

## **BREXIT: AN OVEN READY DEAL or was the oven even switched on?**

*Politicians patronize the electorate by stage managing politics. What is happening behind the scenes is seldom revealed? Instead politicians choreograph events to show themselves in the best possible light by appearing to be carrying out their pledges such as Brexit.*

If Johnson was serious about a “No Deal Brexit”, his government would have prepared for one, particularly at this late stage. He would have put in place the necessary infrastructure - custom officers and posts, warehouses, tarmac, computer programs, a suite of forms available for companies and so on. Instead he has offered Porto Loos in Kent. To the chagrin of panicked importers and exporters, little is in place. According to the institute of directors, barely 50% of companies are ready. This is fortunate, because most have avoided the expense of a Hard Brexit or as it is now described, an Australian Brexit. Perhaps they clocked that there was always going to be a deal. Even the Tory Right “UK Freedom” fighters, who dabbled with “No-Deal”, know that in the face of a pandemic, a no-deal Brexit is economic suicide. Not so much throwing crates of fish overboard, as the gale sinking the whole damn fleet with all hands.

Johnson is coming unstuck just as Trump is. His whole Brexit strategy is unravelling. His oven ready homilies will soon be exposed when it becomes clear that he did not even bother to turn on the oven. His big problem is to find a way to unwind the rhetoric. To make a deal without losing too much face. And he only has a few weeks left.

And, the last two days have not been kind to him. The EU Summit on Thursday concluded that future moves had to come from the British side. The UK’s response was that it was up to the EU to make concessions. A bit of shouting, “you first, no you first”. This was followed by Johnson declaring on Friday afternoon that the “trade talks were over”. Followed by Downing Street advising their counterparts in Brussels that; *“there was accordingly no basis for negotiations in London as of Monday”*

This brinkmanship in a modern economy, previously bound for 45 years to their largest market, is not only unbecoming, its’ the equivalent of a political tantrum. The whispers in Whitehall was that Johnson was always going to kick up a political storm, to show himself as a strong man in order to sign a deal from a point of weakness. A question of who blinks first. The irony of course is that it is difficult to see whether your opponent is blinking when you are both lying on your back floored by the pandemic.

It is likely that after a week or so of intense bluff and bluster, a deal will be grabbed from the jaws of crisis with both sides claiming satisfactory concessions were found.

### **Not only Brexit.**

The trouble with capitalism is that it is an unforgiving task master. Johnson is coming unstuck on every significant political issue. He is having a worse time then the initiation rites he endured at public school and university. One can only wonder if he regrets his decision to become P.M. And it is not only Brexit.

Little by little the British Public are discovering that taking back control from Brussels did not mean giving this control to the public. This control is being monopolised by an increasingly authoritarian government which is carving up civil liberties. More and more decisions are being made behind the back of parliament

which is waging a rearguard action to prevent its loss of authority. Decision making is also becoming murkier than was the case in Brussels. At least in Brussels, which had to answer to 28 governments who often differed in their positions, matters had to be discussed in a much more transparent manner.

Finally, the Prime Minister has surrounded himself with appointed rather than elected cronies. For decades the media, especially the tax dodging newspapers assailed us with the message that business knows better than government over how to get things done quickly and efficiently. It was always self-serving garbage, and COVID has nailed this neo-liberal myth both in the UK and in the USA.

This was disastrously underlined by Britain's "world beating" track and trace which turned out to be crap and waste in the hands of accountants. It revealed that the only effective track and trace in the UK and elsewhere was the networking amongst the elite themselves where individuals track and trace other individuals who can further their careers and fatten their wallets. Thus, the "who you know", rather than the "what you know", were put in leadership positions resulting in thousands of unnecessary deaths and an economy that will have to be locked down shortly.

Instead of experienced and knowledgeable officials being put in charge with adaptable structures, the qualifications used were birth pedigree, school and university attendance and positions held in the private sector. Hanging over this nepotism and chumminess is the stench of corruption. The health emergency was used as a pretext to avoid scrutiny. The only thing the strange panoply of companies who won tenders or grants, had in common, was how inappropriate and inexperienced they were in matters of health.

Of course, this misuse of taxpayers' money hardly raised an eyebrow in the right-wing press. All that networking clearly pays off. Instead they focused their ire on the misuse of grants made to keep companies afloat, the so-called Bounce Back Loans. Obviously, editors knew these fraudsters had not gone to the right schools, that they were common lot. Half of all bounce back loans, a total of £26 billion could be lost they raged. Except that this figure is not only over-stated, but also designed to deflect from the fact that the biggest fraudster is the government itself.

