Britain faces a possible Greek scenario, European Union warns

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The European Commission has warned that the British government could face a Greek scenario if it does not escalate its drive to impose austerity.

EU commissioners stated in a report that Britain's AAA credit rating was in peril because the Labour government of Gordon Brown had not proposed cuts savage enough to reduce indebtedness. At more than £178 billion, 12 percent of gross domestic product, Britain's deficit is proportionately on a par with Greece and vastly larger in real terms.

The report complains that the UK is not on course to cut its deficit in line with EU rules that government deficits must be below 3 percent of GDP by 2014. Britain is not in the Eurozone, but is heavily dependent on the European economy.

Labour's pre-budget report announced plans to make cuts of £19 billion, which it said would cut the UK's deficit to 4.7 percent by 2015. Estimates by the government of the scale of the additional cuts being demanded followed, ranging between £20 billion and £25 billion.

The EC report bluntly states, "A credible time frame for restoring public finances to a sustainable position requires additional fiscal tightening measures beyond those currently planned."

The report also questions the UK treasury's forecasts for economic growth of 2 percent in 2010-11 and 3.3 percent throughout each of the following four years. A European official told the BBC, "Britain is being too optimistic about its chances of recovery. It thinks it will be able to come out of this quicker than we think it will."

The markets initially responded by selling off sterling, with the pound falling to a ten-month low against the dollar and below $1.50 to $1.4977. It climbed back after better-than-expected housing data, but remains the worst-performing major currency this year after weakening by 7 percent against the dollar.

Bloomberg pointed out, "Futures traders are more bearish than ever on sterling, with wagers on the pound weakening against the dollar outnumbering futures that profit on a rise by eight times more than when George Soros made $1 billion betting against the currency in 1992."

Such speculation is only an expression of the insatiable demands of the global financiers for the working class to be made to pay for the bail-out of the banks and for a more general and sustained restructuring of economic and social life in their interests. They are intent on clawing millions out of the backs of working people to refill state coffers emptied in order to prop up finance houses that failed through unbridled speculation.

To do this they want essential public services to be wiped out and millions thrown into unemployment or put on starvation wages. In the meantime they are glutting themselves once more, making billions by hiking up interest rates on bonds purchased by those governments being denounced as heavily indebted. A withdrawal of an AAA credit rating escalates the cost of servicing a debt to the bankers which have been rescued by the very same governments, threatening entire nations with bankruptcy.

These are the rapacious interests that are dictating the political agenda in every country.

The EC report was viewed by the government as more of a threat than a warning, particularly coming in the run-up to an as yet unannounced but probably May 6 general election in which the Conservatives are denouncing the government for being dishonest about the scale of cuts now required.

Shadow Chancellor George Osborne said, "The Conservatives have been arguing that we need to reduce our record budget deficit more quickly in order to support the recovery."

Tory leader David Cameron said that voters face a choice between a dishonest Labour government putting off difficult decisions and a Conservative party prepared to "roll up its sleeves and get on with the job."

Liberal Democrat Treasury spokesman Vince Cable said to be credible, parties needed to show what they would cut.

Brown responded that the Conservatives would "wreck the recovery" by their planned budget cuts. Chancellor Alistair Darling's budget will be delivered Wednesday this week.

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He insisted that the EC was "wrong" and that making faster cuts would be harmful to the recovery.

Labour has in reality outlined austerity measures that it boasts of being the sharpest and fastest deficit reduction proposal in the G7 leading industrial nations, involving a £38 billion-pound cut in spending starting in 2011 and £19 billion tax increases from April. The government has made clear that it wants to go further, but fears that cuts imposed too quickly would tip the economy back into recession—a position shared by the Bank of England and most leading economists. It is also aware that to pledge the measures now being called for would guarantee Labour losing the election. These are, however, only tactical differences. Should economic conditions worsen, or the demands for more decisive action continue to escalate, Labour will do what is expected.

Chief Secretary to the Treasury Liam Byrne noted that the government's predictions are based on £25 billion coming from economic growth. If that does not materialise, then the cuts figures outlined by the EC would have to be imposed.

The UK economy is in dire straits, and there is every reason to anticipate a worsening of the domestic and global economic situation.

This week the Bank of England's quarterly bulletin warned that families must expect an ongoing fall in living standards, including an effective pay cut. It was also too early to conclude that unemployment has peaked.

Many workers have accepted pay cuts and working part time, but the Bank said that they must now realise that the costs of goods and services will likely continue to rise faster than wages. Wage rises are running at an annual rate of 1.4 percent, and in the private sector at just 0.7 percent—well below inflation.

"While pay restraint helped save jobs during the recession, the dawning realisation that this will have to continue for some considerable time if jobs are not to be lost during the recovery will test the goodwill of UK workers to the limit," the report said.

It continued that "There remains a risk of further falls in employment.... Businesses may respond to any future squeeze in profits by shedding staff."

Bank policymaker and Monetary Policy Committee member Kate Barker conceded that the economy would re-enter recession this year.

John Philpott, chief economist of the Chartered Institute of Personnel and Development, commented, "The likelihood of a 'jobs-light' or, worse still, a 'jobs-loss' recovery has been of concern to the CIPD for some time."

Officially unemployment fell by 33,000 to 2.45 million in January, standing at 7.8 percent. However, the jobless fall only masks a 14-year low for UK employment. The Office for National Statistics has confirmed that 8.16 million people are now classed as "economically inactive." Fully one in five adults are no longer seeking employment.

Long-term unemployment rose by 61,000 to 687,000. Youth unemployment stands at one million, and part-time employment is also at one million. An additional 100,000 people entered education because there are no jobs. This brings those in education to 2.3 million, a record high.

The number out of job or economically inactive, therefore, totals 10.6 million or 28 percent of the working population.

It is under these conditions that further cuts will now be made. Jeremy Warner wrote in the *Telegraph*, "[D]on't bet on the markets suspending judgement until after polling day. When they come, currency and fiscal crises tend to develop suddenly and without much warning. We may be quite close to that tipping point."

The most significant depiction of the acute nature of the ongoing crisis came from the US credit rating agency Moody's on sovereign debt. Ambrose Evans-Pritchard, again in the *Telegraph*, noted Moody's verdict that the United States, the UK, Germany, France, and Spain are "walking a tightrope as they try to bring public finances under control without nipping recovery in the bud."

Moody's warned of "substantial execution risk" in early withdrawal of stimulus measures, noting that an IMF study said quantitative easing had lopped 40 to 100 basis points off debt costs. But waiting too long was "no less risky."

Pierre Cailleteau, the chief author of the report, ended with a sobering word of caution to the ruling elite of the possible implications of their own actions:

"Preserving debt affordability at levels consistent with AAA ratings will invariably require fiscal adjustments of a magnitude that, in some cases, will test social cohesion.... We are not talking about revolution, but the severity of the crisis will force governments to make painful choices that expose weaknesses in society."

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