

# The real risk is that the economy could fail this winter...

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I have just [posted this thread](#) on Twitter:

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How many people lived in fear in the summer of 1914, dreading what might happen? Come to that, what about 1939? People must have known that they were living on a precipice then, just as we are now. A disaster is about to happen, but there seems to be denial all around. A thread &#x1f9f5;

The disaster that we face is not war. I do not see the conflict in Ukraine escalating, thankfully, although that war has helped create the crisis that we face which it seems no one in our government or official Opposition wants to address.

That does not mean, however, that this disaster will not have casualties. There could be millions of them. The indirect casualties who will suffer from the fall out will be even greater in number. Because what we face is the collapse of our economy.

Like so much of life, the economy is very fragile. It can seem almighty powerful to most of us, most of the time. But that is not really the case. The whole modern, western economy of which we form a part is heavily dependent on several key things happening.

The first of these key assumptions is that people will continue to buy most of what companies make available to us to buy, on which those companies spend a fortune in advertising so that we will part with our income to benefit them.

We, and they, just assume that this will carry on. And when prices were fairly stable, savings fairly predictable, and employment was reasonably secure that was a fair assumption to make.

But right now everything is changing. Prices are not stable. They are rising, significantly. For those with only modest savings those funds are rapidly expiring, as

are available credit facilities (including the pawn shop) and we are in a period where employment is volatile.

People who are worried about being able to pay for food and heat are not going to be nearly so easy to persuade of their need to buy almost anything else, especially when there is a threat of rents and mortgages rising as well.

The essential assumption that what there is for sale in our economy is sold might, very soon, no longer hold true for the simple reason that people may not have the means to pay for what is on offer. The trend is already apparent: consumer sales are falling.

Don't doubt the significance of this: many of those apparently impressive companies all around us are extremely vulnerable to downturns in trade. They are geared to growth. If it failed persistently they'd rapidly become unprofitable.

Worse than that, depending on the sector, they might very easily fail. The leisure sector is most vulnerable, as is hospitality, and then great swathes of retailing, especially for clothing and consumer goods. The risk of major corporate failures is high.

And with that the risk of unemployment grows. Official forecasts already suggest that this will grow by a million or more. That could very easily be an underestimate.

In that case another assumption which has held for some time, which is that a desperate person can always find a job will not be true either. Desperate people will desperately look for jobs that won't be there sometime soon.

Another assumption is also at risk of being proved wrong. The economy works on the presumption that most people will, most of the time, pay their debts as they fall due. It is on this basis that a great deal of credit is commonplace in the economy, including for utility supplies.

The assumption that people will pay presumes that they have the means to do so. But in the winter to come that presumption may become inappropriate. Savings are already being depleted. Credit card borrowing is already growing. Pawn shops are seeing increased trade.

The simple fact is that for many people lines of credit are running out. Their access to money to pay exceptional bills is, therefore, already being exhausted. And there are exceptional bills coming our way - the scale of which very few have yet to really get their heads around.

I don't blame anyone for this. Not long ago I was paying about £100 a month for gas and electricity. £300 now seems likely. I admit I am fortunate. I can find the money. But I know many who will struggle, or simply won't be able to pay when so many other bills are also rising.

Coming to terms with what is an almost unimaginable change is very hard when the means to make payment of the bills that are now likely to be due simply don't exist. Assuming in that case that millions who now enjoy credit on these bills will necessarily pay them looks unwise.

This, of course, is not only a risk when it comes to the utility companies. Rent and mortgages are also always, in effect, paid on credit. As this crisis develops - and I have no doubt it will - there is going to be increasing rent and mortgage debt.

This will not be by chance. Creating increases in these costs is exactly what the Bank of England desires, and is why they are increasing interest rates. They believe it their job to suck money out of the economy even if the result is devastating.

And they even believe that they must do this despite the fact that a policy of increasing interest rates only works when households have too much income and must be prevented from spending it, which is exactly the opposite of the situation in most UK households now.

So, the Bank of England is going to make the cost of living crisis very much worse, deliberately, without there being any hope that they will solve inflation by doing so.

To be clear, interest rate rises do not stop oil and gas companies profiteering by pushing up the price of energy. Nor will increasing interest rates end food shortages and resulting price increases. They just reduce the money available to pay for heat, food, rent and mortgages.

