

British economy sinks like a stone

Jean Shaoul
18 December 2008

Every day brings new indicators that the economic crisis engulfing Britain is much worse and developing far more rapidly than either the government or the economic pundits have acknowledged. This has rocked confidence in the pound and sent the London Stock Market tumbling.

Last week, the National Institute of Economic and Social Research (NIESR) said its research showed that the economy shrank by one percent in the three months to November, twice the rate of the three months to September, and was likely to shrink even further over the fourth quarter of the year. This fall in GDP was higher than that earlier announced by the Office for National Statistics (ONS). NIESR's prediction for the fourth quarter is higher than the Treasury's forecast at the end of November of 0.8 percent.

This means that Britain's GDP will fall by at least £4.5 billion this financial year. With the deepening slump and fall in the value of pound, Britain will slide from the fourth largest economy earlier in the decade to only seventh in 2009.

According to the ONS, industrial output fell by 1.8 percent in the three months to the end of October, compared with the previous quarter. Between September and October, industrial production fell by 1.7 percent. Manufacturing fell by two percent in the three months to the end of October across the board. The worst affected were the transport equipment sector, which includes the automotive industry at 4.6 percent, the paper printing and publishing sectors at 3.4 percent and basic metals at 2.6 percent.

Economists at Goldman Sachs said that these figures meant that the official 0.5 percent fall in GDP in the third quarter would have to be revised downwards to 0.6 percent. Commerzbank analysis said that the UK would suffer "the worst recession in the developed world". Howard Archer, chief European and UK economist at HIS Global Insight, said that the economy would contract by 2 percent next year, a much steeper decline than Chancellor of the Exchequer, Alistair Darling, had predicted in his pre-budget report just last month.

Much of the press have maintained a guilty silence over the real state of the British economy, just as they have for decades about the venal, corrupt and semi-criminal operations of the financial and corporate elite. They do not want the public to understand the bankrupt nature of Britain, much less its causes, and the devastating impact it will have on millions of families.

Indeed, honest financial journalism is considered heretical today. Some MPs have gone as far as to say that financial journalists have destabilised the economy by revealing the extent of the problems facing British banks.

In October, a Serious Fraud Office inquiry was mooted into the source of the scoop by the BBC's Robert Peston that merger talks between HBOS and Lloyd's TSB were reaching fruition, which was blamed for a collapse in HBOS shares. Labour MP and chair of the Treasury Select Committee, John McFall, has announced that the Committee would investigate the role journalism had played in the banking crisis as part of a wider enquiry into the financial crisis. He said it would examine "the role of the media in financial stability and whether journalists should operate under any form of reporting restrictions during banking crises".

This is a barefaced demand for media censorship to keep the public in the dark while the speculators make billions on the basis of insider knowledge. Jeremy Hillman, editor of the BBC's business and economics unit, told the *Observer*, "It would be a huge mistake at this time, more than any other in our recent history. The public has an absolute right to know about the weaknesses and structural problems at Britain's banks. Why shouldn't the average person have access to the same information as those in the know? How many senior bankers invested in Northern Rock in the months before its nationalisation? Not many, I expect."

The Labour government's attempts to shore up the financial sector have failed to stop the rot. The nationalisation of the failed banks Northern Rock and Bradford & Bingley, the Bank of England's £200 billion special liquidity scheme, the £500 billion bailout by the taxpayers for the high street, the cuts in interest rates to 2 percent, and the recent £20 billion reflationary measures aimed at stimulating the economy have all failed. Bank lending has all but dried up as banks use government money to plug the vast holes in their balance sheets.

With \$800 billion of financial company debt and \$200 billion of corporate debt due to be repaid in the next 12 months, only the largest companies will be able to refinance even part of their loans. The net effect is to send the whole economy into a downward spiral that is in turn, affecting the banks' profits and balance sheets.

