No Shock Doctrine for Britain: FAQs

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What's the shock doctrine?

The shock doctrine is the use of fear by government and politicians to push the public into allowing right-wing economic policies that they would not normally accept. Right now for the UK, this translates in to the Tories and Lib Dems stoking public fear of the deficit in order to dismantle the welfare state.

Details:

The shock doctrine is the use of fear to quickly implement right-wing economic policies that people would not normally accept, such as the cutting of public services and jobs.

In the case of the UK, the Tories and Lib Dems are using the fear of the deficit to dismantle the welfare state, which the UK population would never normally want.

We need to spread the message that the deficit is nothing to fear and that they can't scare us into letting them shut down our schools, hospitals and other services upon which we rely.[1]

What is a budget deficit?

A budget deficit is when a government spends more than its income and borrows money to finance it until it has greater earnings. Since the UK has an excellent credit rating, there is no problem with the level of our current deficit.

Details:

A budget deficit is when a government spends more than its current income. This difference is paid for by borrowing money through government bonds and similar measures.

A bit like a business, running a deficit can be very useful if you expect your income to increase again in the future, and if the money you spend is invested in things that will create new forms of income, it can be a very wise thing to do.

Running a temporary deficit can also help create financial stability by keeping people in jobs and, therefore, spending money.

Isn't our deficit out of control?

No - the UK is still recognised as one of the most stable economies in the world; it has a lower than average debt when compared to other most developed economies; and its deficit has already been reduced by £6 billion more than expected this year.

Cutting public services now, just as we are coming out of the recession, risks more job losses and increased living costs - leading to a spiral of unemployment that could drag us back into a recession.

Details:

There is no problem with having a deficit or borrowing credit if you have a good credit rating and spend the money with good reason – such as keeping the economy on an even keel, and investing for future growth If the government has a good credit rating banks, or financial markets, allow it to borrow money with a low rate of interest.

The UK has a AAA credit rating. This is the highest possible and means that there is almost zero risk in lending money to us: only a few governments and institutions have this credit rating. The UK has such a strong credit rating because our economy is the fifth biggest in the world [2]; this makes it extremely unlikely that the UK could ever go bankrupt and default on its loans.

The fact that the UK's currency is the third biggest reserve currency in the world shows that banks think that the UK's economy is one of the most stable in the world this also means that no matter what happens to the UK's economy there is always a large market of people wanting to buy our currency.

This strong credit rating, and low rate for loans, means that short term borrowing is an even more attractive option to keep the economy going.

As the economy grows tax receipts will naturally increase and the deficit reduce. Already higher tax receipts than expected in March reduced the deficit by £6 billion more than expected.[3] The real danger is that we reduce the deficit through cutting public services – putting up the cost of living and making people redundant – which could lead to a spiral of unemployment. This could take us back into a recession.

In fact, the ratio of UK government debt to GDP (how much wealth the economy produces) is less than the average for the group of seven (G7) most developed economies and even at its peak will be a lower ratio than in the majority of peacetime years since 1815.[4]

But don't economists agree that we need to cut the deficit?

No - and 60 leading economists and the winner of the Nobel Prize for Economics and former Chief Economist of the World Bank, Joseph Stiglitz, have publicly said so.

They argue that cutting public spending does not make economic sense and risks damaging our most important asset in lifting the economy out of recession: us. While Stiglitz was one of the few to predict this recession, the new Chancellor George Osborne failed to see it coming and has been accused of 'school boy economics'.

Details:

No, on the 18 February Lord Layard, Emeritus Professor of Economics, LSE; founder of the LSE Centre for Economic Performance [5] and Lord Skidelsky, Emeritus Professor of Political Economy, University of Warwick both wrote letters published in the Financial Times. [6] These two letters were signed by 60 other leading economists.

The letters stated that it would not make economic sense to reduce the deficit by cutting public spending. As well as these leading economists the worlds most prominent economist Joseph Stiglitz, former chief economist of the World Bank and winner of the Nobel Prize for Economics, has strongly argued that reducing government spending is a risk not worth taking.[7]

He points out that public services are investments in people, which are the most important tools in lifting us out of recessions, and that the return on these investments are much higher than the cost of borrowing money to pay for them. Unlike most economists, Joseph Stiglitz predicted this recession, so maybe it's time to start listening to him.

In fact the only person who seems to think that cuts are a good idea are economists who failed to predict the biggest recession in 80 years, and the Chancellor George Osborne; who has no training in economics, only having a 2:1 degree in history! Even his Minister for Business and Regulation: Vince Cable, Shell's former chief economist, as recently as 29 March referred to Osborne's proposed cuts and grasp of economics as "school boy".[8]

Isn't cutting public services the only way to cut the deficit?

No - the deficit is not caused by too much government spending, but a long term shrinking of government income. Therefore, the most important thing is that the economy returns to strong growth as quickly as possible.

Maintaining public spending is therefore a necessary investment for the long-term recovery of our economy. Government income could be increased by nearly £40 billion through overhauling the tax system to make it fairer, with no negative effects for ordinary working people.

Details:

As the economy grows, tax receipts will naturally increase, so the most important thing to ensure is that the economy returns to strong growth as quickly as possible.

Maintaining public spending now is a necessary investment to ensure our economy recovers in the future. It is also important to remember that deficit is the result of a two-sided equation and therefore can also be reduced by increasing government income. And government income could be massively increased without any negative effects for ordinary working people through fairer tax.

