UK economic "recovery" based on property bubble and rising inequality

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The announcement that UK unemployment had dipped by just 0.1 percentage point has been seized on by the Conservative-led government to back its austerity measures.

The Office for National Statistics (ONS) said that unemployment fell by 24,000 to 2.49 million in the three months to July, a rate of 7.7 percent.

Employment Minister Mark Hoban said the figures showed "the UK economy is turning the corner." His claim echoed that of Prime Minister David Cameron speaking last week on news of positive GDP figures in the first two quarters of 2013.

"Of course we haven't got everyone off welfare and into work but we have massively turned round the welfare system, re-elect us and we'll complete the job", he said, referring to the general election in 2015.

The figures are far from the triumph they are made out to be. The "recovery" is the slowest in more than 100 years, with the economy more than 3 percent smaller than before the 2008 crash.

What is actually under way is another round of taxpayer subsidies to the banks and credit institutions, financed by an unprecedented decline in living standards. Some £375 billion of quantitative easing has been made available to the banks. Last month, Mark Carney, the new governor of the Bank of England (BoE), said that this could be boosted still further, with some speculating it could rise to as much as £425 billion.

At the same meeting, Carney also said that interest rates—currently at just 0.5 percent—would remain unchanged until the unemployment rate reached 7 percent, which is not expected until 2016.

The guarantee of cheap money, further stimulated by billions in government subsidies, is fuelling another property bubble and deepening social inequality.

Some £80 billion has been made available under the Funding for Lending scheme—essentially another handout to the banks in return for their agreement to lend. Another £130 billion is being made available through the Help to Buy scheme, which underwrites low-deposit mortgages.

One result has been a rise in buy-to-let mortgages to record levels as landlords and property speculators cash in on the government's handouts. Even before the BoE had pledged to keep interest rates low for three years, some 40,000 buy-to-let mortgages were agreed to in the three months to June, up from 33,000. This has taken the buy-to-let sector back to the levels it had reached before the 2008 crash.

House prices have now reached their highest level ever, at an average of £232,969—rising £500 a month over the last year. The value of "prestige" homes in London has risen by 18 percent, or to £500,000.

On Friday, the Royal Institution of Chartered Surveyors (RICS) called on the government to consider imposing a 5 percent limit on annual house price increases. "We believe firmly anchored house price expectations would limit excessive risk taking and, as a result, limit an unsustainable rise in debt," the RICS said.

Appearing before the Treasury Select Committee the day before, Carney had to defend his "forward guidance" over interest rate policy. The recovery was in its early stages and could be knocked off course, he said. While denying that a housing bubble was imminent, the BoE was "vigilant".

Rents are also at a record high. The number of households more than two months behind on their rent rose by 5 percent to 94,000 in the first quarter of 2013. According to LSL Property Services, severe arrears over the last year to April were 20 percent above the long-term average. Evictions by court order are also at a record high, up 10 percent on the year before.

This is before the government's cap on welfare and housing benefit came into effect, which has left many families—particularly in the south—in debt or forcibly removed to cheaper parts of the country.

The ONS figures showed that unemployment is up in every northern region in the country, by 13,000 in the North West for example. Once again, the young have been particularly hit—with the unemployment rate for 16- to 24-year-olds up by 9,000 to 960,000.

Long-term unemployment (of one year or more) is also at a near record, at just short of 900,000.

The government's austerity measures have seen welfare and public spending slashed, a freeze on public sector pay and mass job losses. Some 356,000 public sector jobs have been lost since 2010, of which 104,000 jobs were lost in the last year.

Public sector employment now accounts for less than 20 percent of all jobs—the lowest since records began. In the National Health Service, some 21,000 jobs have been lost in the last three months alone—many in vital frontline services.

Strikingly, the largest increase in private sector employment has been in health and social work—indicating that private companies have been able to make inroads into the gutting of public provision.

Underemployment is growing rapidly. The number of part-time workers has surged as full-time, permanent employment becomes scarcer. The numbers working part-time because they are unable to find full-time work have doubled over the past five years to 1.45 million, and this largely accounts for the decline in unemployment. Four out of every five new jobs is part-time female employment.

This has further squeezed household incomes. Real wages have fallen for 40 consecutive months, and are down by 9 percent since 2008. Only workers in Greece, Portugal and the Netherlands have seen larger declines. Average weekly earnings in the quarter to July stood at just 1.1 percent, with inflation at 2.8 percent.

Professor John Van Reenen, director of the Centre for Economic Performance at the London School of Economics, described the fall as "stunning—and something that did not happen in previous postwar recessions in Britain".

The government's claims of a resurging economy have come in for criticisms, with Liberal Democrat business secretary Vince Cable arguing that it is not the "kind of growth we want".

There were a "number of dangers", he said, one of which was "complacency, generated by a few quarters of good economic data."

The Liberal Democrats are in coalition with the Tories and have signed up to all the cuts. What animates the complaints of Cable and others is fear that the government is boasting far too soon, under conditions in which the global economy is showing signs of another major crisis.

The prospect of the US cutting back on its own quantitative easing programme has led to turmoil on the financial markets. At the same time, growth in the so-called developing countries—which were meant to fuel a global economic revival—is falling.

Meanwhile, the crisis in the euro zone is far from over, with forecasts that Greece, Portugal, Spain and Italy will see significant contractions in their economies. Simon Tilford, from the Centre for European Reform, told the *Telegraph*, "the elephant in the room is the rise in the debts of Portugal and Spain by 15 percentage points (pp) of GDP over the past year, by 18pp in Ireland and by 24pp in Greece. Italy's ratio rose 7pp to 130pc of GDP, already at or near the point of no return."