Sacrifices are required to appease Capital, says Bank of England…

Anarcho

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Since the 1970s, capitalist economic policy has been rooted in "fighting inflation," an euphemism for "crushing the workers." This policy is rooted in the notion of the "Non-Accelerating Inflation Rate of Unemployment" (or NAIRU) and, like most of the silly and/or nasty ideas in modern economics, has its roots in the works of Milton Friedman.

It is this dogma which drove Brown's decision to make the Bank of England "independent" of political control back in 1997 and so allow it to meet inflation targets by any means it sees fit. How turning policy decisions on the economy over to unelected and unaccountable technocrats based on a specific (right-wing) interpretation of how inflation is produced can **not** be considered "political" should leave discerning minds puzzled.

The NAIRU is based on the idea that there is some rate of unemployment below which inflations starts to rise. The problem is, there is no way of determining what that rate is beyond looking at actually what happens to inflation. So the economic policy of the UK is based on a group of technocrats trying to guess where an invisible value is and, to make matters worse, the rate changes over time.

This is because the rate is dependent on many factors, the key ones relating to working class power – i.e. their ability to demand and gain better pay and conditions. The logic is simple. As unemployment falls, workers feel more able to demand to better pay and conditions, form unions and so on. This raises the wage bill, which companies off-set by raising prices. This, in turn, gets workers to demand higher wages and inflations starts to accelerate. This was the process at work in the 1970s and was broken by Thatcher's and Reagan's deep economic crises brought upon by the application of Friedman's Monetarism nonsense (this silly dogma was very fashionable with the right back then but did not survive impact with reality, as predicted by such post-Keynesians as Nicholas Kaldor). With staggering levels of unemployment this theory produced, workers could no longer offset price increases and so costs required for "recovery" was passed onto the working class.

Needless to say, Edmund Phelps (the economist who formulated the modern version of this theory) was given the (non-)Nobel prize for economics in October. Interestingly, the business section of the *Washington Post* reported this under the surreal headline **"You Might Have to Thank Him for Your Job."** Phelps, like Friedman, argued that the state has to keep the unemployment rate at or above the (unknown and unknowable) "natural rate" in order to keep inflation from accelerating. In other words, you have to make people unemployed or fear being made unemployed (by raising interest rates and slowing the economy) for capitalism to survive. Given Phelps' theory, it would make far more sense for the *Washington Post* to produce headlines like **"You Might Have to Thank Him for Not Having a Job"**; **"You Might Have to Thank Him for Your Job Insecurity"; "You Might Have to Thank Him for Exploding Inequality caused by Stagnating Pay in spite of Rising Productivity";** or **"You Might Have to Thank Him for the annual transfer of $235 billion from labour to capital since 1979"** (figure from *"The State of Working America 2005/6"* But, as with economics, why let reality get in the way of a snappy sound-bite?

That this state manipulation is considered consistent with the "free market" says a lot about the bankruptcy of the capitalist system and its defenders. But, then, for defenders of the system state intervention on behalf of capital is part of the natural order, unlike state intervention (at least in rhetoric) on behalf of the working class. Thus neo-liberal capitalism is based on monetary policy which explicitly tries to weaken working class resistance by means of unemployment, by manipulating what Marx termed *"the reserve army of labour."* If "inflation" (i.e. labour income) starts to increase, interest rates are raised so causing unemployment and, it is hoped, putting the plebs back in their place.

This was the message of Mervyn King, the governor of the Bank of England, on the 10th of October when he warned Britain's pay bargainers to accept wage restraints or interest rates would increase. This is despite dearer energy bills. King stated that the current small increases in earnings were not *"sufficiently restrained"* to compensate for the inflationary effects of higher energy prices and unfavourable changes in the prices of imports and exports. *"Ultimately, both developments must result in lower real incomes,"* he said (the silence on bosses exploding pay remains, as always, deafening). In other words, the working class must pay the price for capitalism's problems. Hence the need to *"to keep our eye on the ball and monitor closely the evolution of wage and cost pressures."* As a statement of class war, it is hard to find a more succinct one.

Of course, according to the eternal and sacred law of "supply and demand," wage rises are to be expected when unemployment falls. The laws of the market are the justification for bosses' massive rises, after all. Equally, according to the "science" of neo-classical economics, firms are price takers and so cannot influence market price of their goods. But the reality of capitalism is far removed from neo-classical ideology and the state is always at hand to give capital a helping hand. Yet even in the unreal world of capitalist economics, wage rises need not cause price increases. This is because wage increases can be offset by reductions in profits.

However, this is not an option in reality. As King notes, while *"wage pressures have so far been subdued, it is still not clear that earnings have been sufficiently restrained to accommodate the past rises in energy prices and the fall over the past year in the prices of our exports relative to our imports without a squeeze on profits. Ultimately, both developments must result in lower real incomes."* Sorry, but no. Why should there **not** be a *"squeeze on profits"*? Are profits sacred? Why should the majority accept *"lower real incomes"* so that the few can get see their incomes rise? And Blair declared that the class war was over. Someone should tell King…

Time for workers to wake up. How long are we doing to tolerate our masters proclaiming openly that that we must pay the price to keep profits high? If the price of labour increases, then so be it. That it causes inflation is the fault of capitalism, not the working class, and can be added to the long list of reasons to get rid of this system once and for all. Meanwhile, we can tell the bosses to piss off and start to fight for what we need, not what our masters decide is best for us.

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