Energy, the cost of living and slump

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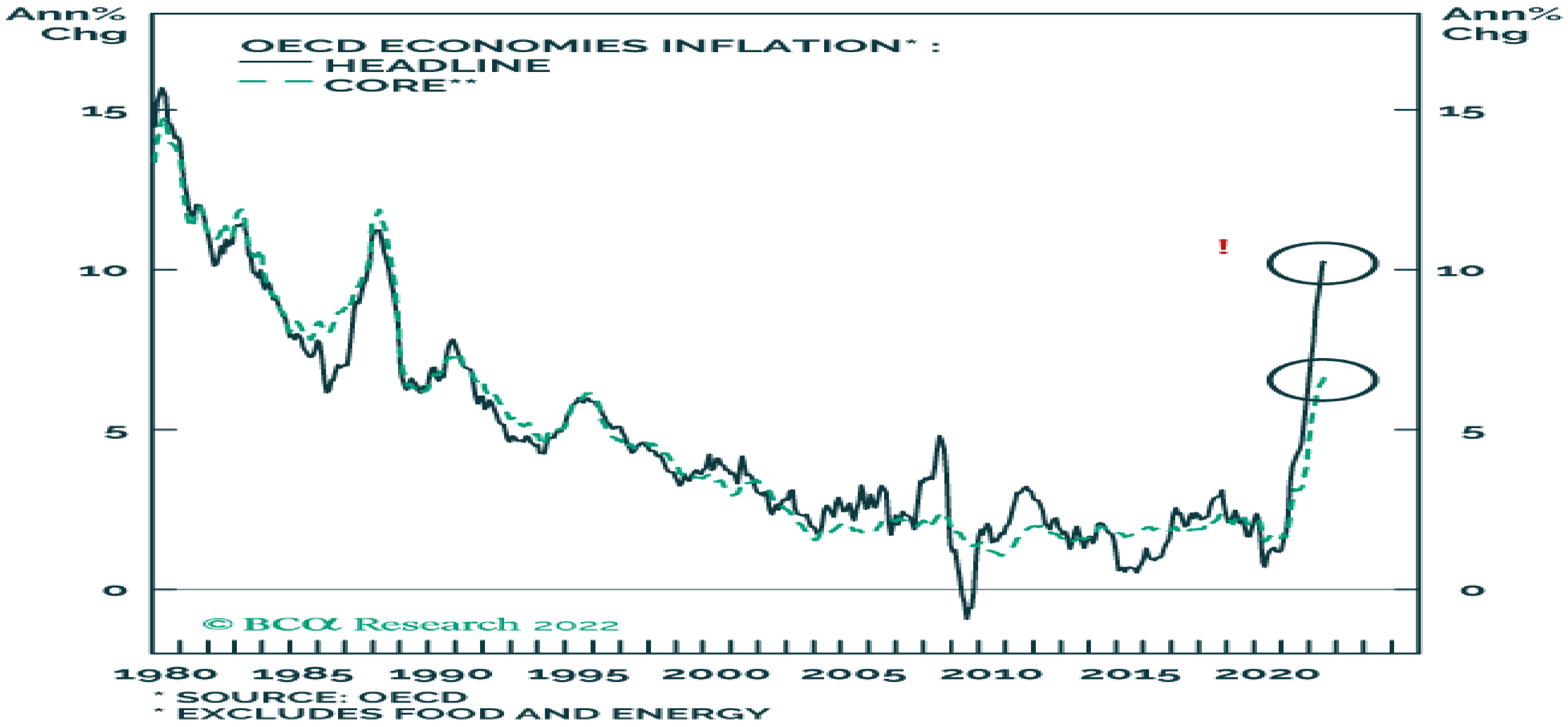
The future of the left September 2022

Inflation rates highest in over 40 years



Worst of all in the UK: inflation 13-22%!

- BoE forecasts inflation to peak at 13.3% in October & real household disposable income set to fall by 3.7% across 2022 and 2023, making them the weakest two years on record.

Citibank forecasts UK inflation to reach 18%! UK inflation is on course to rise to 18.6 per cent in January, the highest peak in almost half a century, due to soaring wholesale gas prices, according to a new forecast from Citi based on the latest market prices

