Truss's mini-budget debacle costs UK economy £300 billion

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The fallout from UK Prime Minister Liz Truss's September "mini-budget" threatens the survival of the Tory government. £300 billion have been wiped off the country's stock and bond markets in the month since she came to power, mostly in the past two weeks.

With the markets in turmoil and the Bank of England hiking interest rates, mortgages have become far more expensive. The rate for a two-year fixed deal topped 6 percent Wednesday for the first time since 2008, in the wake of the financial crash. This is an extraordinary rise. Just two weeks ago the average was 4.7 percent. Last December it was 2.3 percent.

Five-year deals are also nearing 6 percent, the highest since 2010.

Bloomberg estimates that if rates settle at this level, the average monthly mortgage repayment on a two-year deal will climb from £725 to £1,325. The average household with a mortgage would go from spending 17.7 percent of their income on repayments to 27.2 percent.

Amid an unprecedented cost-of-living crisis centred on the price of essentials like fuel, energy and food, many will not be able to keep up. Oxford Economics Chief UK Economist Andrew Goodwin warned this week, "A scenario whereby house prices crash, adding to the already-strong headwinds on consumer spending, is looking increasingly likely."

This morning Chancellor Kwasi Kwarteng held an urgent meeting with the chief executives of high street banks, including NatWest, Lloyds, HSBC, Santander and TSB.

It has emerged that the trigger for this housing bomb—Truss and Kwarteng's £45 billion in tax giveaways—will see every income decile in the UK lose out.

The Tories' tax cuts were deeply regressive on their face—giving the poorest 10 percent of households an extra £13 a year, the average £700 and the richest £2,290—but the reality is worse.

According to the Institute for Fiscal Studies, "for every £1 given to households through headline cuts to taxes, £2 is being taken away in stealthy freezes." A host of tax and welfare benefit thresholds are being fixed. As inflation rises, more people will end up paying more tax and receiving fewer benefits each year.

Instead of gaining £700 a year through the Truss government's tax regime, the average household will lose £750 a year up to 2025-6. The poorest will still suffer the sharpest fall in income (2.8 percent), but even the richest 10 percent of households lose 1.1 percent. Each year, the gap widens, with the poorest losing 4.7 percent by 2030-31 and the richest just 1.3 percent.

Truss is now pursuing massive social spending cuts to underwrite a budget that leaves the vast majority of the country, including key Conservative government-held constituencies, worse off, and which has savaged mortgage-holders. The *Daily Mail* wrote today that it "understands she remains determined to press ahead with uprating benefits in line with earnings" as opposed to inflation. Truss has also refused to rule out a further raise in the state pension age.

The situation is likely to get worse. A run on the pound and firesale of UK bonds after the mini-budget was averted when the Bank of England promised to set aside £65 billion to prop up the UK bond market in the 13 days to October 14. This is only a temporary fix.

Since then, the Bank has spent just a small portion of that fund. But after it made no purchases on Tuesday and Wednesday, the pound wobbled and yields began to climb. *The Times* reported, "Investors responded to the lack of purchases by sending yields on 30-year government bonds as high as 4.328 percent yesterday,

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to touch their highest level since the Bank staged its intervention on Wednesday last week. Sterling also slid 1.4 per cent."

Yields also rose when international ratings agency Fitch downgraded the UK's credit rating outlook to "negative." following the same move a last week by Standard and Poor's.

Louis Ashworth wrote in the *Financial Times* this week, "it's really not clear that markets are anywhere near being out of the woods," warning that the "death throes" of the UK's pension funds "may not yet have begun." The Bank revealed today that funds managing £1 trillion came under strain after the budget, with a "large number" in danger of going bust before its intervention.

Ashworth added that "there's a clear cliff-edge ahead: the BoE has said it will wind up its operations on October 14th, i.e., next Friday."

Truss is courting economic ruin and inflaming social opposition—she has a personal approval rating of minus 59, the Tory Party's is minus 50—at a time when the government confronts a determined offensive by the working class. Today the Royal College of Nursing union began balloting its 300,000 members for strike action in the health service. They would join ongoing action by 170,000 rail, post and communications workers.

In this acute crisis of class rule, the Labour Party is playing a vital role in helping the ruling class in its efforts to keep events under control. Truss was foisted on British capitalism by the most rabidly right-wing sections of the Tory Party and has proved to be a disaster. There are now intense discussions taking place within and around the Tory Party about whether she can be brought into line or replaced.

The former depends on Kwarteng's spending review—brought forward from November 23 to later this month—presenting an ironclad plan for spending cuts and wage suppression. If this is a failure, sections of the Tory Party are advocating another palace coup.

Labour leader Sir Keir Starmer is giving the Tories the political space they need to consider their options. Labour's lead in the polls is immense, yet Starmer will not raise the subject of a general election, instead presenting himself to the major corporations and the super-rich as the adult in the room.

His appeal is to the One Nation faction of the Tory Party to deal with Truss. If they cannot succeed in managing the crisis over Truss for the ruling class, then he advances the Labour Party as an alternative mechanism for suppressing the working class.

He told regional radio shows today in response to the RCN ballot, "I don't want the strikes to go ahead. We want to be in government; in government you resolve issues." The Labour leader also refused to back wage rises in line with inflation.

Labour and the Tories cannot be left free to conspire over the best political means of deepening the assault on workers' living standards. There is the potential for a general strike which could throw the government from power, but this is being blocked by the trade union bureaucracy. The Socialist Equality Party calls on workers to form rank-and-file committees to take their struggles out of the hands of the union apparatus and unify them in a common offensive.

A direct confrontation between the working class and the government, of whatever political stripe, would pose a mortal threat to British capitalism. It would set the working class against the union bureaucracy and the Labour Party just as much as against the Tories. Workers must be armed with an independent political perspective to take on these class enemies.

The SEP has raised the demand for an immediate general election to expose the Tory-Labour conspiracy and mobilise the working class against its jointly pursued right-wing policies. In any election, the SEP will fight to build a working-class opposition to the NATO-Russia war supported by all the capitalist parties which is exacerbating the economic crisis. We will call for a counteroffensive, led by the rank-and-file committees in coordination with the international working class through the International Workers Alliance of Rank-and-File Committees, to the renewed austerity drive triggered by the pandemic and accelerated by the war. And we will call for an end to the disastrous programme of letting COVID-19 rip.

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