Britain: Brown’s “New Deal” scuppered as it is launched

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Car manufacturer Nissan has announced it is to shed 1,200 jobs—one-quarter of its workforce—at its plant in Sunderland, North East England.

The job cuts, said to mainly involve staff on temporary contracts, came in the middle of Prime Minister Gordon Brown's three-day tour of England and Wales to highlight government initiatives to combat recession.

Nissan said sales in December fell by 26.68 percent compared with the previous year. Its staff had already been sent home early over Xmas, as had those at Vauxhall, Bentley, BMW and Ford.

The news was particularly damaging for the prime minister. On Monday, Brown had unveiled a number of initiatives aimed at creating "tens of thousands" of jobs to help with the downturn—likened by pro-Labour newspapers to a "modern version" of US President Roosevelt's New Deal.

In particular, Brown was said to be studying a scheme originally pioneered by Nissan to avoid redundancies, involving government funding to help recession-hit companies to move staff on to part-time working, utilising remaining hours for retraining.

While in Derby, Brown visited the Rolls Royce plant and announced £140 million to fund apprenticeships in the public and private sector.

Commentators have forecast that young people in particular will be pushed out of the labour market by the global downturn. With many anticipating an increase in youth unemployment—to levels last seen in the early 1980s, when riots swept many inner-city areas—the *Guardian* reported that "Brown was concerned by the recent youth riots in Greece, and feared something similar could develop in Britain."

The government is said to be hoping that its plans for increased government spending to stimulate the economy will receive a boost from incoming US President Barack Obama, who is said to be planning similar measures.

Brown's initiatives—including treasury aid to create "green" industries and bringing forward capital spending projects—have been trailed as proof that the government has a plan to help ameliorate the worst aspects of the downturn and shorten its duration. But his is a meagre package—largely targeted at the banks—and will do nothing substantively to aid millions of workers and their families in the gathering economic storm.

One in ten workers is expected to lose their jobs over the next period, with unemployment rising to three million by the end of the year. The planned 35,000 apprenticeships are just a drop in the ocean.

Rolls Royce itself, had shed some 2,000 jobs globally just before Christmas, with some 140 scheduled to go at its assembly and test facility in Derby.

The International Monetary Fund has said that the global recession will be "a particularly sharp problem for the UK Government to handle in the next year or so".

Some have predicted a 2.7 per cent slump, with virtually every sector affected. The telecommunications group BT, for example, is expected to cut 10,000 jobs in the next months, while at least 40,000 jobs in retail have already gone, with more to follow. Manufacturing data is expected to show a severe fall in industrial production for November. Approximately 30,000 small businesses are expected to close this year with the loss of 150,000 jobs.

It was in response to such dire predictions, that the Bank of England cut interest rates to 1.5 percent on Thursday, the lowest ever in its 315 year history. The cut, from 5 percent in October, was made necessary by the high level of contraction in business activity in the fourth-quarter of 2008, the Bank said, "and that output is likely to continue to fall sharply during the first part of this year".

Consumer spending had also fallen sharply, the Bank reported. Figures showed that the number of new home mortgages approved, fell to a record low in November. Average house prices fell by more than £100 a day last year, the Halifax reported, down by 16.2 percent.

Sharp divisions are now emerging in ruling circles over economic policy. Brown has insisted that the global financial crisis is a temporary affair that can be managed by targeted government intervention. He has rejected claims that economic policy consists of a "battle between monetarists and Keynesians", rather than "a pragmatic response to unique events."

Interviewed in the *Observer*, January 4, Brown claimed that the world economy would double in size in the next 20 years, with Britain a major beneficiary.

Notwithstanding that industry accounts for just 23 percent of Britain's GDP, Brown said, "I don't buy the argument that the beneficiaries of the next age of globalisation are only the Asian countries." "These [British goods] are the products that the world will want to buy. I don't see us muddling through a difficult set of economic events. I see us as equipping ourselves to meet the big challenges of the future."

An air of unreality surrounds Brown's pronouncements. In the same interview he claimed, "I don't want to sound arrogant, but 10 years ago I was making both speeches and proposals to sort out this failure of global regulation and I couldn't persuade other countries after the Asian crisis of 1998 that it was necessary."