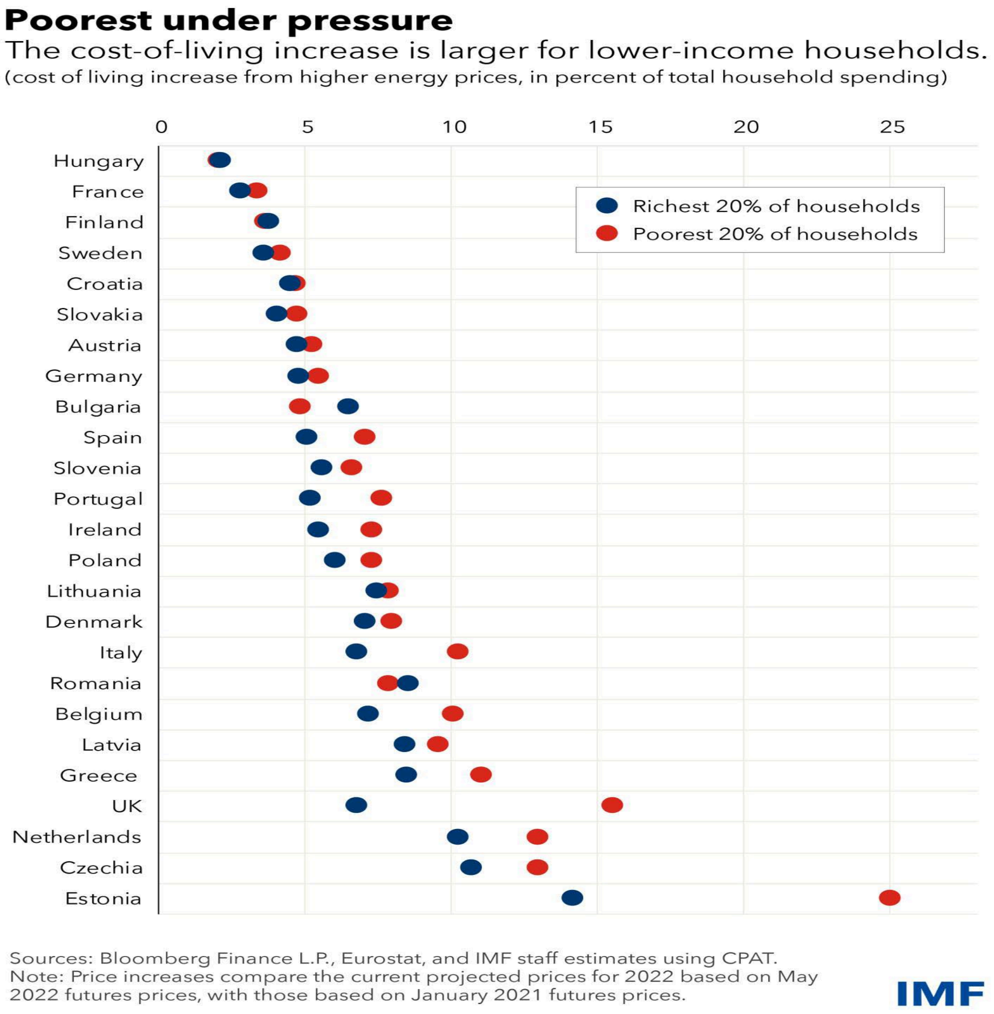
Now Goldman Sachs say 22%!

Real wages to fall for longer and deeper than for over 200 years!

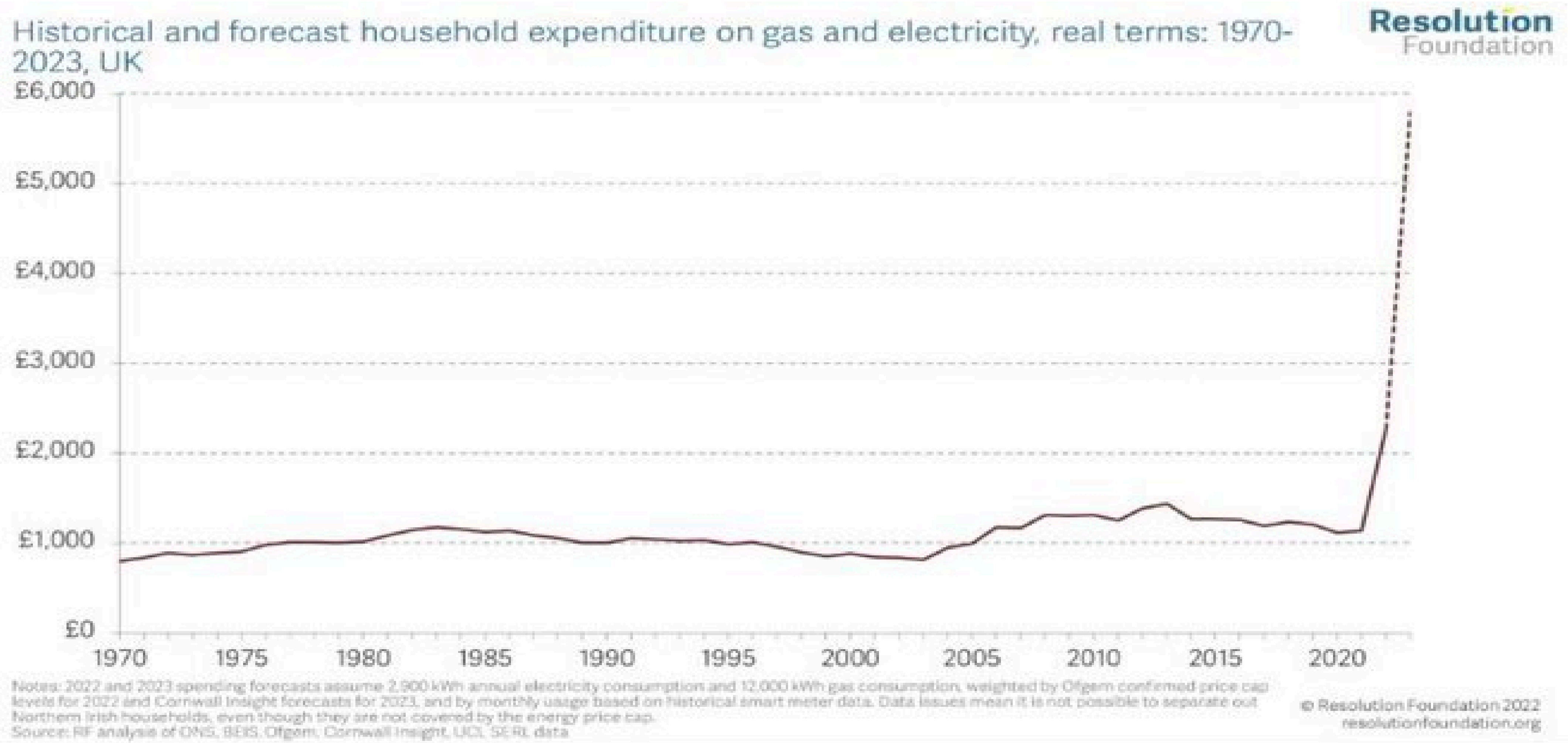
- Between 2021-22 and 2023-24, typical incomes are set to fall by a shocking 10%, the largest two-year income fall in at least a century: https://resolutionfoundation.org/publications/in-at-the-deep-end/…
- It will leave the average worker almost £13,000 a year worse off by the middle of the 2020s. By 2026, it said average household earnings would be £30,800, compared with £43,700 if wages had risen at the same pace as in the two decades before the banking crisis. (Institute of Fiscal Studies).
- This will mean an unprecedented two-decade hit to earnings that would leave average *household disposable income 42% lower* than it would have been had wages grown at pre-2008 financial crisis rates.

