the UK chancellor with a new "Competition and Credit Control" system lifted controls on credit creation and interest rates. This led to an explosion in credit creation and rising borrowing costs.

Then in the 1980s Thatcher and Reagan cut other regulations so investment banks, standard banks and insurers could merge. This led to the growth of an unregulated derivatives market (see note at the end) only of benefit to financial speculators. Deregulation was completed in 2003 when in the UK merchant banks were re-classified as "commercial market participants". This caused a huge rise in speculation in essential commodities like fuel and food.

In the 5 years leading up to the financial crisis commercial banks lent £2.9 trillion. The government had no hand in deciding where and how that money was spent. Instead only around 80 senior board members of the banks made these decisions for their own and the banks' interest not the nation's. Much of it was as Martin Wolf said for foolish purposes and for derivative gambling.

At the time of the crash before we in effect bought the bad debts of the banks the problem with the UK economy was not public sector (government) debt, as the Coalition Government claim, because, at 52% of GDP, it was less than most other developed countries including Germany. The problem was private sector debt which at over 320% of GDP was more than many other developed countries. But the Coalition cut the public sector i.e. benefits, health services, infrastructure spending etc. and ignored the private sector. This was a political not an economic decision targeting the poor and not their rich and powerful supporters who had caused the crash.

It was absolutely the wrong thing to do. Research by PRIME economists (Prof. Victoria Chick, UCL and Ann Pettifor, Prime, June 2010) using UK economic data from the last 100 years showed cutting spending has always increased the level of public debt as a share of GDP and when public expenditure has been increased, public debt has fallen. The media consistently ignores such information and almost no-one seen as powerful ever dares to mention it. However, one of the first thing Pope Francis said as pope was, "some people continue to defend theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world. This opinion has never been confirmed by the facts".

The second reason for the crash is the dominance of neo-classical economists who hold the following ideas:

- The Market knows best, should be unregulated and will always bring things into equilibrium
- State run businesses are inefficient and to be discouraged, in fact not to be tolerated.
- Free trade is essential.

They also Ignore the role of credit and private debt in the economy, analyse problems ignoring context, ignore anything that cannot be turned into numbers and take no account of economic history. In general they act as though they believed in all five of Dorling's myths and in the trickle-down theory.

Despite holding demonstrably wrong ideas they dominate university economics departments where 85% of staff are neo-classicists. Non-classicist teachers have to take tutorials in neo-classical ideas and mark student's work accordingly. These non-classicists are unable to publish in mainstream economic media. As a result all students, unless they study the history of economics for themselves, dont hear these ideas. People trained in these ideas dominate government (all parties) IMF, World Bank, OECD, WTO and all-powerful international financial institutions.

As an example of what can result we can look at the case of Mongolia as detailed by Erik Reinert, in his book of 2007, 'How Rich Countries Got Rich … and Why Poor Countries Stay Poor'. In 2002 he was part of a parliamentary conference to set a strategy for Mongolia's economy which was in a dire straight.

He looked into the past and found details of the advice coming from the World Bank and the IMF in 1990 which advised Mongolia to concentrate on what they were good at, herding, and remove import controls. Their theory being that everybody benefits because the imports will be cheaper than they could be produced locally.

In 1991 Mongolia had a viable protected industrial base built up over many years with good local employment. Mongolia followed the IMF's and WB's advice and removed all controls on finance and imports and by 1994 industrial production was down to 15% of the 1991 level. The consequential unemployed workers went back to the only other thing they knew which was herding animals. Massively increased herds of animals, for which there was no market anyway, led to over grazing of sparse vegetation and when a year of bad weather came millions of animal deaths. And so the combined brains of the IMF and WB managed to destroy the Mongolian economy in just four years.

In addition he found that occasionally in the documents it said “Ecuador” instead of “Mongolia”. The IMF and WB provide the same advice wherever they go, neglecting context.

Similarly George Osborne is applying the same ideas and destroying our economy. Despite the fact that we are doing worse than all the developed nations except Italy in the increase in our real GDP since the pre-recession peak, despite the fact that he will have borrowed more in 5 years than the previous government did in thirteen years, despite the forecast of continued decline in our share of the world export market, he cannot change because his education has led him to believe in neo-classical economic ideas.

There are some signs of hope for the future. Over recent months more views in the media have been questioning the conventional economics that is destroying the UK and the World for ordinary people, e.g. Adair Turner who was chair of The Financial Services Authority 2008-2012 and a Cambridge economics graduate said that until 2008 he believed that banking needed to be free of constraint. He went on to say, “I'm afraid I was not percipient enough to realise how wrong this was” (Start the Week radio 4, 24 February 2014).

Economics students at Manchester University have campaigned for a wider course and there is now an international student initiative for pluralist economics. Starting in September Steve Keen, who forecast the crash, a prominent questioner of the neo-classical courses will take over as professor of economics, history and politics, at Kingston University.

So if we are on the side of justice we need to expose and oppose this wrong, unjust and destructive economic theory and its practice here and over-seas and we need to speak out more and louder about the malign work of the banks and financial institutions and the need for controls.

NOTE: Derivatives are made by combining parts of loans, shares, bonds, mortgages etc. so as to theoretically put a limit on the risk in buying (investing in) them. This crucially allows them to be bought and sold and in effect turns what should be long-term investments into short term ready cash. Initially these derivatives used relatively safe investments as their basis. But the financial ‘wizards’ got greedier and started including dubious investments such as sub-prime mortgages in their derivatives.

Sub-prime is a fancy way of saying those most unlikely to be paid back. But the market in these derivatives works only in good times when there are buyers. When a downturn started the market stopped buying. So the derivatives became un-spendable and tumbled in perceived value and caused the 2008 crash. This was because the accumulated debt, represented by these derivatives, could not be covered by the banks that were deemed too big to fail so we, the taxpayers, took on these debts. This then meant the Government had to borrow huge amounts of money which increased the national debt and the deficit.

Sutton for Peace and Justice is an independent and diverse member-led voluntary group that discusses and campaigns on a wide range of local, national and global issues of peace and justice. We hold monthly members' meetings, sometimes with external speakers, stage public meetings, debates, film shows and cultural events, and attend outside events and demonstrations.

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