So, when seeking explanation for the crisis to come blame can already be laid at the government's door for allowing the Bank of England to be reckless, and for not controlling fuel, gas and electricity prices, over all of which it has considerable control.

Just to be clear about this, just under 50% of what we pay for petrol and diesel is tax. It's less for electricity and gas, but almost 20% in those cases. So, the government has the scope to reduce prices for consumers if it wanted.

And it could also impose price caps on these products. Norway has. So has France. And by changing the way in which the energy price cap is calculated in the UK we could also massively reduce the profit that companies are making at present - but the government won't do that.

I say this just to make clear that the crisis we are facing is, of course, partly the result of matters beyond our control, but that our government could do a vast amount to address it.

That might include substantial increases in benefits and support to those on low pay whether on benefits or not.

It should be considerably increasing the taxes on the profits of energy companies and banks, who will profit massively until our economy fails. Taxes on investment income should also go up - because these companies are paying out vastly more to their shareholders.

But there is no sign that any of these things is going to happen. So what will? That's really easy to answer. People will simply stop paying their bills. Gas and electricity, rents and mortgages will all go unpaid. So too will council taxes and water bills. People without money cannot pay.

The economy is, of course, used to some people being unable to pay. That happens all the time for all sorts of reasons. But mass non-payment is something quite different.

When a lone person cannot pay their bills the problems is theirs to sort out. When millions cannot then the situation changes. The problem is that of the energy companies, banks, councils and landlords who have gone unpaid, with no realistic hope of getting their money.

We are simply not prepared for this to happen. It has not happened on the scale that it might in my lifetime. But there has been no event like this in my life either. It just has not happened like this before.

In the 70s trade unions prevented it happening by securing wage rises for working people so that they could manage inflation. The extra taxes paid on those rising wages allowed the government to protect the vulnerable.

But this time there are weak trade unions, and the government is determined that people should have well below inflation pay rises: they want the poverty that is coming and the crisis that will go with it.

Worse than that, in fact, right wingers like Liz Truss think that what is to come will be great for the economy. They're even eagerly anticipating the collapse of lots of employers because they call them 'zombie companies' who they claim drag the economy down.

But what they forget is that real people work in those companies. And real people without pay cannot pay their bills (right wingers assume everyone has savings to get through a crisis: it's another of their fantasies). But the reality is that real people out of work will not be paying this time.

It's easy to see how we descend quite rapidly into a recession in such a crisis. It's also easy to see how if those with mortgage and rent arrears are evicted from their properties we will rapidly have a massive crisis of homeless people.

And social chaos is going to escalate rapidly, whether reflected in a massive increase in demand for NHS services, or in seriously disrupted education services, or in social

services stretched way beyond its limits, to desperate people taking to crime to feed their children.

There is every reason to think these things might happen and no one is forecasting them because economists don't build systems break down - including a combination of recession, inability to pay and government-imposed poverty - into their models for the economy.

Those models can handle a failure at a time but very few are designed to handle the whole thing failing - including collapsing house prices as foreclosures become common - and a banking crisis as mortgages default - in their modelling as all these things begin to happen together.

The government could prevent all this. I stress, it could. But it is not going to do so. That's because it does not imagine this will happen. It is because it wants it to happen. It is because it is going to let it happen - as interest rate rises this week will evidence.

When it happens it will be too late to prevent the issue escalation. Once the fragile threads that hold our economy together are broken then recreating them will be a long, slow process. And however they are recreated it must not be in the same way.

They will need to be green, and rebuilt about concepts of equality that prevent a calamity of the sort we are now facing ever recurring. This could be done. As the post-war consensus swept away what went before it and built a genuinely better society so could we after this crisis.

But first we have to face the crisis - with politicians woefully ill-prepared for it and the right wing always willing to exploit a crisis for their gain by dividing society still further.

The coming winter is going to be economically impossible for many. That's a simple fact. I know that is not necessary, but it is going to happen. Steps as radical as those used in the Covid era could prevent this - but this government will not deliver them.

My fear is the political exploitation of this by the far right.

My hope is that we have the vision to rebuild. But the pain before we do so is going to be horrible. And it has been deliberately chosen. And that is what sickens me.