Hitting the poorest the hardest

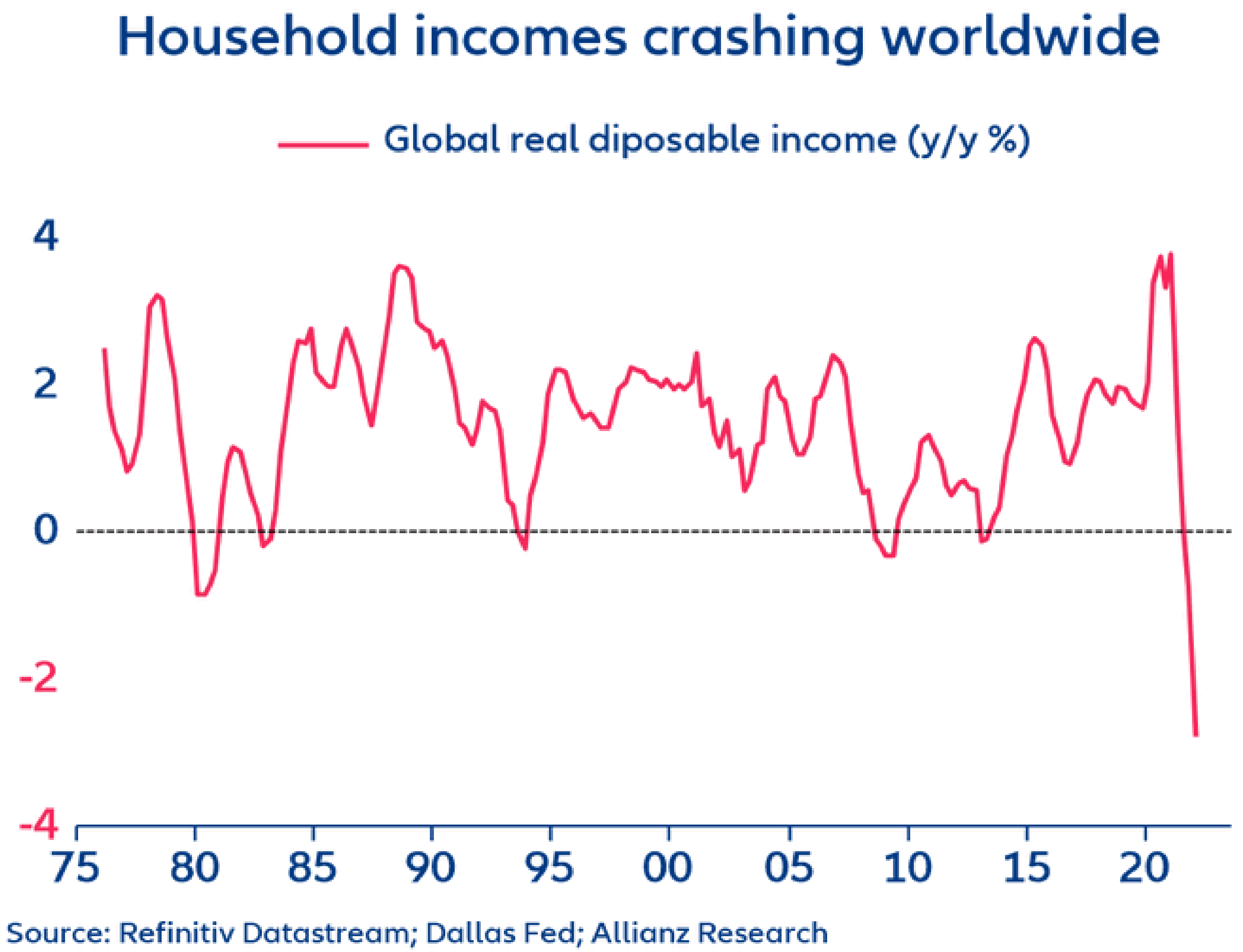
- Over 40% of UK households will not be able to heat their homes properly in January when energy bills rise yet again.
- Yes, this Britain in 2022.
- About 28mn people in 12mn homes, or 42 per cent of all households, will not be able to afford to adequately heat and power their properties from January, when a typical yearly energy bill is forecast to exceed £5,300, according to the End Fuel Poverty Coalition.
- Roughly 9mn households will struggle to live in a warm, dry home from October 1 when Britain's energy price cap will rise 80 per cent to £3,549, according to the forecasts. The cap dictates bills for the majority of British households.



