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Covid 19, the economy and ecology

# Intersecting crises and the impact in Britain

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The global world economy is currently in crisis as a result of a shock in the real economy caused by the coronavirus pandemic.

There is also an ecological crisis that requires a serious response if we are to avoid permanent destruction as a result of climate change or the destruction of natural habitats and biodiversity. Unquestionably the pandemic is part of the ecological crisis and the latter crisis is due in large part to the laws of motion of the capitalist system which drives it to continuous growth and accumulation. What is not clear is whether the pandemic arose due to the nature of the capitalist system or is an external shock to the system already showing clear signs of stagnation due to the form of accumulation in use.

There is also a political crisis relating to the revival of the far-right and its consolidation which is being coordinated internationally and the obvious impact on the democratic structures and processes in many countries. The impact of neoliberalism (with wide-ranging free market economic arguments which severely impacted workers incomes and employment with a race to the bottom in many counties) has certainly spurred the revival of sympathy for right-wing nationalist solutions as opposed to globalisation and multi-culturalism.

These three crises (economic, ecological and political) are global in nature and have impacted countries in both the global north and south.

In Britain, we also need to take into account the specific problem of Brexit - probably a no-deal one. This will impact upon the UK far more than the rest of Europe; both the service sector (e.g., the financial and insurance sectors) which is the largest sector in the economy and industry which is often done jointly with other EU countries. The inevitable introduction of tariffs will probably make continued production with other EU countries far too expensive to continue.

The Brexit referendum was a failed attempt to address a division in the Tory Party by David Cameron. The outcome reflected the impact of nationalist and racist argumentation by the Tory right as well as the perceived impact of EU membership (as opposed to the actions of successive British governments) by sections of the British working class as the cause of poverty, job insecurity etc.

Some of the Brexit supporting sections of the British ruling class don't seem to understand the impact of neoliberalism and globalisation on various countries' domestic economies; the free mobility of capital and the inability to regulate it means that global production, consumption and exchange are deeply interwoven - far more so in the 19th and 20th centuries with colonialism and imperialism. The British empire is gone and becoming dependent on a US trade will not be a demonstration of the power of Britain but a confirmation of the collapse of its global economic power.

## Economic Crises

Most recent economic crashes are cyclical originating within the financial sector. The role of financialisation cannot be ignored. Financial markets often become over-valued due to speculative investment, as profitability in the real economy is so low that short-term turnovers of capital are preferred to a long-term investment in the real economy itself. The removal of regulations in the finance sector as part of neoliberalist goals led to the 2007-8 crash, for example. Just recently the overvaluation of the financial markets led to a massive sell-off of tech stocks to bring their value more in line with the real economy; an adjustment that many had been expecting.

But this is not what we are experiencing now. Normally, economic crashes serve to realign the regime of accumulation through the elimination of redundant capital (closures of unprofitable sectors and reduction in the over-valuation of both capital and financial stocks) and the freeing up of capital tied up in unprofitable sectors. This leads to a further concentration and centralisation of capital.

As Marx notes, this is a part of the laws of motion of the capitalist system itself. This cuts across the different sectors of global economy enabling the potential of a rise in profitability. Free capital can be reinvested elsewhere both domestically and internationally. Secondly, as we have seen historically (and now) crashes leading to the closure of businesses will also mean increases in unemployment and the opportunity to decrease wages. This can lead to a revival of the economy (depending on investment and economic growth) and the whole game begins again.

Economic crises are part and parcel of the capitalist economic system and they happen regularly; brought about by the laws of motion of the system itself. A cursory look at the history of capitalism will demonstrate this. What Keynesian policies did was ameliorate the depth of the crises; it could not eliminate them as that is not possible under capitalism.

Whether a cyclical problem leads to a crisis as opposed to just a bump depends on the reactions of the ruling class and politicians in ensuring the stability of the system. Moreover crises do not mean that the system itself is over: capitalism is a very dynamic system. As Marxists we know that in order to eliminate the system we need the development of a subjective revolutionary element that can bring about a revolution. Economic crises themselves do not challenge the system in the absence of the necessary subjective conditions.

