

Britain: Record rise in unemployment to over 2 million

Chris Talbot
21 March 2009

Unemployment in the United Kingdom rose by a record amount last month. The numbers claiming unemployment benefit increased by 138,400 in February, the largest monthly increase since records began in 1971 and far higher than had been predicted. The previous record high was 118,000, reached in the recession of 1991.

Over the last year the number of people officially claiming benefits has increased by nearly 600,000 to a total of 1.4 million, whereas the wider International Labour Organisation measure of unemployment rose to 2.029 million, the highest since Labour came to power in 1997. At the same time yearly earnings are now declining, with January pay levels 0.2 percent lower than a year ago.

This brings the unemployment rate to 6.5 percent. Howard Archer at IHS Global Insight described the figures as "truly awful", predicting unemployment rising to 3.3 million on the ILO measure in late 2010 or early 2011, a peak of 10.5 percent. Amit Kara, a British economist for UBS said that "the data is absolutely dreadful" and "we expect unemployment to rise well in excess of three million through next year." Oxford Economics also predict that unemployment will rise by at least one million over the next year.

London stock prices fell by 1.4 percent after the job losses were announced and the pound also fell against other major currencies. The trade-weighted value of the pound has fallen by 3 percent since March 5 when the Bank of England announced its plans for "quantitative easing", buying up £75 billion of government bonds which amounts to printing more money.

Aware of the growing anger against the government, Prime Minister Gordon Brown told parliament that it was a "matter of personal regret for me and the whole government" if people lost their jobs. Brown's attempt to project a more contrite and caring image has done nothing to reverse his rapidly declining popularity. He is indissolubly linked to the financial aristocracy which controls the City of London and has offered them unwavering support.

Guardian opened its pages to him as he attempted to deflect public anger. He took "full responsibility," he told the paper, for his role in the failure of the banking system. He has come under pressure from the Conservatives to offer an apology. He is currently slipping behind them in the opinion polls. But even so he could not bring himself to offer a wholehearted apology for the current economic disaster.

Brown proclaimed that "the 40-year-old prevalent orthodoxy known as the Washington consensus in favour of free markets has come to an end," referring to the decision to pour hundreds of billions of state funds into the banking system to prevent its collapse. But he insisted that there would be no increase in government spending to alleviate the situation facing working people. There would be no return to "big government" or to ending "reforms" of the public sector.

The unemployment figures came only one day after a report from the International Monetary Fund (IMF) predicting that Britain will be in a recession for the next two years, compared to the rest of the world which it predicts will have recession for one year only. The IMF predicts that the British economy will shrink by 3.8 percent in 2009 and by a further 0.2 percent in 2010. Out of the other G7 countries only Japan is likely to be worse in 2009, contracting at 5 percent, whereas the G7 as a whole is predicted to contract at 3.2 percent.

The expected 3.8 percent contraction is far worse than the 2.8 percent figure the IMF gave in January and would be the steepest in the UK economy since 1944.

The IMF forecast that the world recession will only last a year and the UK's two years must be regarded with unalloyed skepticism. But the prediction that Britain will be at the bottom of the list of the major countries nevertheless reflects the extent to which the UK economy is based on the banking and financial sector. The recent revelations of the huge indebtedness of the major banks that had to be bailed out by the government, together with figures showing the rapid collapse of the property boom on which the economy

depended, has forced the IMF to revise its figures downwards.

It is the bail out of the banking sector that is revealed in the latest report on the UK budget, which shows a deficit in the first 11 months of the fiscal year at a record level of £75.2 billion, more than trebling the £23 billion in the previous year. The deficit for February was a staggering eight times that for the same month last year.

Because of the turndown in the economy, tax revenue has fallen by 9.8 percent and total government debt has now risen to 49 percent of annual output.

The government predicted last November that its deficit next year would rise to £118 billion or eight percent of GDP. But economists are now predicting this will reach 10 percent. That would make it the highest since World War II. It will be even higher if, as is quite likely, more money has to be pumped into the banks.

In November the official estimates were that public spending would need to be cut by £38 billion a year by 2015-6 to pay for this huge increase in debt. In January the Institute for Fiscal Studies (IFS) challenged government figures. The IFS calculated that because the recession was far deeper than the official prediction tax income would fall and the government would need a further £20 billion a year. To bring down government debt to the level that used to be set as acceptable to the global financial markets 40 percent of annual output the IFS reckoned that these spending cuts would have to remain in place until 2030. The latest figures show that the IFS may well be underestimating the level of spending cuts needed.

For working people this implies enormous social costs, threatening the health service, education and welfare benefits. The government has already admitted that capital investment in areas such as housing and transport will be hit.

What is of greatest concern to the financial oligarchy in Britain is whether the huge government borrowing could undermine the financial solvency of the country, causing a run on the pound which has already fallen steeply. PricewaterhouseCoopers, the financial consultancy firm, have said the government must make cuts of at least £5 billion a year more to "maintain the confidence of investors". The rate at which the government is borrowing money to pay off its debts is currently assumed to be quite low just above 4 percent. This could shoot up if investors pulled out, making far bigger public spending cuts necessary.

Some indication of the serious situation faced by the City of London can be found in the drastic repatriation of foreign investments in Britain. Although most reports have focused on the pulling out of funds from vulnerable smaller counties, such as Iceland and the economies of Eastern Europe, not to mention the severe downturn in investment in the

developing world, figures from the Bank of England show that £700 billion (\$1 trillion) was withdrawn from British banks by foreign investors over the last three quarters in 2008. This is about 15 percent of the total foreign investment, leaving about \$6 trillion.

Colin Ellis of Daiwa Securities commented this was not surprising, given the sharp fall in the exchange rate which meant sterling investments rapidly losing their value. It raised the question of "what could possibly tempt overseas investors to return to the UK," he said. "Further heavy outflow of funds are probably a given."

Although most authorities predict an end to recession over the next two years, privately the British financial elite are very concerned that there will be a return to 1930s deflation.

In the latest Bank of England quarterly journal, economists ponder the possibility of what is called "debt deflation." There is a high level of personal debt in the UK. At £1.46 trillion it is higher than GDP. Many families are paying fixed rate mortgages on their houses, so they are not helped by the cuts in government interest rates. They could easily get into a trap where they are pushed deeper and deeper into debt each month. There is now a serious concern that this type of rising debt combined with falling prices that was last seen in the slump before World War II could return.

The response of the financial oligarchy was spelt out in last week's *Economist*. In a piece entitled "Preparing for Prosperity" they explain that the growing public sector debt means "a squeeze is overdue". Brown's proposed "reforms" to the public sector are completely inadequate, the article said. "What this heralds is a clampdown on government spending that will reshape the public services far more fundamentally than the prime minister's innocuous reform."

In the leading article "The jobs crisis", the *Economist* said that while government assistance to corporations to keep workers in jobs may be considered to sustain economic demand in the short term, "Over the next couple of years, politicians will have to perform a difficult policy U-turn; for, in the long term, they need flexible labour markets. That will mean abolishing job-subsidy programmes, taking away protected workers' privileges and making it easier for businesses to restructure by laying people off."



To contact the WWSWS and the
Socialist Equality Party visit:

wwsws.org/contact