

# IMF chief economist calls for drastic UK spending cuts

Robert Stevens  
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Chief Economic Counsellor Olivier Blanchard cited Britain as one of the nations that must impose a raft of public spending cuts, as he introduced the International Monetary Fund's World Economic Outlook in Istanbul on October 1. Measures include raising the retirement age beyond 65 and introducing charges for health care.

At a press conference Blanchard was asked specifically about the state of the UK economy. He replied that the next British government will "have to take measures that improve the medium-term debt outlook."

Explaining the meaning of this anodyne statement, he warned, "That means reforms of the retirement system; that means reforms of the health care system. These reforms have basically to be confronted. The idea of (just) introducing these fiscal rules and not doing these reforms is a joke."

Whilst stating that growth had now returned to the world economy and that a recovery was supposedly under way, the IMF report still expected world economic growth to remain in the negative zone at 1.1 percent in 2009.

Blanchard stated categorically, "The current numbers should not fool governments into thinking that the crisis is over."

The IMF notes that Britain's gross national debt will represent 81.7 percent of national output by next year. It predicted that even with planned cuts and tax increases, debt would surge to 98.3 percent by 2014.

Indicating the high levels of "structural deficit," the latest forecast maintains that the level of borrowing required to fund UK government spending following a "recovery" will remain at around 6.2 percent. This is substantially higher than the normal percentage for an advanced economy.

The IMF predicts that the UK's budget deficit will increase to more than 13 percent of GDP—about £200 billion—next year.

According to the IMF forecast the UK economy would contract by 4.4 percent this year, but grow by 0.9 percent in 2010. Even so, unemployment will rise to from 7.2 percent to 9.3 percent during next year.

Under the heading "A jobless recovery," the IMF comments that the recent unemployment increases in the United States and the UK point to far more serious underlying problems in those economies.

"As a recession deepens, however, firms may consider the

shock to be more persistent and may start to shed jobs at a faster pace. Given the size and persistence of the recent shocks to the global economy, this harbinger the potential for a jobless recovery, as excess labour hoarding is gradually unwound, although the analysis suggests that it is critical to distinguish among individual economies."

The report continues, "The employment losses in the United Kingdom and United States, however, reflect that they have suffered not only recessions but also housing busts and systemic financial crises. As demonstrated in IMF (2009a), [from a 2006 IMF report] such a combination generally leads to large output drops and significantly delays recovery, suggesting a slow and tepid pickup in job creation for these two economies."

The IMF also stated its concern over the 50 percent increase in corporate insolvencies in the UK, and the rapid fall in productivity. Other negative factors listed included the persistence of inflation caused by the fall in the value of the pound, and the top-heavy reliance of the economy on finance and housing.

The report said, "With the disappearance of exaggerated profits in the financial sector, long-term growth in the UK will probably suffer more than in the euro zone."

The IMF's prescription for Britain to begin imposing draconian cuts follows recent announcements by the three major parties that they are all planning to slash public spending.

According to an October 2 piece in the *Daily Mail*, "Senior Cabinet sources have revealed that Labour plans to make spending cuts and asset sales worth £75 billion, taking an axe to major defence projects and the pay of judges, top civil servants and NHS managers."

The *Mail* commented, "The IMF's broadside is highly unusual ahead of an election and reflects grave concern at the debt mountain built up by the Brown government."

Labour Party Prime Minister Gordon Brown re-emphasised his government's plans to impose massive cuts this week. In an interview with *Channel 5 News* he said, "I've offered a deficit reduction plan. We've raised the top rate of tax. National insurance will rise by half of one percent and we'll be cutting costs."

"There will be further announcements about how we sell off

more than £16 billion of assets.”

Speaking in Istanbul, UK Chancellor Alistair Darling said, “I am being very robust with spending colleagues. At a time when we have been through an unprecedented downturn, we have to make sure we take robust measures to get borrowing down again.”

Media commentators responded to the IMF’s economic outlook report by demanding that the cuts be deepened. In a *Daily Telegraph* column, “What happens when the borrowing stops?” Jeremy Warner said that the UK structural deficit cited by the IMF was “unsustainable for any length of time”. He added, “Unless the problem self-corrects, much more draconian spending cuts—and/or tax increases—than either of the two main political parties admit to will become inevitable.”

Commenting on Blanchard’s statement, Warner said, “For starters, he thought that some form of fiscal stimulus has to continue as long as private demand remains weak, even though it means a very rapid accumulation of public debt in countries such as Britain. At some point, however, this support has to end, or serious issues over the sustainability of the debt will arise.”

“He concluded that the present trajectory for growth in national debt ought, nonetheless, to be just about affordable.”

Warner added, “Sadly, this prognosis assumes that the IMF’s forecasts for global recovery are met. There are other scenarios where a fiscal crisis—which in Britain would most likely to take the form of a collapse in the currency and a paralysing increase in interest rates—becomes a possibility.”

He warned that if the IMF’s central forecast of a “sustainable recovery” fails, then there will be “unpleasant consequences”.

Prominent Conservative Party supporter Sir Max Hastings asked in his *Daily Mail* column, “So is David Cameron ruthless enough to save Britain?”

Hastings demanded of the leader of the Conservative Party that he prepares for government on the basis of unprecedented attacks on public spending. He wrote, “If government spending remained at its current levels, a 20 percent increase in taxation would be needed. To escape such an intolerable burden, spending must be slashed.

“History will judge Cameron by how ruthlessly he hacks back the bloated public sector. The pay of six million state employees, which for years has been rising faster than private sector earnings, must be frozen.

“Pensionable ages must be raised for all but the most physically arduous public sector jobs. Defined-benefit, index-linked pensions must go. Everyone on the taxpayers’ payroll, from the BBC’s top brass to postmen, must accept their share of a squeeze already imposed on almost every private sector company.

“Since 1997, Gordon Brown has added 600,000 people to the state workforce, many performing marginal functions. Cameron’s target should be to cut such jobs on at least the same scale.”

Demanding that the government prepare to defeat the inevitable conflicts that the cuts will provoke, Hastings said, “There will be howls of rage, protests, strikes. But the unions must be faced down, because only thus can Britain achieve long-term solvency.”

“Cameron’s pledge to ring fence the NHS from cuts should be the first that he breaks in office. As the IMF warned this week, the fiscal emergency is far too serious to exclude 1,560,000 NHS employees from its consequences.”

Further attacks demanded by Hastings included means-testing free bus passes and winter fuel allowances for the elderly, revaluing homes for council tax and raising Value Added Tax to 20 percent, extended to cover food and clothing.

Hastings reserved his greatest ire for what he referred to as the “pernicious socialist principles” which still exist in British society. He declared that a Cameron government “will have to remove from millions of people the cash, perks and entitlements they take for granted.

“Each one, and their representatives, will fight tooth-and-nail in the courts and perhaps even on the streets to resist change. It will require iron nerve and commitment for the government to hold its course.

“Over decades we have become very soft. We are unaccustomed to harsh choices. We shall find it hard—even temporarily—to forgo the expectation of becoming better off each year; to break with the pernicious socialist principle that in our ‘caring society’ everybody must win and gain prizes.”

He concluded, that Cameron “can cherish no hopes of national unity or social harmony, any more than Thatcher could. What he must do will injure a host of vested interests, who will fight him from first day to last.”



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