We should not describe the current situation as a recession. The mainstream media and economic commentators often use this term because it sounds far less frightening than the correct term of economic crisis. A recession simply refers to 2 quarters of negative economic growth; whether this occurs over 2 quarters or more says nothing about the depth of the economic crisis that we are facing.

Since this pandemic did not happen simultaneously around the planet, there are some areas where the lockdown stretched over two quarters (like in Europe) and they were in a recession. In the case of Britain, the crash happened in the 2nd quarter of 2020; there is now some economic growth (6% in July itself) as the economy reopens. What is important is whether the lack of a vaccine and as a result subsequent lockdowns will happen as we go through round 2 of the virus and how much of the economy will have to return to lockdown and whether there will be another period of negative economic growth and how deep the crisis will be.

An additional issue relates to how various governments have reacted to the shutdown to try to decrease its impact. Have they introduced policies which kept businesses from going under, have they prevented increasing unemployment, how are they preparing to restart the economy or are they leaving it to the private sector to decide? Will they need to change the nature of the regime of accumulation or will reasonable adjustments by the private sector and the state enable a recovery? Moreover many recent recoveries were not job creating ones - profitability

recovered but not employment and even worse, decreasing the social subsistence level of wages (over a period of a decade) and the destruction of working conditions did not lead to job recovery even under government's official definition of unemployment.

We can blame mainstream economic theoretical arguments for the ridiculous idea that the stagnation and/or the depression of wages will lead to increased employment; but this is an ideological perspective rather than one based on reality - they are the priests of the system providing justification for the political decisions of politicians and the ruling class rather than the creators of the manner in which the system itself functions. Economic policies are political decisions; dependent upon the choices and current perspective of the ruling class and politicians.

Austerity is a political choice, export-led growth is a political choice, undermining the welfare state is a political choice. Long term depression of wage incomes (which is what austerity means) as the basis of future economic growth actually can be argued to lead to decreases in productivity in manufacturing and industry and minimal increases in growth due to limited need for introduction of new technology which would lead to higher productivity and economic growth. In fact much of the stagnation in advanced capitalist economies can be blamed on this neoliberal economic model which relies on the suppression of domestic economic demand and export-led growth.

What we are witnessing is essentially a shut-down of the world economy due to the coronavirus and the lockdown of economies to prevent its spread. In order to address whether this is an endogenous economic crisis (produced by the current laws of motion of accumulation and growth in the capitalism system) or an exogenous crisis (something caused by an external shock to the system - think of "acts of god") we need to discuss whether what has caused the pandemic is something that is required by the regime of accumulation of the system to actually function or is actually a random event.

Does the regime of accumulation requires the invasion of natural habitats and the destruction of wildlife or did the pandemic arise due to the specific situation in China with the use of wet markets where specific viruses associated with feral animals sold there enabled the creation of a virus that impacts upon humans and created this pandemic. If the former, it would be an endogenous crisis. If on the other hand, the virus was created due to specific actions of groups of individuals in the system which the general system does not need to function, it can be considered an exogenous shock to the system.

Human beings are incredibly adept in their destructive abilities, independent of the capitalist system itself. Way before the existence of capitalism, human beings viewed nature as something to be conquered and tamed which not only enabled species extinction but also massive transformation of the environments in which they and other species lived. Capitalism has sped up the destruction of the environment and the ecosystem of the planet on which we are dependent for life; the dependence of capitalism on economic growth clearly has led (and continues to lead) to further human impact on the planet itself in search of areas of increased profitability and economic growth.

So, if the general mode of accumulation is responsible for the creation of the pandemic itself; that is that in order for economic growth, accumulation and profitability, it would be an endogenous shock. If it happened as a result of the (in)actions of individuals or a government; that is a random event it can be argued to be an exogenous shock. In the case of the wet markets of China which is where it is speculated that the virus arose leading to the pandemic; this does not seem to be something required by the current mode of accumulation not even in the specific nature of the manner in which accumulation occurs in China. The mode of accumulation certainly impacts human behaviour but it would be difficult to argue that these wet markets are needed to keep capitalism growing even in one specific country; this is something that could have been easily prevented by government regulation. The neoliberal mode of accumulation based upon globalisation does not require the existence of these wet markets to ensure accumulation and growth at a global level. While the Covid-19 pandemic is an exogenous shock due to it being a random occurrence in a major capitalist country, if we continue to invade and destroy natural habitats we can be certain that

there will be more deadly pandemics and that this would become an existential problem for humans and other species with whom we share the planet.