Household spending on energy



Real incomes diving



Energy poverty – and absolute poverty

- Poorest risk spending half their income on energy, even with price cap - new research from @PEF_online
- The proportion of people living in absolute poverty is projected to rise from 17 to 20% (again despite the price cap and an assumption of 10 per cent benefit uprating next April), with the proportion of children jumping from 23% to 28%.
- These changes are equivalent to an extra 2.3 million people, including an extra 700,000 children, living in poverty.
- *"The child was pretending to eat out of an empty lunchbox because they did not qualify for free school meals and did not want their friends to know there was no food at home."* Guardian

Government plan: handouts to energy firms and richer households

- Price cap of £2500 a year average energy bill for up to two years. But that means energy bills still double the level of end-2021.
- Rich households stand to receive twice as much cost of living support as poorer households. **Support for the richest tenth of households will – at £4,700 in 2023-24 – far exceed the level of support for the poorest tenth of households (£2,200) despite the latter being most exposed to high energy bills.**
- The UK’s four million families on pre-payment meters, who tend to have lower incomes, will still need to find £250 up front to keep the heating on in January alone due to the higher cost of gas,
- The £400 energy bills discount will expire, and vulnerable households – pensioners and working-age families receiving means-tested benefits – will not get another round of £650 lump-sum payments to help with their energy bills.
- Huge handouts to big business from Bank of England emergency loans; Just six months help for small businesses. A blank cheque given high levels of uncertainty about future gas prices.
- NO WINDFALL TAX ON ENERGY COMPANIES TO PAY FOR THIS; ALL FROM PUBLIC PURSE THROUGH BORROWING.
- BOE WILL HIKE INTEREST RATES EVEN MORE; COST OF DEBT SERVICING TO ROCKET OVER THE DECADE WHILE INDUSTRY AND HOUSEHOLD FACE SHARP RISES IN BORROWING COSTS

TUC proposal

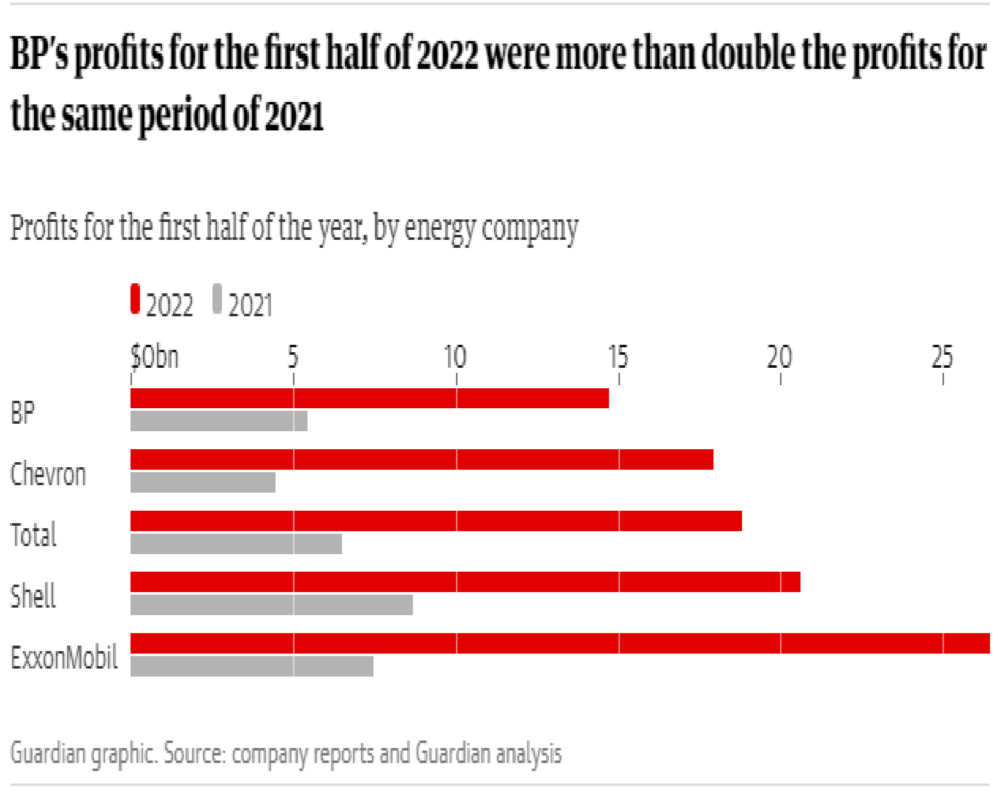
- Take the Big 5 energy retailers and other failing retailers into public ownership, at a similar cost (under £2.85bn) to what the government already spent on keeping failed energy supplier Bulb in business;
- Task publicly-owned energy providers with offering a social tariff capped at 5% of income for low-income households;
- Recognise that energy is a common good: restructure tariffs to provide all households with an initial free energy allowance, and increase the cost per unit for high-consumption households;

But it’s not just the retail companies

- Energy production and distribution is in three parts
- 1. FOSSIL FUEL companies like Shell and BP: HUGE PROFITS
- 2. Gas and electricity generation and distribution companies 45% markup (the big 6)
- 3. Regional retail monopolies (the big five).

In the first six months of the year the energy producers made combined adjusted profits of nearly $100bn.