That, combined with lower tax receipts and higher benefits as workers lose their jobs, has led to fears that the British government will not be able to raise the vast amount of borrowing it needs to finance the bailouts and economic stimulus packages—the government is expected to issue £1.65 trillion of bonds—and sent the pound into free fall. It is trading close to parity with the euro, a fall of 30 percent since this time last year. Travellers are getting less than one euro to the pound.

Much of this was due to speculators betting that sterling would fall further. It has been the most sustained run on the pound since 1992, when speculators forced Britain out of the Exchange Rate Mechanism. Most commentators are expecting the pound to continue to fall.

The fall in the value of the pound has failed to boost exports, which have instead fallen to their lowest level for five years in the face of the collapse in world trade.

The falling pound will fuel inflation as Britain's imported food, raw materials and manufactured goods become more expensive, putting even more pressure on the household budget. It has already led to a worsening trade deficit, now running at more than £7 billion a month.

Thousands of otherwise profitable companies face bankruptcy as the credit feast of the last period turns to famine. According to a report by Euler Hermes, part of the German credit insurer Allianz, bankruptcies in Britain could increase from 22,832 in 2007 to 28,462 in 2008 and 38,201 in 2009, one of the largest rises in Europe. New loans for companies have fallen dramatically all over the world, and have largely halted in the last few months.

Hundreds of companies are likely to face a "qualified" audit report about their ability to continue as "going concerns". The audit firms have even discussed the possibility of qualifying all 2008 accounts because of their fears about the slump. Auditors could face legal action if companies collapse and they had failed to indicate there was a problem. But an audit qualification would make it harder for a company to trade and finance its activities, triggering a chain reaction and stock market panic.

Official figures show that the number of people registered as looking for work rose by 140,000 in the three months to September, to reach 1.86 million. But since then there have been widespread announcements of job losses in the financial sector, construction, and estate agencies, with many firms announcing a second or third wave of layoffs.

The retail and the hospitality sectors have announced sharp falls in sales, despite the cut in VAT. The 100-year-old high street chain, Woolworths, which went into administration last month, is to close with a loss of up to 32,000 jobs. DSG, which owns Currys and PCWorld, has reported losses, and the DIY group Kingfisher, which owns the B&Q group, has reported a 9 percent fall in sales in the last three months.

The Spanish Bank Santander, which owns three mortgage lenders, Abbey National, Alliance & Leicester and part of

Bradford & Bingley, is to shed 1,900 jobs in the UK, eight percent of the 23,000 workforce. There have been unconfirmed reports that as many as 45,000 jobs could go, when Lloyds TSB's takeover of the ailing HBOS is complete next year. This could rise as HBOS is in dire financial straits and has been forced to make an £8 billion provision for bad debts. By far the greatest increase was in corporate bad debt as the recession had taken its toll, raising fears that others banks would be similarly affected.

According to the trade union Unite, up to 40,000 workers in the car industry, its suppliers and retailers, face the sack in the next few weeks because demand has fallen by 40 percent. Many workers are on or will soon be on short time working. BMW's Mini plant at Cowley has closed for a month and has laid off 300 agency workers. Ford's Transit Van plant in Southampton has closed for one month, leaving 1,300 workers on basic pay. Honda is to close its Swindon plant for two months, leaving 4,800 workers on basic pay. Aston Martin is to close production till January 19 and cut 600 jobs. Jaguar Land Rover has introduced a four day week and called for 600 voluntary redundancies.

Rolls Royce is to cut 140 jobs at its civil aerospace factory in Derby.

Agency and casual workers are the first to be fired. Fully 25 percent fewer immigrants arrived from Eastern Europe last year as a result.

Most commentators expect a surge of job losses in January and February, as credit dries up and businesses collapse. According to the *Observer*, so great is the fear of widespread bankruptcies among supermarket suppliers, that the supermarkets have plans for alternative suppliers. In some cases, supermarkets commit to future orders so that their suppliers can get credit.



To contact the WSWS and the
Socialist Equality Party visit:

wsws.org/contact