

Government measures fail to halt severe decline of British economy

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Recent economic data and forecasts reveal the dire state of the UK economy and the failure of measures introduced by the Labour government and Prime Minister Gordon Brown to arrest the continuing decline.

So sensitive are the government to any suggestion of Britain's economic collapse that business secretary Peter Mandelson exploded at the chief of Starbucks, Howard Schultz, at a diplomatic cocktail reception in New York yesterday. Schultz said the UK was in an economic "spiral" with "very, very poor" consumer confidence. Mandelson accused him of spreading unnecessary gloom, "Why should I have this guy running down the country? Who the f**k is he? How the hell are they [Starbucks] doing?"

Schultz's remark reflected a precipitous decline in UK banking shares this week. Shares in Lloyds fell by 32 percent last Friday after it was announced that losses in its HBOS subsidiary were expected to reach nearly £11 billion (\$15.6 billion). Its shares—the most widely held in Britain with more than three million small investors - have now fallen by 80 percent since the Government pushed through the merger with HBOS last autumn in an attempt to rescue it from collapse.

Only last week Eric Daniels, the chief executive of Lloyds, told the parliamentary Treasury Select Committee investigating the banking crisis, that HBOS was "strategically a very good acquisition and will prove to be so in a couple of years".

There is now every possibility that the government will have to extend its 43 percent share in Lloyds to complete ownership. This will be a further humiliation for Prime Minister Gordon Brown. Lloyds was regarded as the most conservative of the British banks because it resisted aggressive business lending and mortgage sales. HBOS was formed from a merger between the demutualised Halifax Building Society and the Bank of Scotland. It pursued a policy of aggressive speculation in property.

Brown persuaded Lloyds to rescue HBOS because a bank collapse would impact on the whole UK financial system. According to *Daily Mail* journalist Peter Osborne, Brown collared Lloyd's chairman Sir Victor Blank at a cocktail party and "told him the government would waive competition regulations if Lloyds were to merge with HBOS". Blank had already been recruited by Brown as a "business ambassador" to advise the government on how to deal with the financial crisis.

Meanwhile the Royal Bank of Scotland (RBS), now 80 percent owned by the government, is expected to announce record losses next week. It announced last month it had made losses of £8 billion in 2008 and would have to write off some £20 billion in the acquisition of Dutch bank ABN Amro. RBS is now in negotiations with the

government over an insurance scheme designed to cover losses from its "toxic" assets.

According to the *Daily Telegraph* up to 10 percent of the £2 trillion assets of RBS are in doubt. This puts the government attempt to make an insurance charge of 4 percent to cover losses in doubt. RBS could not afford the charge and maintain sufficient assets to keep within current banking regulations. The implication is that RBS is insolvent and that the government may have to take it over - something that the pro-market Labour government is desperately trying to avoid.

Lloyds and Barclays—which has seen shares fall by 80 percent over the last year and a 14 percent loss in profits after taking into account £5.4 billion charges on bad debts—are also in delicate negotiations with the government over how to insure against further losses.

Osborne, whose recent book *The Triumph of the Political Class* exposes the decay of the British parliamentary system and its domination by a financial aristocracy, points out that Sir Victor Blank is one of "a small cabal of New Labour financiers who conquered the summit of the banking profession over the last decade." These included the former head of RBS, Sir Fred Goodwin, "a long-standing crony of the Prime Minister", and head of HBOS Lord Stevenson, "a former boss of Peter Mandelson and mentor of Tony Blair."

Also at HBOS was Sir James Crosby, another of Brown's closest advisors. Crosby was made chairman of a government task force attempting to bring in a controversial identity card scheme, as well as deputy chairman of the banking regulatory body the Financial Services Authority. He was forced to resign last week when it his association with HBOS's risky lending policies became clear in the parliamentary Treasury Select Committee's investigation.

The ability of the UK government to bail out the banking system without causing a collapse in sterling has become a growing concern for Britain's ruling elite. The pound has lost a quarter of its value over the last year, measured against a trade-weighted currency average.

Ben Broadbent, economist at Goldman Sachs told the *Economist* that the government's banking insurance scheme could cost up to 8 percent of GDP. If other measures to bail out banks are included (such as rescuing British depositors in the failed Icelandic banks) the total rises to 14 percent of GDP. The *Economist* points out that even without financial bailouts the deepening recession means that public debt—as a share of GDP—could rise by 20-30 percentage points by 2011.

