



## **The Economy and PFIs**

### **Workers Party Conference March 24<sup>th</sup> 2018**

In this talk on the economy I'm going to look at two myths of mainstream economics. Then I'm going to provide a brief overview of the current state of the economy in Northern Ireland. I'm going to look at how public finances have been disastrously mishandled through Private Finance deals known as PFIs. Finally, I'm going to briefly discuss alternatives to provision in the short-term and The Workers' Party's goal of the socialist alternative. In what follows I've drawn on a number of sources, notably the work of economic historian Conor McCabe, the Nevin Institute, the Community Relations Council monitoring report and the work of various journalists and academics.

The facts of the economy in Northern Ireland, as everywhere in the capitalist world, directly contradict the myths of mainstream economics. Chief among these myths is the idea that a freely competitive capitalist economy left to itself generates full employment. It follows from this idea that unemployment is the product of various external problems caused by groups such as trades unions or through government interference.

A second mainstream economic myth is that there is a tendency in developed capitalist economies towards a decrease in inequality, due to the effects of modernisation, including enhanced educational opportunities. So, the idea is that capitalism generates equality. Moreover, the inequality that does exist is the product of the greater drive, hard-work and entrepreneurial vision of the wealthy. According to the mainstream, a person's income is simply a function of his or her productivity and willingness to work. People are poor because they are not very productive or because they have a weak involvement in the labour force as a result of their own choices. The inequality that does exist is a 'natural' result of different skills and effort. In 2004 Robert Lucas, Jr. of the University of Chicago, the most influential macroeconomist of his day, stated that, "Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of [income] distribution."

According to mainstream economic view inequality is benign precisely because it can be attributed to different levels education and skill sets.

The real world, is somewhat different. Far from a full-employment equilibrium, what we see is high levels of unemployment and underemployment. Income and wealth levels, rather than converging, have diverged sharply—and this divergence cannot be put down to differences in education and skills. In short, both of the principal justifications for the system provided by neoclassical economics are bogus.

Let's look at the current economic situation in Northern Ireland to see how far it diverges from the mainstream economic fantasy. In 2018 Northern Ireland has a low investment, low productivity, low employment and low income economy. Following the global crash of 2008, the Northern Ireland economy has lagged behind the modest growth seen elsewhere in the UK and still further behind the recovery, for some, in the republic.

Productivity in Northern Ireland (in terms of gross value added per employee) is low, standing at 85 per cent of the UK average. Northern Ireland is one of the UK regions where productivity levels fall below public spending. The North East of England raises only 29% of its region's Gross Domestic Product in revenues while public spending reaches 62% of GDP, a deficit of 33%. Similarly, Wales, a raises only 30% of its GDP in taxes but spends 66% and Northern Ireland, raises 27% and spends 67%. Northern Ireland is the poorest of the UK devolved jurisdictions in terms of living standards. Contrary to widespread expectations of a sustained 'peace dividend' following the Good Friday Agreement, data show that median household income after housing costs in 2014-15 was, at £380 per week, almost identical in real terms to a decade earlier.

As we saw, mainstream economic theory says that skilled workers are rewarded for their efforts in acquiring employable skills. Again, the reality is different. Rather than being rewarded for their skills, workers who'd had skilled well-paid jobs in NI have lost these jobs in recent high-profile closures and cutbacks—with Michelin and JTI Gallagher announcing shutdowns in Ballymena, Co Antrim, and big job cuts in the east Belfast engineering plants, Bombardier and Harland & Wolff. In terms of the government expenditure most departments will experience a real term cut in public spending this year, despite DUP promises of £1 billion from the Tories.

The Northern Ireland economy shrank by 1% in the second quarter of 2017. The Production sector was responsible for the largest decline in overall output in the economy. The 20% fall in Food, Beverage and Tobacco manufacturing, which accounts for more than a quarter of total manufacturing output, explains much of the decline.

Much of this is due to the cessation of production at the Japan Tobacco plant in Ballymena, with the loss of 800 jobs. The Services sector declined by 0.5% in 2017 due to a continuing slump in 'Retail and Hospitality'. Public Sector productivity also decreased slightly, leaving the Construction sector as the only sector in the economy to record growth. The collapse of construction firm Carillion earlier this year is perhaps a sign of change for the worse in the construction sector. It's certainly a sign that putting construction in the hands of private firms is no way to run an economy.