However, these are not the biggest challenges faced by Johnson and his political mates. The twin challenges they face is how to protect the population from the virus and how to support the population financially while doing so. The latest leaked government poll shows that just 26% of the population think the government is "putting the right measures in place to protect people". This compares to 72% who thought the government was doing well at the time the lockdown was announced.

Thus, the government is failing on the protection front. It is deviating further and further from the scientific evidence. Indeed, the government deviation has become so wide and so visible that it has encouraged the normally invisible Keir Starman to finally accuse the government of dereliction of duty. This has added to the public disquiet and drawn accusations of partisanship from the Tories.

But the front that is more likely to sink the Tories is the financial front. When lockdown occurred on the 23<sup>rd</sup> of March it was accompanied by a package of financial support. Rishi Sunak announced "whatever it takes" funding which included 80% compensation for lost wages. He immediately became the darling of the Tory Party and the Toast of the Nation.

It would not last. At the Tory Conference Sunak showed his political immaturity by declaring he remained a fiscal conservative and that in future, taxes would have to rise, and, government spending would have to be curbed. His timing could not have been worse. The second wave of the pandemic was already

building. The Institute for Fiscal Studies then released their projections that taxes would need to rise by £40 billion in future years, not to reduce the debt, but to stop it growing further. Now mark, the IFS is underestimating future indebtedness. Judge for yourself. <https://www.ifs.org.uk/publications/15097>

Government figures are just as bleak. The latest data from the Office for National Statistics (ONS), projects a total deficit of £372.2 billion for the financial year ending March 2021. If we tie this to the likely GDP outcome for the financial year, a fall of 12 to 15%, then public debt to GDP will rise from 87.7% in 2019 to 108% by year end. (The IMF has the same estimate.) It is highly likely that the ONS projection is an underestimate because the severity of the second wave extending through to March is as yet, indeterminable. The more likely figure is +110% of GDP. This will take the deficit to a high last seen in the late 1950s when the UK was recovering from the war and rationing was still in memory. <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/august2020> <https://www.ons.gov.uk/economy/grossdomesticproductgdp>

From the perspective of the needs of capital, it was not surprising that Father Xmas Sunak turned into a bit of a Scrooge this time round. 80% support was cut down to 67% and the maximum payment reduced to £2,100 to save money. This sparked a furious row with local leaders in the North of England some of whose areas has been moved into the highest category of restrictions. They quite rightly pointed out that many workers in this part of England are poorly paid with a number on minimum wages. Therefore, two thirds of an already inadequate wage would mean parents not being able to buy shoes for their growing children.

There has also been a mini rebellion by the so-called Red Wall Tory MPs, so named after they won their seats in the traditional northern Labour heartland. They are concerned, that instead of the North being levelled up, as promised, the whole country is being levelled down by the pandemic and inadequate support by the government. Clearly, they are more motivated by losing their seats than losing their health.

The brutal unforgiving fact is that government largesse is ebbing. Support will continue to wither as the months go on. And worse, once the pandemic is over, as it will be at some point, the government bailiffs will be calling upon tax payers to cough up, and the Treasury Enforcers will be cutting government spending, thereby inadvertently intensifying the very conditions which fueled the pandemic.

