British chancellor releases austerity budget in worst crisis since WWII

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Chancellor Alistair Darling, despite his continued attempts to minimize the problems, has admitted that Britain faces the worst recession in 60 years. He has responded with an austerity budget targeting working people.

Darling painted a bleak picture of the “worst global economic turmoil” in six decades, saying the UK economy would shrink by 3.5 percent this year—the worst decline since World War II—before, he claimed without substantiation, it would grow again in 2010. Last year, Darling forecast growth for this year of about 2.5 percent and he still predicted growth of one percent in November’s pre-budget report.

Before he spoke official figures showed that government borrowing has risen to a staggering £175 billion. This is almost double last year’s record £90 billion, more than double last year’s budget forecast of a £43 billion shortfall. Darling estimates that borrowing will fall to £118 billion and then £97 billion in the following two years, but this is based on a forecast of a global economic recovery that will not materialise.

Britain’s budget deficit as a percent of GDP is proportionately larger than any other major economy, including the 8.9 percent deficit predicted in the United States. The rise Darling predicts will push it from the present level of 51 percent of GDP, or £743.6 billion, to a high of 79 percent in five years time. But some economists are already predicting that this year’s deficit will in fact be £160 billion, £42 billion more than Darling is now admitting to.

In this context much of the budget was mere tinkering in the face of an economic deluge.

Headlines have focused on Darling’s announcement that the top rate of tax leveled on those earning over £150,000 is to rise to 50 percent from the present 40 percent.

After more than a decade in which taxes on the corporations and the rich have been cut again and again, Darling had to make some effort to get back some money in the face of massive and unsustainable levels of government debt—much of it accrued through the £250 billion bailouts for Britain’s banks—and falling revenue due to the worsening recession. The new top rate of tax is being implemented a year earlier than announced in the pre-Budget report last year and has risen by an additional five percent. There was also a pledge to reduce tax relief on pensions for those paid more than £150,000.

In reality, these measures were the least Darling could do to lend credence to government claims that all are now sharing the pain of the recession. Most of the rich will as usual avoid paying the tax increase.

There were also pledges of £2 billion to help the young unemployed find work or a place on a training scheme, to create or support up to 250,000 jobs in deprived areas and to expand sixth form and further education places. But this must be measured against the reality of unemployment that has already topped two million and is expected to hit three million before the end of the year. In addition, more than 800,000 16- to 18-year-olds are currently not in education, training or employment and do not receive benefits.

Newly released figures show 2.1 million people are now looking for work, higher than when Labour took office in 1997 and a rise of more than 600,000 over the last year. With the rate of unemployment now approaching seven percent, the Office for National Statistics also revealed that there were only 462,000 job vacancies in the first three months of the year, the lowest figure since records began in 2001.

Insolvency practitioner Alan Tomlinson told the

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BBC, "Sadly, these appalling unemployment figures will get much, much worse before they get better. There's still a lot of pain in the pipeline. The impact of the recession on smaller businesses is especially severe. Company failures in this vital sector are still increasing and are likely to do so for some time yet, putting more and more people out of work."

Darling announced a £1 billion package to boost house sales and house building. But the Royal Institute of Chartered Surveyors has pointed out that estate agents are selling less than half as many properties as they were last year, despite recent claims that the housing slump is "bottoming out".

Measures to subsidise businesses, such as an old car scrappage scheme to stimulate the auto-industry, are worth more than these combined initiatives.

Darling made clear that the government intends to step up its programme of cuts, with a pledge to make £15 billion in "efficiency savings"—an additional £10 billion on cuts already announced. Current spending will rise by only 0.7 percent, half the planned 1.2 percent growth announced in November's pre-Budget report. The *Financial Times* described the move as looking "set to produce one of the longest and sustained squeezes on departmental spending since the Second World War."

In addition, the temporary cut in VAT to 15 percent will be reversed at the end of this year, when it will increase to 17.5 percent and may go higher. This level of indirect taxation will be paid disproportionately by the poor who will not be able to employ the tax avoidance measures available to the rich. It will mark a further blow to household budgets, under conditions where wages have already stagnated and even fallen by 0.5 percent in the private sector.

Even so, the Conservatives advocated even greater cuts in public spending. Shadow Chancellor George Osborne said Darling's spending cuts did not go far enough and that Labour's planned 1.1 percent annual spending increase was "unaffordable".

Commenting on Darling's admissions, Martin Wolf wrote in the *Financial Times*, "This is a horror story. But it could, of course, be even worse. The economy may not recover as hoped; the losses on support for the banks could, as the International Monetary Fund suggests, be far worse; and, above all, the creditworthiness of the British government could come into question, with devastating consequences for the terms on which it can raise the vast sums required. The government is flying on a wing and a prayer... a government that made such large claims for the quality of its economic stewardship hardly deserves to survive such a debacle."

Wolf was referring to the IMF's warning that credit crunch losses could reach $4 trillion internationally, four times its estimates last November. The IMF also initially warned that the cost of the bank bailout in the UK was £200 billion, or 13.4 percent of GDP, before revising the figure down to 9.4 percent of GDP, or £130 billion. But even this reduced figure is more than double the estimate Darling is reportedly working with.

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