Pound plummets as UK Tory government and Labour fight over how to protect profits

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UK Chancellor Kwasi Kwarteng's announcement of £45 billion in tax cuts sent the pound plummeting over the weekend.

Sterling fell by nearly 5 percent at one stage on Monday, with £1 trading at $1.035, falling below its all-time 1985 low. The Japanese Nomura bank was the first to forecast parity between the two, as early as the end of November, and a fall to $0.975 by the end of the year.

Former US Treasury Secretary Larry Summers told Bloomberg, "It would not surprise me if the pound eventually gets below a dollar." He commented, "It makes me very sorry to say, but I think the UK is behaving a bit like an emerging market turning itself into a submerging market."

Mark Dowding, head investment officer at BlueBay Asset Management, told the *Financial Times*, "There's a real risk that international investors lose confidence in the UK government and that leads to a run on sterling."

There were broader signs of a crash in market confidence in the UK, as prices for government bonds plunged, with yields on two-year and five-year gilts rising to their highest rates since the financial crash to compensate. Ten-year gilt yields were at their highest since 2010 and are on track for their worst month since 1957.

The collapse in sterling will have devastating immediate and long-term consequences. As the pound weakens relative to other currencies, the cost of imports to Britain increases, raising the prices paid by workers at the petrol pump, in supermarkets and on energy bills.

Oil and gas are priced globally in dollars, with the UK importing 11 percent of its oil consumption and 50 percent of its gas. More than 50 percent of the food eaten in the UK is imported. The already high rate of inflation (12.3 percent RPI) will be driven up further.

To stop the pound's slide creating panic among investors, the Bank of England (BoE) will be pushed to raise interest rates even faster than already planned. The markets have priced in a rise from the current rate of 2.25 percent to nearly 4 percent by November and more than 6 percent by next summer.

In a statement Monday evening, the Bank announced that it "will not hesitate to change interest rates as necessary".

The *World Socialist Web Site* explained in August that the BoE's planned interest rate rises were intended to "deepen the long recession now begun in the UK… push up unemployment and social hardship for millions." Its aim, facing several major strikes, "is to counter this rising wave of militancy by forcing desperate workers to accept further savage pay cuts or face mass unemployment and financial ruin."

Kwarteng's announcement has accelerated that process, as the Bank seeks to prove to international finance the British ruling class will carry out whatever assault on the working class is necessary to secure investments. The sharpest falls in share prices Monday were among banks, housebuilders and retailers, showing "the City is anticipating rising bad debts, falling demand for houses, and a deeper consumer spending squeeze,"wrote the *Guardian*'s business correspondent Graeme Wearden.

Kwarteng is crashing the already weak UK economy to carry out a massive redistribution of wealth from the working class to the rich. According to analysis by the Resolution Foundation think tank, two thirds of the gains from personal income tax cuts will go to the richest 20 percent of households, with 45 percent going to the top 5 percent. Only 12 percent will go to the poorest half of households.

Research by Andy Summers and Arun Advani at the London School of Economics and Warwick University shows £1 billion will be given to *just 2,500* of the richest individuals in the UK, with incomes of more than £3.5 million a year.

The billions lost to the treasury will be taken out of public services and public sector wages. Torsten Bell, head of the Resolution Foundation, commented,“The reality of double-digit inflation will tightly squeeze the budgets of schools and hospitals, as well as households…

“In the longer term, there are clear trade-offs between the £45 billion tax cuts announced last week and the quantity and quality of public services.”

Paul Johnson, head of the Institute for Fiscal Studies, agreed in comments to *The Times*, “There’s a real problem for schools and hospitals doing even the pay rises that they’re doing. It’s going to be a real squeeze.”

The uproar in financial circles, echoed by the Labour Party, over Kwarteng’s actions is driven by the fact that this “squeeze” has not taken place already. Former chancellor George Osborne, the architect of austerity under Conservative prime minister David Cameron, spelled out their concerns on Channel 4’s *Andrew Neil Show*, insisting, “You can’t just borrow your way to a low-tax economy.” He added, crucially, “The schizophrenia has to be resolved. You can’t have small-state taxes and big-state spending.”

There are reports of letters of no confidence already being submitted in Truss’s leadership by Tory MPs who agree with Osborne’s verdict.

Speaking for big business, UBS Global Wealth Management’s chief economist Paul Donovan declared of Truss’s spending, “Modern monetary theory has been taken into a corner by the bond markets and beaten up…

“This also reminds investors that modern politics produces parties that are more extreme than either the voter or the investor consensus.

“Investors seem inclined to regard the UK Conservative Party as a doomsday cult.”

The Labour Party is pitching itself as the “responsible” protector of financial and corporate interests. Shadow Chancellor Rachel Reeves told the party’s ongoing conference that she would “take on the Tories on economic competence” and that “It is becoming clearer by the day that Labour is the party of economic responsibility and the party of social justice.”

References to “social justice” are a fraud. If Truss had spent £45 billion of borrowed money on anything, except perhaps NATO’s war on Russia, the response would have been the same. Had the money gone by some cataclysmic error to the working class, Labour’s outrage would have been off the charts.

Kwarteng answered the concerns of global investors Monday afternoon. Pledging to continue “wider supply side policies to grow the economy,” including “changes to the planning system, business regulations,” and “regulatory reforms to ensure the UK’s financial services sector remains globally competitive,” he announced the release of a Medium-Term Fiscal Plan on November 23. “The Fiscal Plan will set out further details on the government’s fiscal rules, including ensuring that debt falls as a share of GDP in the medium term.”

Whether this is economically possible or not, it is a statement of intent that the government will underwrite its smash-and-grab policies with savage spending cuts and an unprecedented attack on the working class, rammed through using a raft of planned anti-strike and anti-protest legislation.

The turmoil in the UK economy pours more fuel on the raging class struggle in the UK. The ruling class will seek to make the working class pay every penny of the crisis, while price rises and unemployment spur fierce resistance in every workplace. As industrial conflicts burst through the political and organisational barriers established by the trade union bureaucracy, workers will be forced to organise themselves on a new perspective for a fight against the Tory government, the Labour Party and their corporate and financial overseers.