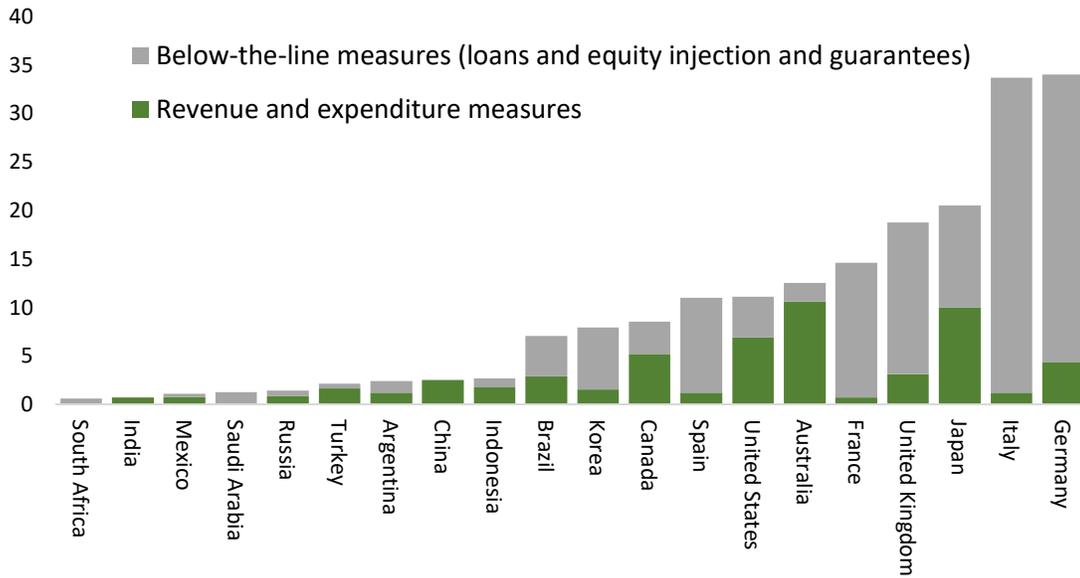
### **It is the same everywhere.**

The fiscal stresses are evident everywhere. On the 30<sup>th</sup> September, the IMF released its October 2020 Fiscal Monitor. The links to it and the April edition can be found below. It is also worthwhile downloading the data spreadsheets attached to each edition. The graphs below are taken from it.

The first thing to note is that the IMF underestimated the extent of the pandemic in April compared to October. This is typical of the IMF which tends to see the glass 50.1% full rather than 49.9% empty. Global debt to GDP in April was projected to rise to 96.4% but this was revised upwards to 98.7% in October. Likewise, debt in the advanced world rose from 122.4% to 125.5% of GDP (double that of the emerging world so to speak). Finally, the fall in global GDP was revised upwards from -3.0% to -4.4%.

<https://www.imf.org/en/Publications/FM/Issues/2020/04/06/fiscal-monitor-april-2020>  
<https://www.imf.org/en/Publications/FM/Issues/2020/09/30/october-2020-fiscal-monitor>

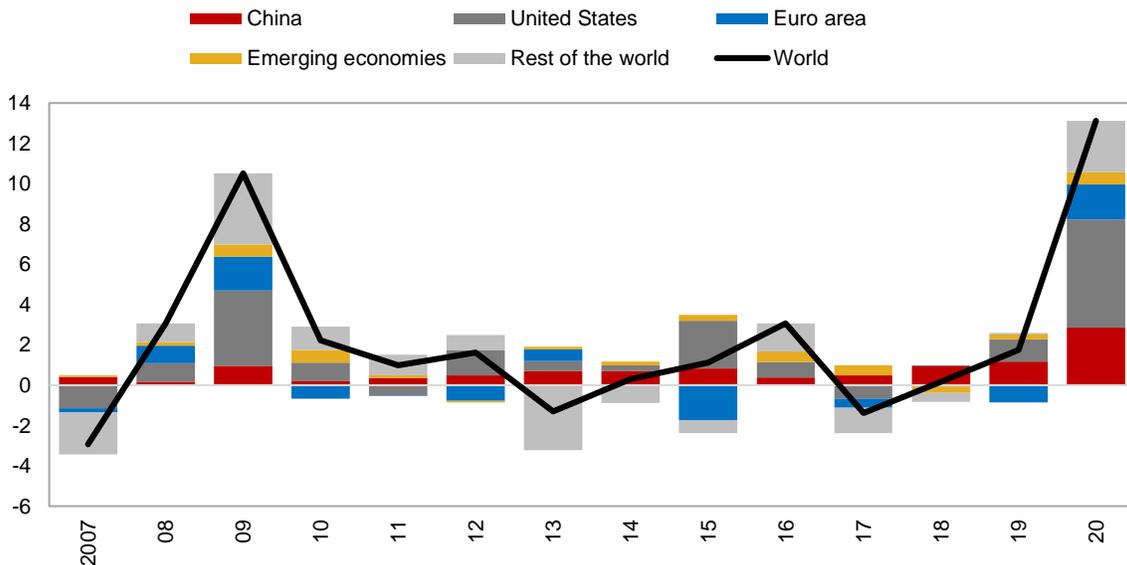
**Graph 1.**



Graph 1 details the amount of support provided by governments to their population and corporations. Germany is the highest relatively. Clearly, Germany, of all the major economies, has had the most intelligent response to the pandemic, which is why its infection rate is the lowest. However, it would be wrong to reward the central government for this. The primary reason this happened is the structure of the German State itself with devolved authority to the regions which has restrained Berlin from galloping down the same neo-liberal road to the same extent as other countries. We also note that with the exception of Spain, most European countries and the UK have provided more support than the USA. The absence of a second round of support in the US is clearly visible.

