More cuts to come as UK economy heads towards deeper crisis

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23 November 2015

Every speech made by UK Prime Minister David Cameron and Chancellor George Osborne now begins with the statement that, after years of austerity, the UK economy is the picture of health and the fastest growing among the Group of 7 (G7).

New data shows instead that the UK economy is fragile and teetering on the edge of a major crisis. Ahead of next week's Autumn Statement and Spending Review, the government's public sector net borrowing (PSNB), excluding public sector debt, rose by £1.1 billion to £7.1 billion. PSNB is the gap between what the government spends and takes in. The figure was significantly larger than £6 billion forecast by the majority of economists in a Reuters poll.

Total borrowing between April and October 2015 stood at £54.3 billion. While this was a decrease of £6.6 billion compared with the same period in 2014-2015, Osborne had forecast that borrowing would fall by £18.9 billion over the financial year. Based on October's figures, PSNB could be £11 billion higher than the Office for Budget Responsibility's July forecast.

This level of borrowing is the highest in six years. The last time borrowing figures were higher was in October 2009 when the economy was officially in recession. Howard Archer , chief UK and European economist at IHS Global Insight , said, "George Osborne now has an almighty task to meet his fiscal targets for 2015/16."

A number of factors are at work in the latest figures. October is considered an important month for PSNB, as quarterly corporation tax payments are made during it. But last month tax receipts from companies and general income tax were both down. Compared with a year earlier, total tax receipts were down 1.8 percent.

Some of the world's largest corporations continue to pay virtually nothing in corporation tax. Last year Facebook doubled its UK sales to £105 million, while reporting losses of £28.5 million. This allowed it to pay just £4,327 in UK corporation tax. This is less than a worker on the UK official average wage of £26,500. On that salary, a worker would expect to pay £5,393 in income tax and national insurance contributions.

This year Amazon paid just £11.9 million in tax on UK sales of £5.3 billion.

Tax avoidance by the super-rich is now an art form. Latest figures show that a massive £34 billion in tax went uncollected last year. Corporations will continue to pay less and less in tax. The corporation tax rate now stands at 20 percent and will be reduced to 18 percent by April 2020.

A major factor in the increase of PSNB is the prolonged squeeze on wage growth. According to official figures, real wages stagnated by around 8 percent following the 2008 financial crisis and only very recently has any growth been recorded. Household real incomes grew by a miniscule 0.2 percent in the first quarter of the year. However, millions of workers remain in low-paid jobs. In 2014, nearly one in four jobs outside of London paid less than the living wage and nearly 20 percent in the capital paid less. Last year the living wage, the rate of pay to give a supposed "adequate" standard of living, stood at just £8.80 an hour in London and £7.65 elsewhere.

Latest figures also show that net government debt, excluding public sector banks, has increased to £1.5 trillion, up by £70.4 billion from October of last year. This is equivalent to 80.5 percent of GDP and compares with the 69 percent of GDP in 2010/11 when Osborne became chancellor under the Conservative-Liberal Democrat coalition.

These figures are a refutation of all the claims that the

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UK economy would recover from the financial crisis based on years of austerity and “belt-tightening.”

Despite this, the latest PSNB and overall debt figures will be used by the government, and their echo chambers in the media, as a justification to demand even deeper cuts to “finish the job.”

Samuel Tombs, chief UK economist at the Pantheon Macroeconomics consultancy, said the “terrible borrowing figures provide a grim backdrop” to the Autumn Statement. He added, “October’s poor borrowing numbers extinguish any lingering hope that the chancellor will be able to soften his austerity plans materially in next week’s autumn statement.”

A source from the Treasury spoke in similar tones: “We’ve learned there’s no shortcut to fixing the public finances … that’s why in the Spending Review next week we’ll continue the hard work of identifying savings and making reforms necessary to build a resilient economy.”

The further planned public spending cuts are staggering. Prior to the Autumn Statement, 11 government departments have agreed an average cut in real terms funding of 24 percent over the next four years, on top of cuts of more than £60 billion already carried out. Welfare spending, which has been slashed by more than £21 billion since 2010, faces a further £12 billion reduction by 2018/19. A further £4.4 billion in cuts is required this year, with welfare spending set to be targeted to compensate for the governments’ failure to pass cuts in workers’ tax credits in the House of Lords.

This does not satisfy the ruling elite, as they force the working class to pay the entire cost of the bailout of the banks and super-rich they undertook after the 2008 financial crisis. In a comment on the PSNB crisis, *Financial Times* Economics Editor Chris Giles warned that one of the main challenges ahead was for Osborne to “pencil in credible cuts to government departments.”

Giles was dismissive of the huge cuts already announced, stating that Osborne “has settled with many small ministries, but is yet to agree the budgets of large government departments, such as the Home Office. The defeat in the House of Lords on tax credits shows that even if he can agree tight budgets, the task of delivery is far from complete.”

Giles added, “After the settlements so far, Torsten Bell, director of the Resolution Foundation, said business, local government, justice, home affairs and non-school education, ‘either will received an average cut of around 30 percent, or the overall pace of cuts will be watered down’.”

Howard Archer, economist at the IHS Global Insight, said the borrowing figures were “difficult news” and pointed to underlying structural weaknesses in the British economy in relation to the stagnant world economy. “With the economy seeing GDP growth slow in the third quarter, there is the risk that tax receipts could undershoot going forward. The chancellor will obviously be hoping that the economy can kick on and is not hampered by global growth being held back by a marked slowdown in China and emerging markets.”

Archer added, “He [Osborne] will also be hoping that the economy is not handicapped significantly by heightened uncertainty in the run-up to the referendum on UK membership of the European Union.”

Concurring, John Longworth, director-general of the British Chambers of Commerce, warned that the scale of the UK’s public sector borrowing deficit made the UK “hugely vulnerable” to unexpected external shocks and “it should be setting off alarm bells”.

Far from the UK economy “motoring forward” (Osborne), on any number of indices, it is in a perilous state. For 2014, the current account deficit stood at 5.9 percent of GDP—the highest since records began in 1948. This month, the Office for National Statistics found that the UK had suffered the slowest recovery in levels of output since the 1920s. The economy is only now reaching the size it had been before the recession in the second quarter of 2013.

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