It is hardly surprising that the British media has now gone in for what is described as "banker bashing" in an attempt to deflect the growing public anger at the scale of the banking rescues and the impact it will have on future public spending on social services. Gordon Brown and Chancellor of the Exchequer Alistair Darling have

tried to reflect this sentiment in their public statements. But this has amounted to only muted criticisms of the millions of pounds bonuses that bankers are still paying themselves. Darling merely restricted bonus payments at RBS—despite the government's majority ownership—to 175 million pounds (\$247.5 million) claiming this is a legal contract the bank has already made.

Sections of the British ruling class are becoming increasingly concerned about the state of the economy and the inability of the government to take effective action. Earlier this week the Confederation of British Industry (CBI) issued a report predicting that 2009 would see the biggest drop in UK output since the Second World War and estimated that unemployment would rise by more than a million in 2009, totaling more than 3 million by 2010.

"Firms are making cutbacks much quicker than in previous recessions because they are worried about lending," the CBI report said. It is expecting the economy to contract by 3.3 percent this year.

The CBI's chief economic adviser Ian McCafferty said: "Given the rapid contraction in global economic activity, and the continuing credit squeeze, we believe the UK will be mired in a deep recession for the whole of 2009, lasting six quarters in total and accompanied by a significant rise in unemployment."

House prices were predicted to fall by more than 15 percent in 2009, manufacturing output could fall by more than 10 percent and business investment is expected to drop by at least 9 percent. The fall in house prices—which have already fallen by 20 percent since their peak in 2007—will hit wide sections of working class people who are now moving into "negative equity", paying mortgages higher in value than their property is worth. Grossly inflated house and commercial property prices were what led the International Monetary Fund recently to predict that Britain would be the worst hit of all the G7 countries.

Last week the Governor of the Bank of England, Mervyn King, admitted "The UK is in a deep recession," and the Bank predicted that the economy would shrink by more than 4 percent in 2009. King announced he would be introducing a policy of "quantitative easing"—effectively printing money as the Bank of England buys up government bonds and private sector assets. The Bank interest rate is now down to one percent, but King said that "Bank rate doesn't have to go to zero, because we're getting to the point where it doesn't make a great deal of difference where it is."

King refused to accept any responsibility for the disastrous situation, saying, "It is not sensible for anybody to pretend that we can forecast the future." The role of the Bank, he said, was to combat the "animal spirits" of the market that were giving rise to a sudden and near-universal loss of confidence.

The official position of the British government is to reassure the public that the recession is only a temporary downturn. But ministers are increasingly positioning themselves for a leadership contest and are prepared to break ranks. Speaking to a group of Yorkshire businessmen, Schools Secretary Ed Balls, who used to be Brown's assistant at the Treasury, revealed something of the real pessimism that is gripping ruling circles.

He said "The reality is this is becoming the most serious global recession, I am sure, for over 100 years . . . I think this is a financial crisis more extreme and more serious than that of the 1930s."

A growing response from the trade union bureaucracy and sections of industry to the steep decline has been to whip up a chauvinistic campaign to "defend British jobs". A leading proponent of protectionist measures is now Lord Digby Jones, formerly Minister of

Trade under Gordon Brown and before that head of the CBI.

Jones traveled round the country speaking to unemployed workers for a Channel 4 television documentary. He complained bitterly that while the government is bailing out the banks its industrial initiative is "too little, too late".

Jones said, "I've seen at first-hand the measures that other countries have taken to protect their manufacturing skills base and I'm worried that, unless we follow suit, the country will pay the price for years to come. Unless the Government takes bold steps right now to preserve jobs, skills and factories, we could blight an entire generation with long-term unemployment."

He called on workers to accept pay cuts in order to retain their jobs.

"What I'm calling for is a triple sacrifice. If a major company has a faltering order book and needs to put its factories on a two-day week, the company should bear some of the cost, the workers should accept lower wages in return for keeping their jobs and the Government should make a contribution toward keeping the factory open." Jones said.

The call for workers to make sacrifices in order to protect British industry is an attempt to divert them from defending their own interests. UK manufacturing industry currently exports only £150 billion pounds worth of goods. This is a miniscule amount when compared to the losses of even one major British bank. Since the 1980s the British economy has become entirely dominated by finance capital. The Labour government has an incestuous relationship with the financial aristocracy and has turned its whole efforts towards bailing out the banks.

It is essential that the enormous anger over the destruction of jobs and Brown's bailout of his banking cronies is not turned into a reactionary nationalist direction. Workers must organize independently of trade union leaders who have assisted employers in round after round of redundancies and are now attempting to whip up campaigns against foreign workers. Unity with other workers throughout Europe and the rest of the world, facing attacks from the same profit system, must be opposed to reactionary protectionism.



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