**Graph 2.**

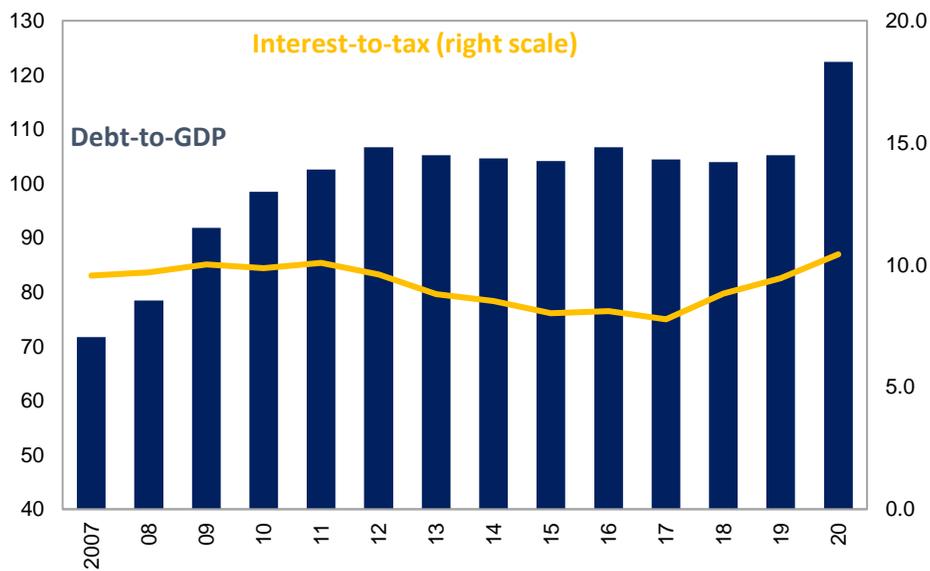
**INCREASE IN GOVERNMENT DEBT**



Despite the US spending relatively less on its GDP in terms of fiscal support, in absolute terms, because of the size of its economy, its injection as a share of global GDP is the largest at 41% of the total, compared to the next country, China with 22%, roughly half that of the USA (Graph 2). Interestingly, the EU with a GDP four fifths as large as the USA only contributed 13% or less than half compared to the USA, pro rata.

The final graph below is most informative. I refer to the yellow line. It shows that despite abnormally low interest rates and the monetization of government debt in some countries, the burden of interest payments has increased from its low in 2017. The IMF has tables on the weight of government bonds in bands of interest rates. Using this, a 1% increase in mean rates paid by governments will drive the interest burden closer to 20% of tax rather than 15%. Currently around \$12 trillion of government bonds have been issued directly tied to COVID emergency funding. If as is likely the US adds another \$3 trillion and this is matched by the other major economies, then the figure of \$25 trillion by mid-year will be achieved.

**Graph 3.**  
**ADVANCED CAPITALIST NATIONS**



Given this level of issuance and its impact on interest rates, the interest burden is going to multiply. Should this happen, then to be sure, it will require even deeper cuts to government spending. The left lambasts the IMF, correctly, for imposing austerity on the semi-colonial world, to ensure funds are released to repay lenders based in the major countries and financial centers. But has it been different in the major countries with or without the IMF? Certainly not. Those countries such as the UK who suffered significantly from the 2008 Financial Crash because of the preponderance of its banks, suffered austerity which matched levels experienced in the semi-world relatively.

To those who that say post-COVID we will have continuing financial support, whether it is Dollars or Pounds fluttering from helicopters or digital money piped through the internet, I say beware. There is no precedence for this. Quite the opposite. History teaches us that the capitalists, if they can, always claw back their largesse. They always revert back to fiscal probity. They do so to satisfy two imperatives: firstly to protect their currency and secondly to ensure the lenders, fellow capitalist creditors, are first in line to be repaid. Why this perspective is important is dealt with in the next section.

## **The far right in disarray.**

It is recognised that the populists and those to the right of them are in disarray. The one exception being France. Far right parties are splitting, there is civil war between factions, and their popularity is collapsing. Part of this is due to their orientation towards the Pandemic and part of it is due to the absence of migration being center stage.

The biggest factor though is their sheer political incompetence. I always compare the far right to a child running down a sloping road, who being clumsy, keeps dropping their ball, needing to run faster and faster to retrieve it. You get the picture. The sheer incompetence of the likes of Trump and Johnson, even when they have the backing of the state behind, never mind the bit players, is breathtaking, or in the presence of COVID is breathtaking away. Populists become unpopular very quickly as they break their promises, attack their supporters and are exposed as having no remedies which addresses the real needs of the majority of society, the workers. Even that most successful and vicious of populists, Hitler had to blow up his parliament to prevent future elections, because he knew he would lose power and most probably his life.