So I would argue that rather than an endogenous crisis caused by the laws of motion of the system that this is an exogenous one caused by a pandemic that required the shutdown of various economies in an attempt to stem its spread. If sufficient information arises that this pandemic was directly due to the needs of the regime of accumulation; I would alter my analysis accordingly. While neoclassical economists consider exogenous crises as the only form of crisis that happen as they believe the system is internally stable; as Marxists we know that is not true as we don't live in a land of deluded ideology.

## Neoliberalism

While exogenous shocks normally do not threaten the system of accumulation itself, prior to the pandemic, economic growth and accumulation on a global scale had slowed and in many countries was close to stagnation.

This situation brought about by neoliberalism and austerity impacted deeply upon production, distribution and consumption in many countries. The closely interlinked nature of the current global neoliberal economic regime meant that the lockdowns of various economies reverberated and strengthened the exogenous shock. Since countries' production and consumption are interdependent, the stoppage of production impacts production throughout the whole international system.

The production of raw materials (agricultural and manufacturing), intermediate goods, and final goods of all types were impacted. Bringing this production back on line takes time and whether it happens depends upon expected demand and profitability of capitalist producers at various stages of the production process; often with the division of labour in industrial production divided both horizontally and vertically across countries.

Neoliberalism and globalisation freed capital from national government control, taxation and regulation. It initially shifted labour intensive manufacturing and industrial production from advanced capitalist economies to the global south and it shifted domestic production, accumulation and growth towards export-led production.

This meant that domestic consumption became less relevant, which enabled the decoupling of wages from productivity and undermined social subsistence levels of income (wages were stagnant and welfare states were undermined) in advanced capitalist countries. Taking advantage of uneven and combined economic development means exploitation is easier (and perhaps lower capital investment) so profits rise. The shift of industry to the global south reduced growth in the global north. The introduction of austerity in the global north enabled a wage squeeze following the 2007-8 crisis to keep profits up and, given that it lasted far longer than these processes normally do, led to long-lasting changes and not temporary ones.

Privatisation of parts of the public sector meant that many of the economic gains won by the working class like socialisation of key resources and cheap access to them (e.g., water, electricity) and parts of the welfare state were eroded if not destroyed (e.g., the NHS, social care, the benefit system). The introduction of competition and private capital to the now privatised former public sector means that what is produced and how much is produced depends on profitability.

The development of free-trade zones and free mobility of capital meant that profits could be invested freely elsewhere and were not taxed there. The stagnation in workers' incomes (or even their decrease) also means that

services and goods that were previously free at the point of demand have now been privatised and the fact that now they are charged for means that people can't access them

So, privatisation of child-care rather than state provision costs money, the same thing with access to social care for disabled people and the elderly and the massive decrease in public housing and rent control stabilisation has raised substantially the cost of housing for the working class. Weakened trade unions and a weak left meant that little protection for the majority existed and there has not been a strong enough fight-back. The term "race to the bottom" is accurate and there has not been the strong revival of economic growth that was the promised result of these austerity policies.

## The Current Economic Situation in Britain

The latest [economic data for the UK](#) clearly demonstrates the impact of the coronavirus pandemic on the economy. [Collapse in GDP growth](#) in the UK was at 20.4% in the 2nd quarter of 2020 due to the virus and the subsequent shutdown as compared to 9.5% in the US and 12.1% in the EU - but we need to note that the shutdown in the UK was all in the 2nd quarter as opposed to being spread between the 1st and 2nd quarters as in mainland Europe. The expected decrease in the size of the global economy is 6% on average according to the OECD. Needless to say, unemployment has risen and will continue to do so. While [furloughs](#) have kept unemployment down; their removal will lead to rising unemployment as business that kept workers on will continue to fold due to decreased expected profitability and expected demand. While the lifting of some of the lockdown measures has allowed some non-essential retail businesses to open; the reality is that [UK manufacturing](#) remains severely depressed - with new orders still remaining below normal levels although it is believed that there is a slight recovery underway. Moreover, there is the reality that the UK economy was already close to [stagnation](#) before the pandemic with annual GDP growth of 1.3% and 1.5% in 2018 and 2019 respectively. The economy grew in July and August (6% according to the latest data) but remember that GDP fell by 20%. Moreover, the furloughs are disguising unemployment as many workers will not have jobs to go back to as companies close.