The profits bonanza in the second quarter included a record $11.5bn profit for BP’s FTSE 100 rival Shell, record profits of $17.6bn and $11.6bn respectively for theUS’s [ExxonMobil]() and Chevron, plus $9.8bn for France’s Total. In the first six months of the year the companies made combined adjusted profits of nearly $100bn.



Wage rises cause inflation?

- The Governor of the Bank of England, Andrew Bailey: "I'm not saying nobody gets a pay rise, don't get me wrong. But what I am saying is, we do need to see restraint in pay bargaining, otherwise it will get out of control".

Reasons for inflation to stay up

- The **first** is that central banks have no control over the pace of inflation because rising prices have not been driven by 'excessive demand' from consumers for goods and services or by companies investing heavily, or even by uncontrolled government spending.
- **Second reason:** productivity growth has slowed so much that the supply-side cannot respond adequately to the recovery in demand for goods and services as economies came out of the COVID slump. Supply shortages remain.
- **Third reason**: Companies manage to raise prices to maintain profits

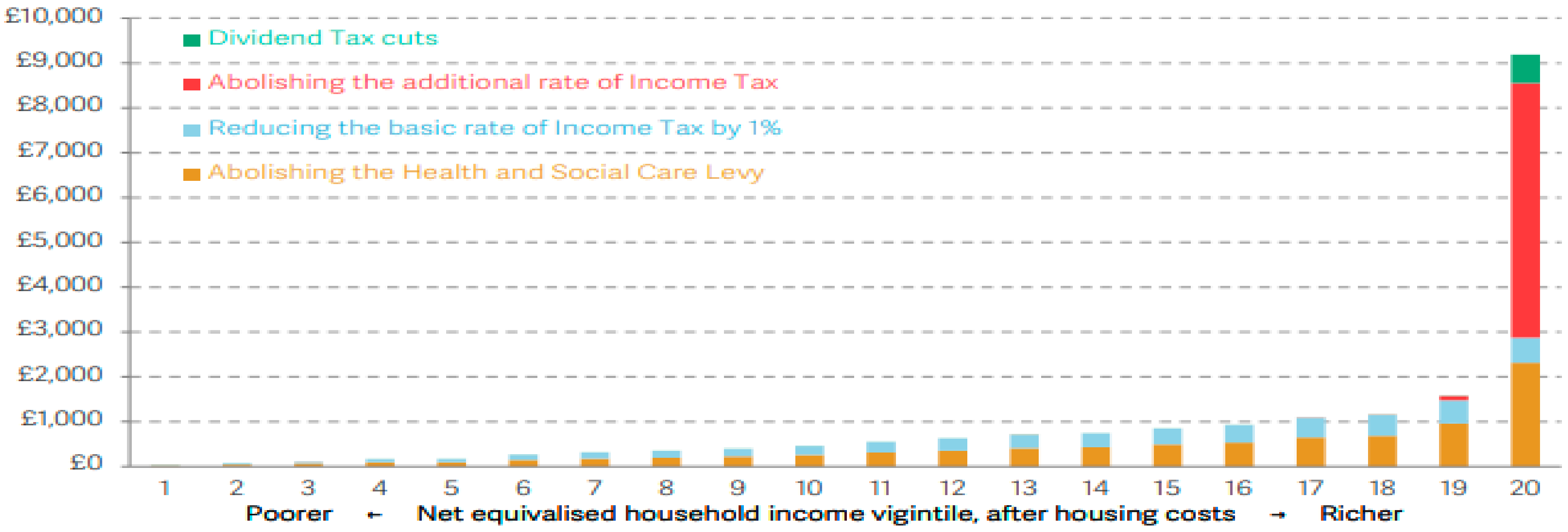
Failure of Tory government

- England’s largest cities other than London continued to suffer from low productivity. And all of England’s biggest cities outside the capital have productivity levels lower than the UK average.
- NHS waiting lists have doubled since 2014
- Inequality: **on present trends, the average Slovenian household will be better off than its British counterpart by 2024, and the average Polish family will move ahead before the end of the decade.**

Government tax cuts

FIGURE 4: **High-income households disproportionately gain from personal tax changes confirmed at the fiscal statement**

Impact of personal tax polices announced in September 2022, by equivalised household income vigintile, after housing costs, in 2022-23 prices: UK, 2023-24