I remember vividly a couple of years ago, the hysterical left such as the Socialist Workers Party, yelling, the Far Right are on the march, head for the hills or the barricades, whichever comes first. In hindsight, using the term hysterical was apposite. I always predicted that the period of the right would be short lived, hence my analogy of the sparkler which all of us has held in our hand growing up, only to be disappointed by how quickly they went out.

The follow up prediction was that Populism would be displaced by the resurgence of reformism, or social democracy, or the center/left. This is happening today. Older parties are making a comeback. Here the resurrection of the Labour Party reshaped by the establishment is instructive. The capitalist ruling class feared a Jeremy Corbyn led Labour Government, more for raising the aspirations of the workers, than its avowedly redistributionist policies. So, they set about undermining his leadership with false accusations of anti-Semitism and of being a terrorist sympathizer. And this by Johnson, who was from a party known for its racism and who had been in a government that helped set up ISIS in Jordan as a counterweight to Hezbollah.

The ruling class have been ruling for centuries. They recognise they need a loyal party based in the working class, one they can count upon to do their dirty work. So, with the media working against Labour from the outside, and the Labour Bureaucracy working against him from the inside, Johnson achieved a big majority. This huge defeat laid the ground for a coup in the Labour Party, allowing the bureaucracy to reclaim it to such an extent, that Starman was able to instruct his MPs this week to vote for a bill that will give the British Army a license to kill. How's that for a test of loyalty. Workers beware. Starman is the epitome of what is to come. So, with patience and with guile the capitalist class achieved Plan B, their fall back position, in the event of the governing party landing flat on its face, which it has.

Now the importance of economic perspectives becomes clear. If it is the case that every party in the future will become the bailiff for capital, restoring its finances and boosting its income, then how will this affect these center/left parties. Clearly, they will begin with a degree of credibility the direct parties of capital lack because they are not seen as the natural enemy. This will allow them to impose cuts the direct parties cannot get away with. Further, they will strive to undermine resistance and to delay it with their most well-worn card trick, "if you resist, we will lose office and the Conservatives or Christian Democrats will

regain power". Thus, they will act to disorganize the working class from within and intimidate it with false alternatives.

History is accelerating. We are not talking liquid but plasma, the most excitable state of matter. Capitalism is in dire straits, catalyzed by the pandemic acting on a global economy which was already in distress by 2019. Under these conditions, trying to ride the rough seas on a board made from cardboard is going to end badly and quickly. So too with these parties.

In the end capitalism relies on these parties for its survival. More revolutions have been decided by deals made behind the backs of workers than by bayonets in their faces. Capitalism has long ago learnt the value of these social democratic parties. It is only when they fail to deliver, when the economic emergency is too great, when they are forced to openly side with capital, when pretensions dissolve and intent is revealed, only then do the capitalist have to reconsider their options. Only then do they entertain more basic forms of oppression. We are talking of resorting to military oppression in the form of a coup rather than throwing their hand into the unreliable fascist ring.

And of course, it all depends on the level of resistance by the working class. Whether workers have been made more combative by these betrayals rather than demoralized. It all hinges on the balance of forces.

In the meantime, we need to sharpen our tactics to deal with these misleaders when they come into office, these politicians who fear a revolutionary working class more than they do an accommodative capitalist class. It cannot be ruled out that the level of mass protest and civil disobedience will topple the Johnson government. In the aftermath of the Pandemic, nothing can be ruled out.

In the USA the same applies to a Democratic Party, now controlling both houses of the Senate and the White House, and who are bound to disappoint their supporters and turn against them. When forced to choose between the preservation of the Dollar and the well-being of the People, Biden/Harris will not hesitate to choose the former.

We have our work cut out. In 2015 I proposed that capitalism was facing four cumulative crises, not one. The first was its difficulty reproducing capital as evidenced by a falling rate of profit and flatlining productivity. Secondly that a hegemonic struggle was in train between the USA and China potentiating war. Thirdly that capitalism could not reverse global warming because it was the cause of it. Fourthly that machine learning was going to lead to the mass unemployment of both white and blue-collar workers, therefore undermining social stability.

Even one of these crises would be difficult to deal with, but all four simultaneously??? Capitalism is facing the biggest crisis in its history. Humanity's first industrial society stands on the brink. The question is posed, not whether capitalism will somehow overcome all of this, but by failing to overcome it, whether it drags society over the cliff with it. The pandemic has ensured this time of rupture is upon us.

### **Conclusion.**

It is our responsibility to provide an alternative to this exhausted and dangerous system.

Brian Green, 18<sup>th</sup> October 2020.