Brexit will further impact the economy - a no-deal Brexit would spell the end of some manufacturing which is done in conjunction with EU countries (like some car production). Service production will be affected: already some of the insurance industry has relocated to Ireland, some research and development has been relocated (e.g., we used to be the country where new drugs were tested, now the Netherlands is the preferred site). While major vaccine research is done in Britain, we do not have the facilities for production.

The vaunted trade deal with the US is not guaranteed. While Trump cares nothing about international law (and international law would be broken with a no-deal Brexit due to the Good Friday Agreement) this is not the case with the US Democrats (Nancy Pelosi has already threatened the trade deal - remember the Good Friday Agreement was done with US involvement). We are going to discover that being bullish on Britain is irrelevant as we are dependent on international trade for purchase and sale of primary, intermediate and final goods. The argument that we are a "sovereign nation and can do what we want" is delusional as we are not the global power we were in the days of the Empire. Add this to an economy already in crisis and we are looking at a significant problem which, as we know, will primarily impact the working class.

The primary targets of over a decade of austerity were the public sector, workers' incomes (wages and benefits) and conditions of work; privatisation of parts of the public sector was an essential part of austerity enabling lower wages and the destruction of working conditions in a private sector with low levels of unionisation. The introduction of a restrictive system of benefits that was based on the principle of lesser eligibility (and a benefits freeze and overall cap) further impacted upon workers' incomes primarily hitting [women](#) and [the disabled](#) the hardest.

Even with growth in employment, wage incomes remained stagnant. The social subsistence level of income was deliberately eroded in a move to try to increase profitability by lowering wages; that this situation continued over a decade has led to both rising absolute and relative [poverty](#) in the UK. In 2017-2018, an increase in poverty was beginning to be clearly seen and this was confirmed in 2019 with the [Resolution Foundation Report](#) examining living standards and the rates of child poverty. This arose due to lowered incomes (stagnant wages and the impact of Universal Credit which limited benefits to 2 children); for children living in single-parent homes, those with large number of family members and no members working. However, the child poverty rate for those in working households had already hit a [record high](#) in 2018-19.

"Although paid employment reduces the risk of poverty, in-work poverty has risen, from 9.9% of workers in 1997/98 to 12.7% now - an unacceptable situation. Around 56% of people in poverty are in a working family, compared with 39% 20 years ago. This change has been particularly dramatic for children: seven in ten children in poverty are now in a working family. Falling benefit incomes and rising housing costs have pulled working families into poverty despite a growth in earnings.

This growth has only just brought earnings back to their level pre-recession for low-income working families, who faced the biggest hit to their earnings during the recession. The risk of poverty is higher for workers with disabilities, Black and minority ethnic workers, part-time workers, those in families with children and those in single-adult families, especially lone parents. However, rising in-work poverty has not affected all types of worker equally over the last five years:

" The risk of poverty has risen for workers in families with children, but there has been little change for workers in families without children.

" Working single parents have seen the fastest rise; now three in ten are in poverty. It was two in ten in 2010/11.

" The risk of poverty has increased for both full-time and part-time workers, and for workers with and without disabilities. Differences in employment rates, how much work is full- or part-time and the prevalence of low pay all contribute to differences between regions. ([Joseph Rowntree Foundation](#), full report)."

## What needs to be done

The concurrence of several different crises at the same time means that if we had a government committed to addressing the environmental crisis, the underfunding of the NHS, the destruction of social care due to privatisation and rising poverty brought about by undermining the social subsistence wage and the insufficient level of the social welfare net there would be a chance of dealing with this.

