Britain: Deepening recession fuels concern over corporate bonuses and bailouts

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Disagreements over the Brown government's policy on the global economic crisis have become more vocal after figures released last Friday showed that the UK economy shrank by 0.4 percent from July to September.

The news came as a shock to the government and City analysts who had expected slight growth, thereby proving their insistence that recovery was around the corner. Instead the fall in GDP for six consecutive quarters showed that Britain is in its longest ever recession—surpassing even those of 1980-81 and 1990-91—with every part of the economy contracting aside from public services.

The figures further undermined the government's claims that the various stimulus packages it had provided to the financial sector had placed the economy on a firm footing.

There is unanimity between all the major parties that the massive bank bailouts—now totalling almost £1 trillion in public funds—must be recouped from the wages, living standards and social benefits of working people. Labour, the Conservatives and Liberal Democrats alike have spoken openly of the need to make deep cuts in the public sector of as much as 20 percent.

At the same time, the official parties, backed by the media, have responded with apoplexy to the outbreak of strikes and threatened industrial disputes—ranging from the postal service, refuse collectors, firefighters, bus, train and airport staff. The disputes are in response to job and wage cuts, the arbitrary imposition of new contracts and other measures being taken by employers to cut costs.

Opinion polls show broad support amongst working people for the various actions. This sympathy has been fuelled by hostility to gargantuan payouts being made to Britain's top executives. A survey by Incomes Data Services revealed that top executives had received average bonuses of more than £500,000 and pay increases of at least 7 percent in the year up to April. 'Salaries for FTSE 100 chief executives are rising twice as fast as salaries for shop-floor workers,' the IDS reported.

The Centre for Economics and Business Research also revealed that bonuses at Britain's largest banks—all of which benefited directly or indirectly from the government bailout—are set to rise by up to 50 percent this year, with some £6 billion due to be paid out.

It was in this context that Conservative Chancellor George Osborne addressed a gathering at Reuters in Canary Wharf on Monday, where he called on the government and the Financial Services Authority (FSA) to "stop retail banks … paying out profits in significant cash bonuses."

Cash bonuses should be limited to £2,000, Osborne said, and any "deserved" larger payments should be distributed in the form of shares. Osborne claimed this would free some £10 billion to help "move the economy forward this winter."

"The politics of envy" played no role in his proposal, Osborne said. Rather it was "the politics of common sense…. The banks have to understand that we are all in this together."

The shadow chancellor was hoping to favourably position the Conservatives for the General Election due in May next year, under conditions in which Labour has consistently refused to make any real curbs against the super-rich now enjoying another financial bonanza at public expense.

Osborne claimed that his proposal was in line with the Obama administration's supposed executive "pay restraint" measures announced last week. This is true only to the extent that, while seeking to capitalise on popular anger against "fat cat" bonuses, both the measures enacted in the US and those proposed by Osborne are mere window dressing.

While Obama's appointment of a new "pay czar" is aimed at obscuring the multimillion-dollar compensation packages still being awarded to the financial speculators, Osborne said any cap on bonuses in the UK should be temporary, and should work in tandem with the agreement currently being drawn up between the banks and Financial Services Authority over payments. Hedge funds and global investment banks—which are amongst the highest-earners in the financial sector—should be exempt, he said.

Osborne's call in fact commits his party to nothing. As BBC Business Correspondent Nils Blythe pointed out, Osborne had said that "his 'no cash bonuses' proposal is for this year. And Mr. Osborne is not chancellor this year."

As with the Obama administrations move, Osborne's posturing also has a subtext. His call on the banks to accept limited restrictions on bonuses is aimed at legitimising massive encroachments against the wages and conditions of the working class, under the guise that "we are all in this together."