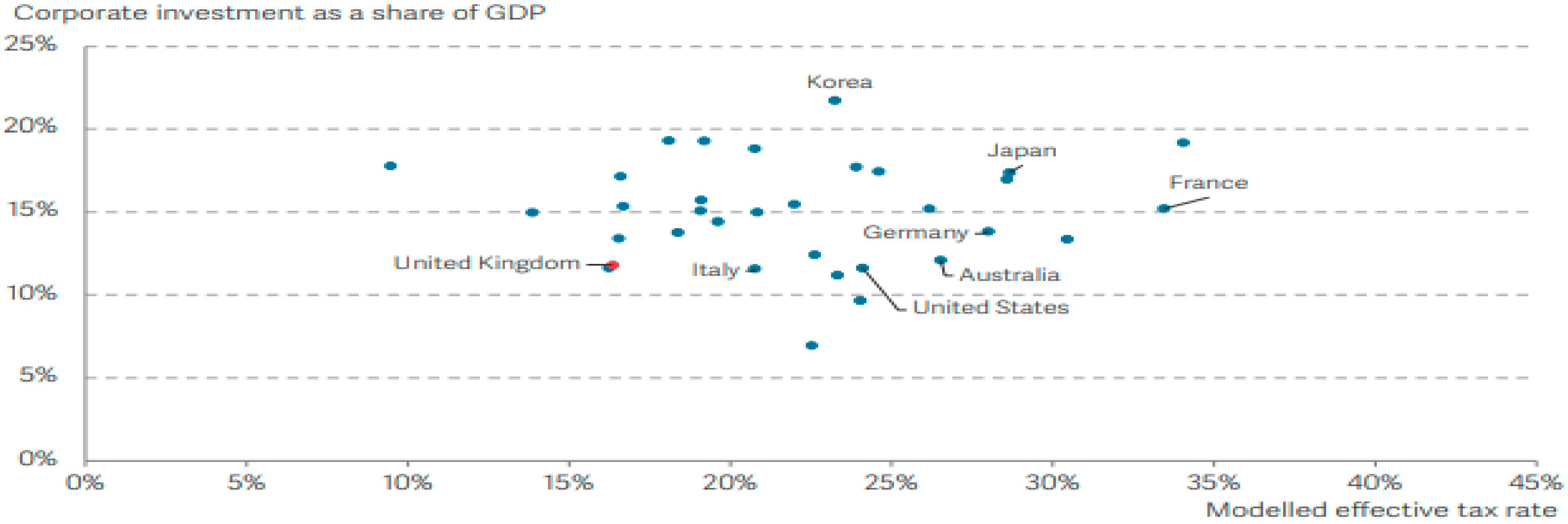


NOTES: Dividend tax cuts modelled are both the reversal of the 1.25 percentage point increase in dividend taxes and the removal of the additional rate of dividend tax.

Cutting corporation tax does nothing

FIGURE 18: **The relationship between business investment and the effective rate of corporation tax is very weak**

Corporate investment as a share of GDP and modelled effective corporation tax rate for OECD countries, 2017-19



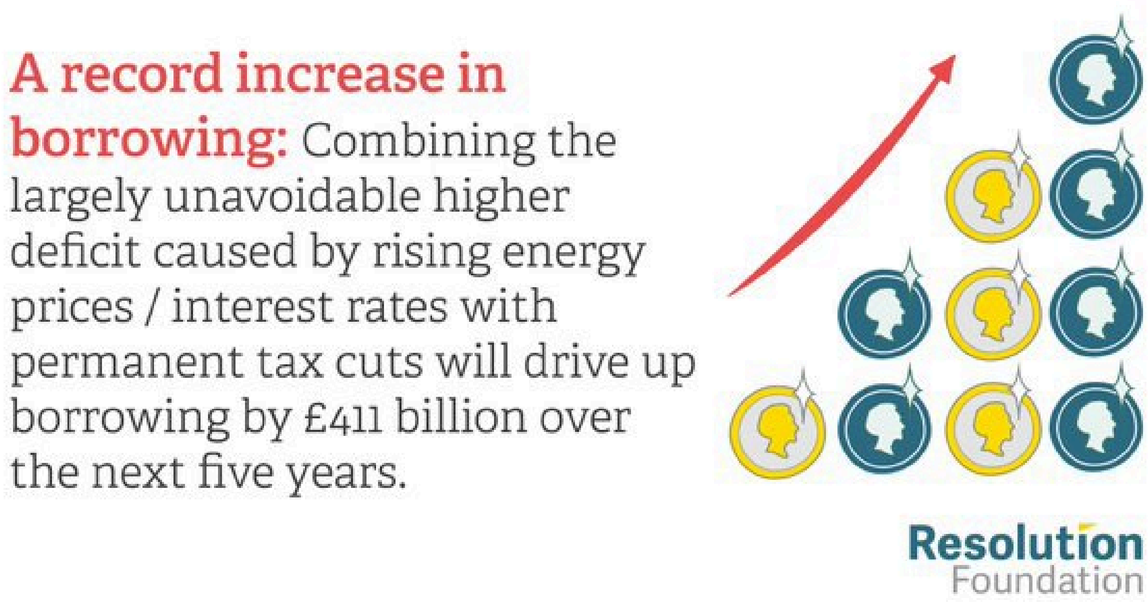
NOTES: Ireland and Costa Rica are dropped as outliers. Iceland and Israel are dropped due to missing investment data. A three-year average (2017 to 2019) for corporate investment as a share of GDP and modelled effective tax rate has been used. A two-year average of the effective tax rate (2018 to 2019) is used for Latvia due to missing data.

SOURCE: OECD, Corporate Tax Statistics: Third Edition.

