UK economy on edge of triple dip recession

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1 February 2013

Official GDP figures show the UK economy contracted in the last quarter of 2012 by 0.3 percent. Manufacturing fell by 1.5 percent in the fourth quarter, the service sector was flat and construction rose by 0.3 percent.

It is widely expected that Britain will soon enter a "triple-dip" recession through negative growth in the first quarter of 2013. Recession is defined by two consecutive quarters of contraction.

On balance in 2012, there was zero growth. Only the third quarter recorded a positive figure due to ticket sales for the Olympic and Paralympics games. The economy is still smaller then it was in September 2011 and 3.3 percent below its peak before the onset of the economic crisis in 2008.

Economists describe the situation as gloomy and dire. Even the most positive predictions involve slow growth in the years ahead until recovery to the level of 2008 in the first quarter of 2015. This would mean the weakest recorded recovery in history.

The preconditions for such a growth, however, are a generally favourable economic situation internationally, including a recovery of the crisis in the United States and Europe, and increasing growth figures in the struggling export markets like China, India and Brazil.

Figures released by the International Monetary Fund (IMF) last week point to a persistent and deepening slump in Europe's real economy. The euro zone area contracted by 0.4 percent in 2012. In its World Economic Outlook update, the IMF said it expects global growth to be 0.1 percent lower in both 2012 and 2013 as compared to its previous estimates published in October.

The negative economic data for the UK does not come as a surprise given that the year began with the collapse of three major retailers—Blockbuster video rental, the music chain HMV and the camera firm Jessops in the space of just one week—wiping out 10,000 jobs and up to 1,000 stores. This development highlighted the phenomenon of "zombie companies"—companies teetering on the brink of bankruptcy. There are believed to be 160,000 such zombies, about one in ten British businesses. In the event of rising interest rates, it is expected that a third of these will collapse.

Mark Thomas, business strategy expert at PA Consulting and author of *The Zombie Economy*, explains, "A zombie company is one which is generating just about enough cash to service its debt, so the bank is not obliged to pull the plug on the loan.

"The company can limp along, it can survive, but it hasn't got enough money to invest."

The Conservative-Liberal Democrat coalition maintains that its policy of austerity will bring down government debts. But it has failed to do so. In the autumn, Chancellor George Osborne acknowledged that spending had risen and that so-called deficit reduction will have to be continued to at least 2018, extending the original plan of five years of austerity to eight years. The latest GDP figures raise the likelihood of a further increase in debts levels. Last year, borrowing rose by £7 billion.

It is widely expected that at least one credit rating agency will downgrade the UK's AAA rating. All three agencies—Moody's, Fitch and Standard & Poor's—have the UK on negative outlook. Osborne always maintained that devastating spending cuts were necessary to defend credit-worthiness and that a downgrading of the UK's ratings would increase the likelihood of the economy being sucked into a downward spiral as seen in countries like Spain, Italy, Ireland, and above all Greece.

But austerity has never been about achieving economic recovery for all of society. Throughout Europe, governments have carried out savage cuts that have brought social devastation not seen in history

outside of war. Austerity is not designed to increase living conditions for the broad mass of the population, but to destroy them.

Now, however, this policy is having a detrimental impact on sections of business and poses a growing threat of mass dissent by the working class. Sections of the ruling elite are consequently raising a chorus calling on the government to “change course”, to cut spending less quickly and to increase “investment and growth”.

The IMF’s chief economist, Olivier Blanchard, suggested that Osborne has the perfect opportunity “to take stock and make adjustments” in the March budget: “We said that if things look bad at the beginning of 2013—which they do—then there should be a reassessment of fiscal policy”.

There are the obvious criticisms by the Labour Party and trade unions. Frances O’Grady, general secretary of the Trades Union Congress, said, “We are now mid-way through the coalition’s term of office and its economic strategy has been a complete disaster. We remain as dependent on the City as we did before the financial crash. The chancellor now has all the evidence he needs to change course and focus on investment and growth.”

Sir Roger Carr, the president of the Confederation of British Industry, commented, “It requires investment. It requires ways to unblock infrastructure projects. Otherwise the economy will continue to be sluggish.”

Criticism has also arisen from within the coalition and even the Tory Party itself. It was seen as a devastating acknowledgement of failure when Liberal Democrat leader Nick Clegg said the government had cut investment spending too quickly after it arrived in office. Clegg is working with Vince Cable, secretary of state for business, skills and innovation on the Liberal Democrats’ proposals on investment to build houses and to make the state-owned banks lend to firms in preparation for the next budget. Boris Johnson, the Conservative mayor of London, spoke of the need to “junk the rhetoric of austerity” and for steps to be taken to boost “confidence”.

To the extent that any concrete alternatives are presented, they involve transferring even larger amounts of public funds over to selective businesses and the banks under the guise of stimulating the economy. On the issue of cutting pay, welfare and the privatisation of essential social provision, the coalition’s would-be critics are at one with the government.

For its part, the government has insisted that a change of course is out of the question. Osborne described the latest figures as “a reminder that last year was particularly difficult, that we face problems at home with the debts built up over many years, and problems abroad with the eurozone”, before pledging he would not “run away from those problems” but would “confront them.”

Clegg’s pose of opposition was easily abandoned, when he told “The Andrew Marr Show” that the government would “absolutely not change course in paying off one of the world’s largest budget deficits.”

The government acts in the interests of a global financial oligarchy, even if this contradicts the interests of less influential bourgeois sectors such as manufacturing. In addition, they are driven by considerations of what is seen as an unprecedented opportunity to restructure class relations by carrying through a social counterrevolution against the working class.

This is a global phenomenon, with the super-rich demanding that living standards be driven down to levels existing in China, India and eastern Europe while they gut health care, education, social benefits and wages and plunder national treasuries through bank bailouts and loan repayments.