The failure to restore the Northern Ireland Executive resulted in the Secretary of State bringing a budget for Northern Ireland through parliament in Westminster in which core public spending on most public services will see cuts in real terms.

The past few decades we have seen the nature of employment undergo considerable change in the rich countries, with the decline of the traditional 'standard' employment arrangement (regular, full-time, permanent, with a single employer), and the increase in alternative 'non-standard' employment – such as part-time, fixed-term contract work; self-employment, agency work, zero-hours employment, and on-demand/'gig' work. Most workers don't want this, but in the absence of strong Workers and Communist Parties, capital calls the shots.

In Northern Ireland throughout the twenty years from 1996 to 2016 there have been declining proportions of men employed in traditional 'standard' full-time, permanent employment and an increase in the proportions of men part-time permanent, temporary and self-employed. What is more, although there was a general increase in the proportion of women in full-time permanent employment between 1996 and 2014, this has declined substantially since 2014. The chances of getting a stable full-time job in Northern Ireland are decreasing for both men and women.

Unemployment in NI is at its lowest level in almost 10 years and below the UK average for the first time since 2013. However, as the BBC notes, much of the decrease reflects an increase in people becoming "economically inactive". Economic inactivity refers to people of working age who are neither in work or looking for a job. The Nevin Institute notes, the proportion of the unemployed who are long-term unemployed continues to rise. This figure increased by 14% in 2017, indicating that more and more workers are detached from the labour market.

In particular, increasing proportions of men have stopped actively seeking work. Nearly a quarter of men aged 16 to 64 are economically inactive. When adjusted for inflation the wages of male part-time workers fell by 5% in 2017. The Nevin Institute argues that the declining earning power of male employment in these jobs, might help explain why men are exiting the labour market.

Unemployment, precarious employment and underemployment are endemic under capitalism. Poverty is another outcome of capitalist organization. Owners of businesses generally aim to lower the number of workers or their wages or both. They automate, they outsource jobs, and replace higher-paid workers by recruiting domestic and foreign substitutes willing to work for less. These routine actions generate rising poverty at the same time as they create rising profits. On top of this, from the owners' perspective the threat of job loss provides a break on possible worker militancy as workers tend to accept what employers dish out to avoid losing jobs and falling into the dire poverty that unemployment brings. The latest data show us that 370,000 people in Northern Ireland live in poverty. This figure consists of 110,000 children, 220,000 working-age adults and 40,000 pensioners. Overall, poverty rates have been stable in Northern Ireland over the last 10 years or so at around one in five of the population. However, the poverty rate varies greatly between different groups within the population in Northern Ireland. Pensioners currently have the lowest poverty rate, followed by working-age people without children. Poverty is highest among families with children.

While these figures indicate enormous problems in the local economy, according to the 2017 Barclays UK Prosperity Map, Northern Ireland is the fourth most prosperous region in the UK. This is because some people Northern Ireland are doing very nicely indeed. The supposed growth in prosperity in Northern Ireland has been accompanied by a growth in the number of millionaires resident here. According to the Barclays findings there are now 12,500 millionaires living in Northern Ireland. One in every fifty UK millionaires lives in NI. Moreover, according to figures from The Guardian in 2012, Belfast has, in per capita terms, more people with disposable cash of \$30 million than any U.K. city other than London and Aberdeen. In 2011, 96 of these "Ultra High Net Worth Individuals" lived in Belfast. As sociologist Colin Coulter notes, "It would be hard to think of a statistic that highlights more vividly the profound material inequities that have survived all the many, often progressive, changes that have occurred in Northern Ireland over the last generation."

Coulter notes that “While the residents of west Belfast, for instance, suffered more than most during the Troubles, they have gained very little in economic terms since the conflict effectively ended. Indeed, there were more state sponsored jobs located in the constituency prior to the cease-fires than there are today, which goes some way to explaining its status as the second most impoverished community in the entire United Kingdom. The ‘peace dividend’ evidently has materialized elsewhere and the data on Northern Ireland’s multimillionaires gives us a broad hint as to where to look.” We can look at an economic system based on exploitation that generates inequality, locally and globally, an economic system which all the main parties on this island endorse.

## **Part Two**

Economic historian Conor McCabe notes that government policy in relation to Northern Ireland is based on the idea was that “any aid to profit-seeking growth is automatically an aid to societal growth. And if reality show[s] otherwise, it must be the people ... that are wrong, not profit and its margins.” The idea that profit-seeking is the means to prosperity underlies such policies as the privatisation of electricity, the attempt to build prosperity on the back of a property boom, the belief that InvestNI is good for NI, the austerity agenda that has resulted in so much misery and chaos in working class communities and the promise that lowering taxes will somehow raise all boats and produce a prospering economy.