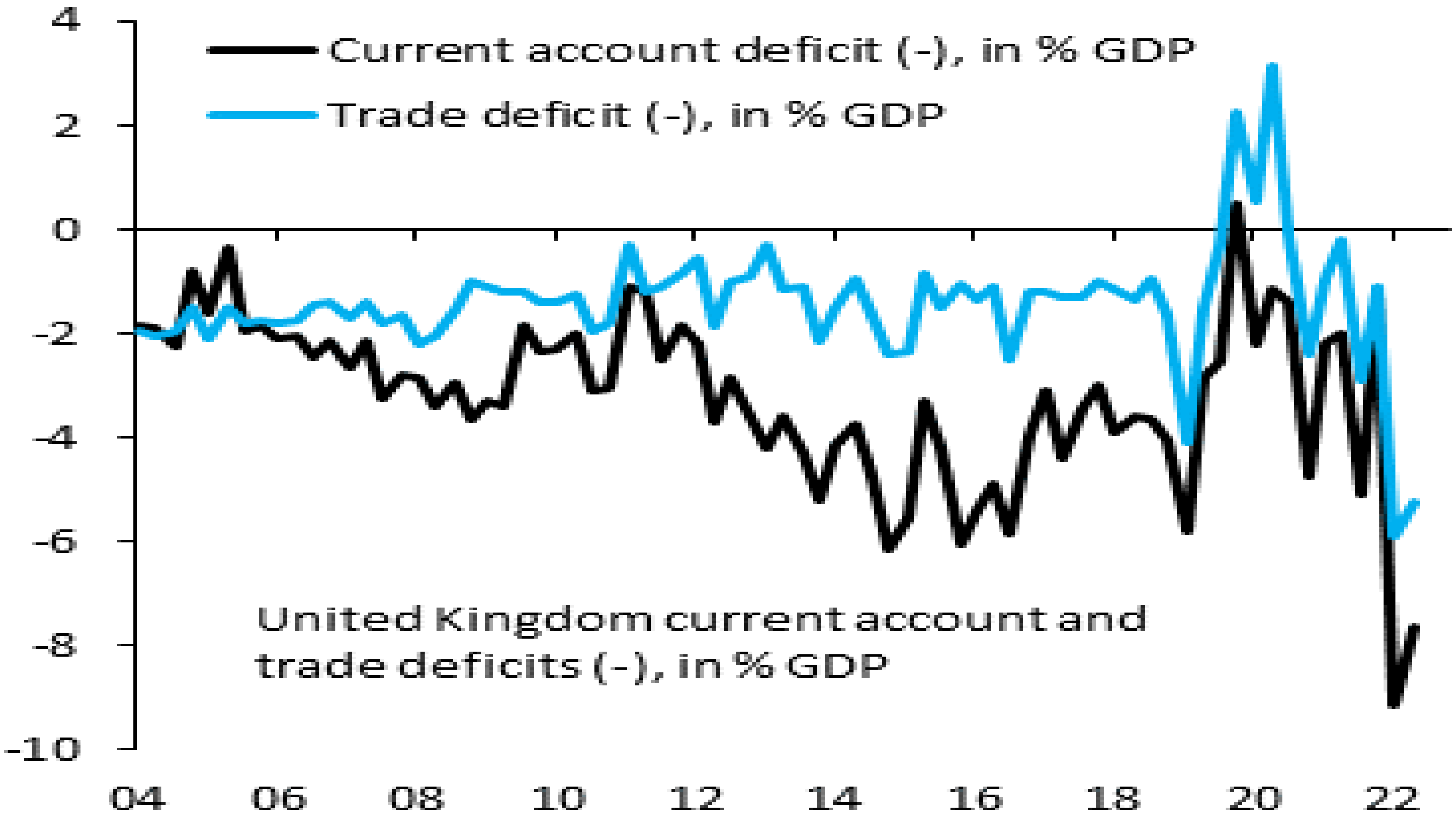
Government debt to rocket

- Higher deficit caused by rising energy prices/interest rates with permanent tax cuts will drive up borrowing by £411 billion in coming years.

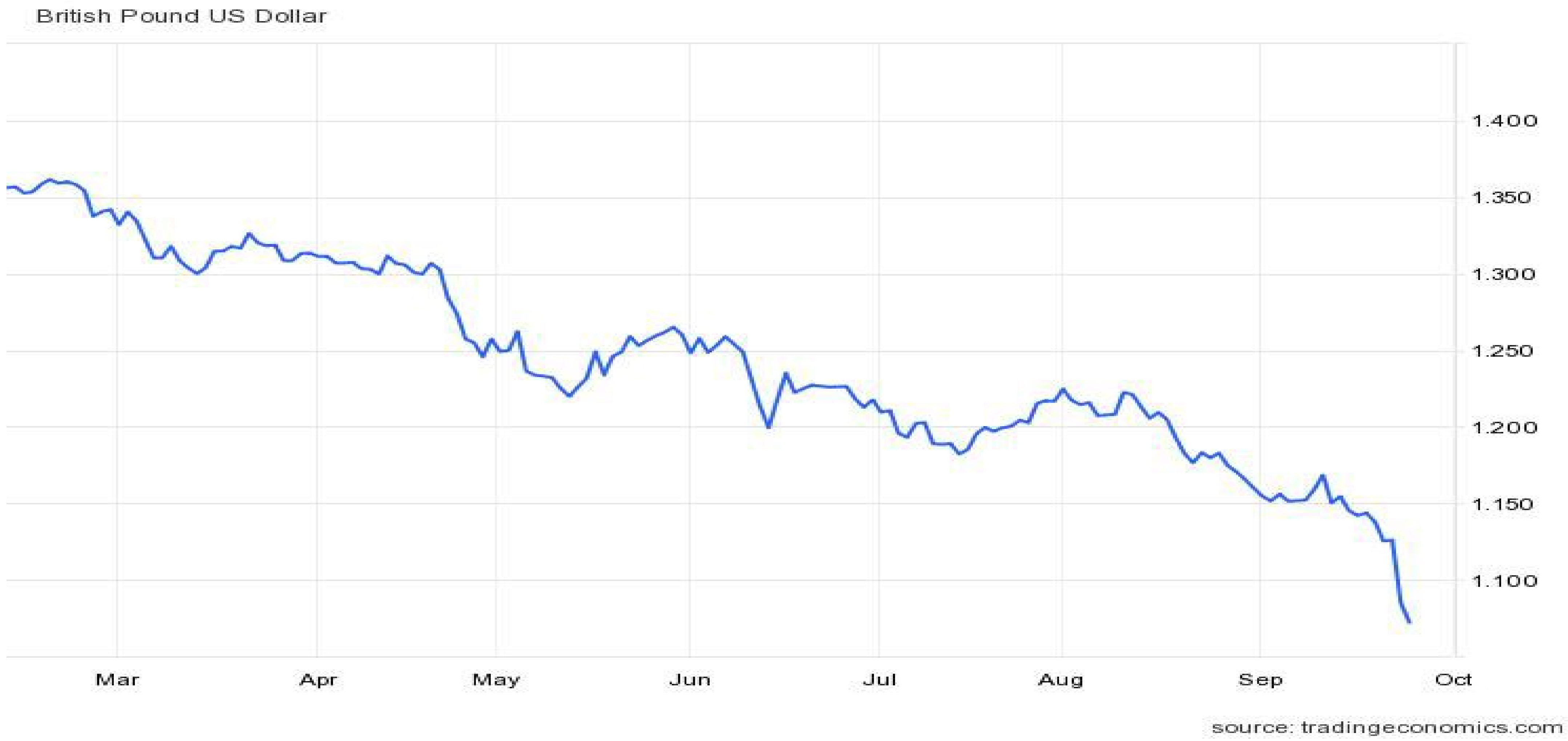
- THAT MEANS HUGE SPENDING CUTS TO COME
- SMALL STATE: END OF NHS
- END OF MOVE TO NET ZERO ON CLIMATE