For example:

- A higher rate of income tax at 50% for incomes above £100,000 would raise £2.3bn a year.
- Getting rid of the upper limit for National Insurance (currently a regressive tax), would raise £9.1bn a year.
- Increasing the main rate of Corporation Tax from 28% back to 30% and the small firms rate back to 20% would raise £1.4bn.
- Raising the Capital Gains Tax rate from 18% to the recipient's highest income tax rate would raise £1bn.
- Reform of inheritance tax, so that the level of taxation depends on the wealth of the recipient rather than that of the deceased, would raise £3bn by 2013.[9]
- A tax relief cap would raise £10 billion.
- Creating an empty property tax would raise £5 billion.
- And cracking down on tax dodging, with a general anti-avoidance principle and abolishing the non-domicile rule, would raise £4 billion.[10]

Haven't they said they won't cut front line public services?

Not as such. Clegg was clear during debates that cuts would come from reductions in services, and some of the things they have said they will cut, such as legal aid, are clearly 'front line'.

But 'front line' services will suffer if 'back line' services are cut as well - as those on the front line, such as doctors and nurses, will have to spend more time doing the paperwork and admin that was done by the staff backing them up.

Details:

Some of the things they have said they will cut are clearly 'front line'. For example, they've said they may well cut legal aid, which will make it harder for ordinary people to have access to the justice system when they need to.

Also, the reason that we spend money on 'back line' public services, is in order to support the 'front line' – if you get rid of the Human Resources department in a hospital, then doctors and nurses have to spend more time recruiting staff, and less time treating us.

Nick Clegg was very clear during the debates that the cuts in funding that we are about to see will not come from 'plant-pots and paper-clips', and that they will have to come from reductions in services.[11]

What is a double dip recession?

When an economy recovers from one recession only to go straight back in to another. Often, this happens when a government removes support for the economy - i.e. public spending - too quickly.

Government spending creates and maintains jobs - so when that spending is cut, so are jobs. A spiral back in to a recession can then occur: when people lose their jobs (or are worried they will) they stop spending and start saving. When people stop spending, others lose their income and so stop spending, which creates more job losses - and so it goes on until we find ourselves back in a recession.

Details:

A double dip recession is when a country recovers from a recession only to go back into recession soon after. This often happens when governments remove support for the economy too quickly.

Government spending creates jobs so, if the government cuts spending - even on what is deemed to be 'waste' - the government is cutting someone's livelihood. But this isn't just a problem for those people who are directly losing their jobs. Recessions are caused by these and other people reducing their spending and slowing down the economy.

The only way to stop this from spiralling out of control is for government to borrow money to spend on creating jobs and maintaining the demand for services created by those in work.

For example, David Cameron has said that he is only going to cut 'waste' such as council leaflets, however, even these leaflets provide a livelihood to a whole range of people such as: designers, printers and distributors, so all these people could be made unemployed and would no longer be able to buy as much milk, for instance, making the milk man unemployed, so he could no longer afford to buy his paper, making the news agent unemployed and so on and so on until we are back in recession and the government has to spend even more to get us out of it.

Don't the 1970s prove that we need to cut the deficit?

Some people argue that the 1970s IMF crisis was caused by high public spending- this is incorrect. The crisis was in fact caused by a series of events in the global economy, beginning with inflated oil prices, a lack of British pounds at home, with over-bursting coffers of pounds abroad, and financial speculation- which all led to spiralling devaluation.

Thatcher took the UK's then structurally strong economy back into recession when she came to power and savagely cut public spending, forcing 3 million people into unemployment. The lessons to learn are about the negative effects of financial speculation and public spending cuts.

Details:

It is a myth that the IMF crisis in the 1970s was caused by public spending being too high. In fact the crisis had nothing to do with public expenditure but was the result of a specific structural deficiency.

Since the end of the Second World War, the UK had been plagued by the unsustainable extent to which pounds were held by foreign governments. This was a hangover from the pound being the world's reserve currency during the British Empire, other countries' reserves of pounds being further built up by war loans and, after 1973, oil producing countries holding their new surpluses in pounds.

This created a general problem for the UK of not having a large enough reserve of pounds compared to the amount held by other countries; the selling of pounds by a foreign central bank could lead to devaluation and associated balance-of-payments problems, as had already happened in 1968.

In 1970 the Bank of England had a reserve of £4 billion compared to the £20 billion held by other countries. In the wake of a global recession caused by oil prices rising by 400 per cent, financial markets became nervous and a crisis was triggered when Nigeria sold a large number of pounds and the markets followed suit, leading to spiralling devaluation.[12]

This had nothing to do with the level of public spending. In fact the only things we can learn from the 1970s are the negative effect of financial speculation and the dangers of cutting public expenditure as an economy recovers from recession.

When Thatcher came to power in 1979 she savagely cut spending and took the, by then, structurally strong economy back into recession - and in the process forced 3 million people out of their jobs.[13]

Doesn't Greece prove that we need to cut the deficit?

No - the main problem that Greece has faced is from financial speculators who bet that the Greek economy would decline, which then led to more speculation, investors pulling out, and eventually the self-fulfilling prophecy in which Greece now finds itself. With a government deficit, unscrupulous speculators need to be reigned in - not public spending.

Details:

There is nothing structurally wrong with the Greek economy. The problem is that financial speculators - gamblers - are betting that other speculators will also bet against the Greek economy.[14]

This makes the decline of the Greek economy a self-fulfilling prophecy. For the reasons above – that the UK economy has lots of 'assets' the UK can sustainably borrow far larger sums of money than Greece.

If the only problem with having a deficit is that unscrupulous speculators will devalue the currency so that they can make a profit, shouldn't we control currency speculation with a Robin Hood tax instead - and raise huge sums of money (around £50 billion[15]) at the same time?

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