Moody’s credit downgrade heightens UK economic crisis

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Only the foolish would predict the fate of the pound over the next days and weeks, given the crisis gripping the world’s currencies and markets, most notably the euro. Nevertheless, the downgrade of the UK’s credit rating by Moody’s was a negative verdict on Britain’s economy that is well founded.

While the European Commission and the International Monetary Fund are predicting an imminent triple-dip recession, few working people in Britain will understand the difference between this and a depression. The main advantage the UK enjoys as far as global investors are concerned is its readiness to throw billions at the banks and speculators in the form of bailouts and quantitative easing, while ruthlessly slashing social programs, cutting wages and increasing the exploitation of British workers.

This has brought the disconnect between the economic experience of the vast majority and the super-rich to an unprecedented level, pointing to the artificial character of all claims of a partial recovery.

The *Financial Times* was keen to dismiss the importance of the decision by Moody’s to downgrade the UK’s creditworthiness from AAA to AA1. “Announcements by credit rating agencies should largely be treated as irrelevant. Moody’s statement reveals nothing that professional investors do not already know,” it asserted.

Government spokesmen had the same message. Chancellor George Osborne asked, “What is the message from the ratings agency? Britain’s got a debt problem. I agree with that.” Stressing that there would be no let-up in austerity measures targeting the working class, he added, “I’ve been telling the country for years that we’ve got a debt problem, we’ve got to deal with it.”

Nevertheless, sterling fell on Monday to a 31-month low against the dollar and a 16-month low against the euro before recovering in late trading.

Robin Charter of the Federation of European Employers warned that the decision “is a blow for the UK as a leading financial centre, and the UK balance of payments is so reliant on its financial services that even a small loss in trading income could affect the value of sterling and have a major impact on GDP.”

Hedge funds and traders have for some time been betting against the pound, predicting that a new round of quantitative easing (QE) will cause it to fall again. Last week, Bank of England Governor Sir Mervyn King voted with a minority of three others on the monetary policy committee for another £25 billion of QE. King argued that more QE was needed to prevent “potentially lasting destruction of productive capacity and increases in unemployment.”

The UK economy grew in the third quarter of last year, boosted by the impact of the Olympics. But after this adrenalin shot, it shrank once more by 0.3 percent in the fourth quarter and will be in a triple-dip recession if this trend continues in the first quarter of 2013.

Sterling is now worth around 8 percent less against the euro than it was last month. The pound had already been devalued by 20 percent since 2008.

The main reason for the indebtedness—totalling 91.5 percent of GDP—that is now impacting UK creditworthiness is the bank bailout measures from 2008 onwards that now have an estimated price tag of over £1 trillion.

In addition, QE has pumped up to £375 billion into the financial system. The markets have complained that quantitative easing is being used to avoid the savage cuts being demanded of governments all over the world, leading to a continued growth in public-sector borrowing.

In the most fundamental sense, the UK's fate will be determined by the absence of any genuine global recovery. Larry Eliot in the *Guardian* compared world financial markets to a drug addict craving its "next fix of quantitative easing." He warned, "The situation today is the closest the world has been to a depression since the 1930s."

The UK is one of the world's weak economic links, intensely parasitic in its reliance upon the financial sector and a hellish place to live for millions of working people.

In the real economy, away from the City of London, the government has boasted of a recovery—citing the fall in the unemployment benefit claimant count to 1.54 million, the lowest since June 2011, and a fall in unemployment by 156,000 in a year to 2.5 million.

However, this has been largely achieved through a significant increase in part-time working and wage cuts—sometimes up to 20 percent—that still leave just under 9 million economically inactive. Youth unemployment has increased by 11,000, the highest rise for a year, and the number of people with more than one job has increased by 41,000 to 1.1 million.

Regular pay, excluding bonuses, rose by 1.3 percent, the lowest figure since the end of 2009 and much lower than the rate of inflation. Moreover, this average conceals growing disparities. The top one percent of earners now pocket 10 pence in every pound of income in Britain—a rise of 30 percent since the mid-1990s—while the poorest half of the population takes home only 18 pence of every pound between them, according to the Resolution Foundation think tank.

One in seven workers has been made redundant since 2008—3.5 million employees—according to the Jobs Economist. Most who find another job go back to work on lower wages.

Workers have now taken an average £1,200 ($1,819) pay cut since 2010, with more than five people chasing every job vacancy. In a telling example, more than 1,700 applied for just eight jobs at a new branch of Costa Coffee in Nottingham, starting at just £6.10 an hour (£5.40 for under-21s). One unsuccessful applicant was a senior retail manager with over 15 years' experience.

The Organization for Economic Cooperation and Development (OECD) has warned that the UK's "labour market conditions are widening the income gap between full-time employees and an increasing share of the workforce on part-time, insecure and low-wage jobs. This comes in a context where income inequality was already high and rising before the recession."

Almost one third of the UK population, 15 million people, have no savings. Many are living on a "financial precipice", according to the Lloyd's PLC subsidiary, Scottish Widows. Seventeen percent of people have no money to fall back on at all, and almost a third have total savings of less than £1,000. A quarter of parents have given loans averaging £15,000 to their children and grandparents have lent their grandchildren an average of £3,665.

Most people are surviving only by getting into debt. According to Credit Action, outstanding personal debt stood at £1.422 trillion at the end of December 2012, nearly the equivalent of GDP in 2011. Mortgage debt accounted for £1.265 trillion, and consumer credit lending stood at £157 billion. Average household debt including mortgages was £53, 947 in December. Excluding mortgages it was £5,946.

Average consumer borrowing on credit cards, etc., was £3,190. Total interest payments on this debt were a staggering £60.4 billion a year, a household average of £2,294 in annual interest repayments.