Earlier, Osborne had solidarised himself with Mervyn King, governor of the Bank of England, who had used a speech to Scottish Business Organisations on October 20 to attack government policy. Describing the scale of government support for the banks as “breathtaking,” King warned that the costs would have to be borne for a generation. Evoking Tory wartime leader Winston Churchill, King said, “Never in the field of financial endeavour has so much money been owed by so few to so many. And, one might add, so far with little real reform.”

While making his attack, King conceded that the bailout had been necessary but warned that it was “not sustainable in the medium term.”

The existence of institutions “too important to fail,” he went on, was a “problem … too important to ignore.”

Calling for a review of “how the banking industry is structured and regulated,” he floated the suggestion of separating retail banking from more speculative and risky undertakings.

King clearly has his eye to a new round of banking collapses that will eclipse those of one year ago. Writing in the *Financial Times*, Gillian Tett cited an email she had received from a retired ex-banker, complaining that the latest stock market rally—fuelled by the government bailouts—was building up yet another bubble. “Was October 2008 just a dress rehearsal for the crash when this latest bubble bursts?” he had asked.

The question was “becoming more critical,” she said, adding, “I just hope that my sense of foreboding turns out to be wrong.”

In August, the Bank of England had increased its programme of “quantitative easing” from £125 billion to £175 billion. At that time, the *Economist* wrote, it had been presumed that the economy was set to emerge from recession. “[T]hat calculation is now obsolete,” it continued, following news of the latest fall in GDP. It is expected that the next meeting of the BoE Monetary Policy Committee in early November will extend the supply of “cheap money” still further.

In his speech, King also spelt out his concern as to the political repercussions of the financial crisis. Previously “a generation of households and businesses had accepted that the discipline of a market economy was the most promising route to prosperity,” he said.

“Uncomfortable though it seemed, the importance of more flexible labour markets, greater competition in product markets, regulation of privatised utilities and allowing unsuccessful businesses to fail, came to be widely understood. Then, out of what must have appeared to many of you to be a clear blue sky of economic stability, arose a financial firestorm that wreaked substantial damage to the real economy, and we have not yet seen its full consequences.”

If one were to reestablish the “case for market discipline,” he continued, it was necessary that it should be seen to be “no less compelling for banking than for other industries.”

A section of the bourgeoisie hopes that by apparently adapting to public hostility over executive bonuses, they can avoid scrutiny of the more fundamental processes that lie at their root in the capitalist profit system itself and the deliberate social impoverishment of the working class pursued over the past decades by all the official parties at the behest of the financial oligarchy.

Others amongst their number are furious at any suggestion of a limit on their riches. In an unprecedented public intrusion into an area of government policy, Prince Andrew, Duke of York and Britain’s special representative for trade and investment, attacked any curbs on executive bonuses. The sums involved were “minute,” he said, warning, “Don’t throw the baby out with the bath water.” He also rejected calls for a clampdown on tax loopholes for Britain’s 112,000 non-domiciles as detrimental to the UK economy.

Osborne’s proposal was also repudiated from within the Conservative Party, with London Mayor Boris Johnson denouncing “banker bashers” who treated the City of London as a “leper colony.” Opposing increased taxes on the super-rich, Johnson said they would only realise “tiny sums of revenue” and would “drive away talent.”

Miles Templeman, director-general of the Institute of Directors, cautioned Osborne “to be wiser, in terms of finding the right approach, rather than adapting a more headline grabbing one.”

The *Financial Times* editorialised that “the Conservative shadow chancellor was forged by a professional lifetime within the Tory party spin machine. But, if he wants to be a successful chancellor, Mr. Osborne will need to rein in his well-honed instincts on positioning and headline-grabbing in favour of greater focus on policy.”

Tapping “into popular concern” was all very well and good, it continued, but any future Conservative government would have to impose significant spending cuts against the population.

“There was no need to appease the bonus-bashing mob and inflame anti-City sentiment further,” it warned. “Mr. Osborne would have won fewer headlines for such an announcement, but he would have been advocating the sort of policy that separates a chancellor-in-waiting from a shadow chancellor.’