But given the economic crisis and the expected failures of many businesses, we can expect rising unemployment once the furlough system ends. The private sector will be reluctant to make large scale investment due to uncertainty of consumer demand (for goods consumed here and those sold overseas). New industrial goods can't be produced straight away (unless intermediate goods and raw materials are being held in storage) and how much is brought on line is dependent both on expected profitability and expected demand.

While the furloughs maintained some levels of incomes (along with a temporary rise in some benefits) and has protected some jobs; the reality is that there will be rising unemployment and working class consumption will be constrained due to decreased incomes. At best the furloughs only covered 80% of wages for some workers. If those

that are unemployed are only able to obtain the insufficient level of Universal Credit, this will, of necessity, further constrain consumer spending and private sector investment. This will of course create feedback on production here and internationally for goods and services produced abroad and consumed here.

The government cannot continue cutting wage incomes in the hope of increasing private sector investment and output of goods; poverty was already rising and if that continues it would block an economic recovery. Privatisation of the public sector is destructive not only for the production of goods and services people need, but also the quality and quantity of that provision.

A national living wage for all workers is essential to fight against rising poverty. The universal welfare state needs to be rebuilt to ensure that a proper social safety net exists; in its absence all we will see is increasing poverty at a far greater level due to unemployment. Both the amount of benefit available under Universal Credit and the punitive nature of the benefit system are absurd at any time but even more so if an economic recovery is actually the aim. The idea that people will not work if the benefit system is too high is just right-wing ideology and it needs to be thrown in the garbage with the Poor Laws as there is no factual evidence to justify this position.

During the coronavirus pandemic, a decrease in air pollution was noticeable in economies under lockdown demonstrating that climate change and pollution can be tackled at least in part even in the current system and that is something that we can advocate for. A just transition to a green and more sustainable economy can be begun through state investment in sustainable energy development, public transport and green and sustainable public housing for life (addressing the housing crisis). These are necessary if we are going to transition our economies in line with the Paris COP agreement to cap rising temperatures to 1.5 degree increase to preserve the planet for future generations.

We need government created jobs (like in the Great Depression) and sustainable energy production either by direct investment under government control and/or guaranteed government purchase for that produced by the private sector to ensure future investment. Social care needs to be brought back into the public sector to ensure that the needs of the society are met - which clearly has not occurred under the private sector. Job creation not only covers income for the working class, but provides goods and services that are needed in the economy and jobs to create revenue for the state.

The pandemic has also underlined the importance of women's traditional labour in keeping the economy functioning. The [undervaluation of women](#)'s traditional labour, its "unskilled" status and therefore low wages and the assumption that anyone can do this work has been demonstrated to be nothing but ideology. Women overwhelming work in key industries like care work (child, support and assistance for the disabled and the elderly), and health care and in hospitality. The impact of austerity on women has been significant due both to the type of work that women do, their being stuck in part-time work due to social reproduction responsibilities and the attacks on the welfare state. Privatisation of much of this work has accelerated this hardship. Trade union organising in this sector is harder because workers are often isolated from each other and because employers are much less likely to recognise the union. And both the workers and those getting support and assistance are alienated due to the reduced quantity and quality of services available because of the profit maximisation criteria of the private sector.

The Women's Budget Group argues for a [Care-Led Recovery](#) from the pandemic. Investment in the care sector would mean money invested in child-care, in support and assistance for the disabled and elderly, in increasing education for people at all stages of their lives. Investment in social provision would not only provide what people desperately need through the creation of employment and training for those interested in working in these sectors but if done through the public sector with a national living wage (and therefore not subject to profitability considerations) the number of jobs created will be higher than that for other sites of investment like construction. While currently these jobs are predominately done by women, they can be done by men as well - which would impact gender



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differentials in pay. And these jobs themselves don't produce carbon and hence support the just transition and green recovery for the economy. Moreover, they prioritise the needs of human beings rather than the needs of the capitalist system.

*Source: published in two parts in **Socialist Resistance** [Part 1](#) and [Part 2](#).*

*PS:*

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