A number of disastrous economic policy decisions have been put in place in the past 40 years, contributing to the development of a neo-liberal global capitalist order. Since the early 1970s the capitalist class has clawed back the limited gains that had been made by the western working class in the period between 1945 and the early 70s. The collapse of socialism in the peripheral countries of the former Soviet Block and in China, whose enormous working class has been placed in the service of western capitalist powers have greatly increased the power of capital.

Examples of disastrous neo-liberal policies in the UK include been the privatisation of steel and coal production, of energy production and of key services including communications. Another key neo-liberal policy has been the outsourcing of the provision of goods and services. Yet another has been the use of private finance agreements to fund schools, hospitals roads and so on.

These Private Finance Initiatives (PFIs) are basically glorified hire-purchase arrangements in which a consortium of financiers borrows to construct a new asset such as a school, hospital or road. The taxpayer then makes payments over the contract term (typically 25 to 30 years), which cover debt repayment, financing costs, maintenance and any other services provided. The PFI initiatives were favoured because they sat well with the free-market myth that the market is more efficient than the state. Perhaps more importantly, they were debts that don't show up on government balance sheets. The IMF, of all people, note that, "In many countries, investment projects have been procured as PPPs not for efficiency reasons, but to circumvent budget constraints and postpone recording fiscal costs of providing infrastructure services". And they allow governments to engage on projects in the short term while repayment is long-term.

There are a number of problems associated with the private financing of public goods and I'll outline some of the main ones. The first problem is that because PFIs put profit first, they tend to cut corners. Secondly, deals are often renegotiated at the last minute in terms favourable to the private financiers. Thirdly, the financial groups that are tasked with maintaining a school or hospital can go bust. Fourthly, a swathe of corporate lawyers makes a hill of money in the process of setting up the deals. According to the Financial Times, in the UK "lawyers, financial and other consultants have earned a minimum of £2.8 billion and more likely well over £4 billion in fees over the past decade or so getting the projects up and running". Fifthly, the cost of repayment can saddle the government with enormous repayment bills, which are many times larger than the original outlay. In Northern Ireland, by 2017 33 PFI arrangements were in place to build hospitals, schools and roads and they will have cost the taxpayer £5 billion above their original cost by the time the last contract is through in 2043. Most infrastructure projects in the UK are directly funded by government. The remaining PFI financed projects amount to a risk-free money trough for financiers. PFI is quite simply a matter of the government giving money away to financial groups whose only interest is profit making. In 2014 the Stormont's Public accounts committee noted that, "there is no strategic programme to review PFI contracts". This lack of oversight is scandalous.

This Party has, of course, been vocally against PFI as a means of developing infrastructure as have the trades unions. NIPSA has produced some great material on PFIs.

And this year Unison has called for a windfall tax on PFI profits, which some in the Labour Party support. This is a good idea, but it only goes so far. A number of these profiteering entities have gone bust and you can't levy tax on a bankrupt enterprise. The PFI's should be renegotiated and all projects brought back into the public sector. As a matter of interest, although Sinn Féin was in theory against PFIs, in reality, SF Education Ministers signed off on 20 privately financed school buildings. Martin McGuinness stated that PFI offered "real potential for value for money solutions". The financiers must have thought their day had come!

The tide of history seems to be against PFIs. The Department of Education in Northern Ireland has now admitted that PFI does not offer value for money. Throughout the world a fightback against private finance, and against privatisation is ongoing. For example, in Norway following the election of left wing parties to city councils, 21 services have been de-privatised and brought back into public hands in municipalities. In February 2017, 170 employees who were engaged by a private waste collection company became municipal employees when the Oslo municipality took over waste services in the capital. Those who think that the local politicians' hands are tied, that no alternatives are realistically possible should look at what is being done at local level around the world to push back against the profiteers. While we applaud and endorse these struggles, we are a Workers' Party. Our goal is the complete management and control of society by and for the working class. That is our goal and that goal informs all our struggles including the struggle against public service profit-mongering. In Northern Ireland a distracted and divided working class has allowed a determined and well-financed class of financiers, developers and multi-national capitalists along with their lieutenants in the media and government to have their way. Only a united, class-conscious working class with goals that go beyond trade union demands can begin to challenge the power of capital.