External deficit quadruples



Pound collapses towards parity with dollar

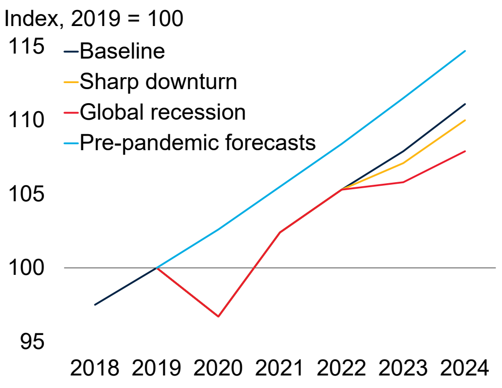


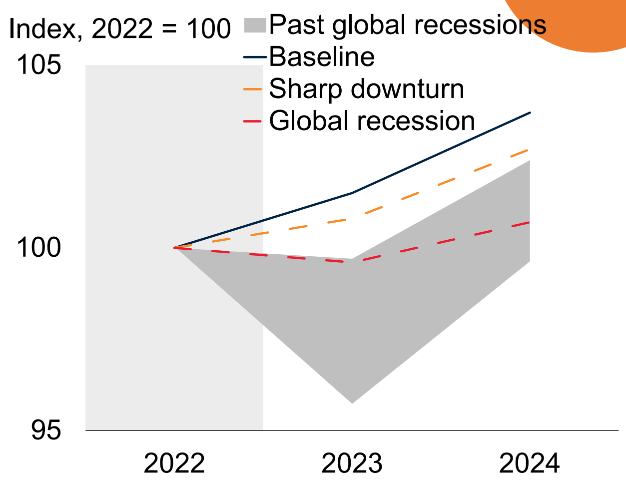
Heading for recession

- As the IMF puts it, *“The global outlook has already darkened significantly since April. The world may soon be teetering on the edge of a global recession, only two years after the last one.”*
- The IMF has reduced its forecasts for global economic growth. Under its baseline forecast, the IMF now expects world real GDP growth to slow from last year’s 6.1 percent to 3.2 percent this year and 2.9 percent next year (2023). This forecast slowdown from 2021 to 2022 is the biggest one-year drop in economic growth in 80 years!
- At the very least, global inflation rates are still likely to be much higher than before the COVID pandemic by this time next year – and at the worst, the global economy could have entered a new slump only three years from the last one.

World Bank warns of global slump

- “The world may be edging toward a global recession as central banks simultaneously raise interest rates to combat persistent inflation”.
- "The world’s three largest economies—the United States, China, and the euro area—have been slowing sharply. Under the circumstances, even a moderate hit to the global economy over the next year could tip it into recession."
- “Even without a slump, growth rates will be much lower than pre-pandemic forecasts”.





The socialist alternative

- Windfall tax on energy companies – it’s a no brainer
- Public ownership of the energy companies including retail, distribution and producers.
- Accelerate phasing out of fossil fuel production; further investment in renewable energy.
- Bring the Bank of England back under democratic control; public ownership of the big banks to use financial resources to help households not big business
- Bring back into public ownership the railways, the utilities, BT and BA, as well as big pharma.
- National Wealth Fund – tiny compared to requirements
- National plan for public investment in housing, NHS, education and regional ‘levelling up’.

A global plan for energy and the climate

- A global plan to steer investments into things society does need, like renewable energy, organic farming, public transportation, public water systems, ecological remediation, public health, quality schools and other currently unmet needs.
- Such a plan could also equalize development the world over by shifting resources out of useless and harmful production in the North and into developing the South, building basic infrastructure, sanitation systems, public schools, health care.
- At the same time, a global plan could aim to provide equivalent jobs for workers displaced by the retrenchment or closure of unnecessary or harmful industries.
- But such a plan requires public ownership and control of fossil fuel companies and other key energy and food sectors. Without that, there can be no plan.