In reality, the Labour government and Brown himself won the support of the City of London and the super-rich for his insistence on economic "prudence" and "light-touch" regulation.

Only weeks before, Brown had made a much-commented slip of the tongue during a House of Commons debate, when he claimed that he had "saved the world", before changing it to "banks"—a reference to the multibillion-pound bailout of Britain's high street banks. But there are now reports that a second bail-out is being considered by Chancellor Alexander Darling, following the failure of the first to encourage bank lending.

According to the *Times*, a new bank re-capitalisation plan is one of a number of measures being discussed by the Treasury, including options to buy up banks "toxic assets" and park them in a state-backed "bad bank" in return for government bonds. This is the proposal first put forward by US Treasury Secretary Henry Paulson in response to the American banking crisis, and then abandoned.

Darling and the Bank of England governor Mervyn King are also said to be discussing whether to expand money supply by printing more bank notes.

Reports of such discussions have caused apoplexy in some circles, with warnings of a Zimbabwean zero-style inflationary cycle, and even comparisons with Weimar Germany. The *Daily Mail* claimed that the Office of National Statistics was shortly to rule on whether debts at the Royal Bank of Scotland (in which the government is now a major share-holder) should be added to the national balance sheet.

If so, it would mean the national debt stands at almost 160 percent of GDP, it claimed. "This systematic debauchery of the country's finances as caused sterling to collapse," it thundered, by 4 percent in just three days. "It has now collapsed by an average of 23 percent against rival currencies over the past 12 months.

"This fall is worse than the devaluation which followed Britain's eviction from the Exchange Rate Mechanism under John Major in 1992 and much sharper than the currency crisis of 1976, when the Labour government of Jim Callaghan had to ask the International Monetary Fund to save the British economy.

"The only comparable devaluation took place in 1931, when Britain was forced off the gold standard, precipitating a 24 percent drop in value against the dollar."

Government proposals have been sharply denounced by the Conservatives for breaking with years of monetarist policy and threatening the UK with "bankruptcy".

In criticisms similar to those voiced by German political leaders and the International Monetary Fund, Tory leader David Cameron denounced the government's 2.5 percent cut in VAT as a "waste of time". With shops slashing prices by as much as 70 percent, Cameron said, "I feel like shaking the prime minister sometimes and saying, 'Look, what don't you get—it's a credit crunch, that's what needs to be addressed. Stop wasting our money with cutting VAT, spending £12.5 billion of taxpayers' money that we're going to have to find and pay back one day on something that everyone now accepts has been a waste of time. Get with the programme'."

"We shouldn't use this as an opportunity to tear up the market system and say let's go back to 1970s-style interventionism," Cameron said.

The attack is part of a significant change in tack by the Tories over the last weeks, following high-level consultations with the party's advisors and leading backers. The party has now disavowed its early pledge to match Labour's public spending commitments, instead pledging to make £5 billion worth of cuts as part of its plan to "shrink" the public sector and bring forward tax cuts.

Earlier this week, Cameron spoke of changing the role of the state, by transferring welfare provision to voluntary groups. He also proposed a £50 billion national loan guarantee scheme to help firms start up or invest and a one percent cut in national insurance for small businesses.

Thus far, Brown and the Labour government retain the backing of the City of London and the super-rich. The *Financial Times* editorialised January 7 that the government should "Get on with it".

"The UK is in a dire position", it wrote. "In the past few years, it borrowed from around the world in order to spend itself into a particularly deep hole. In the long term, the UK will not be able to be so spend-thrift. It cannot, however, afford to be penitently frugal now."

Murdoch's *Sun* newspaper also remains supportive. Not long ago "printing more banknotes to ease the credit crisis" would have "seemed too ridiculous for words" it wrote.

"Printing money is a gamble and a last resort. But if it can stop recession turning into a Thirties-style catastrophe, they have to consider it."

But Political Editor George Pascoe-Watson served notice. The outcome of Brown's "gamble" on a temporary increase in public spending would be clear by the next general election, he forecast. If it proved wrong, the Tories were offering a "different solution... to tighten our belts".