Things to get much, much worse for UK workers

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Rising interest rates, high inflation, and declining wages and welfare benefits will plunge vast numbers of UK workers into desperate poverty.

Thousands are set to lose their homes due to crushing rises in mortgage rates and resulting rent increases. Close to five million homeowners face staggering increases in their mortgage payments over the next two years. For the first time since 2008, the average two-year fixed mortgage rate soared above 6 percent this month, with a further rise to 6.46 percent this week. UK Finance predicts that a rise in the Bank of England's own interest rate to 6 percent would add an estimated £445 a month to repayments on a typical £200,000 loan—a staggering £5,340 a year.

Two million people already on variable rate deals will see an immediate increase. Over the next six months around 600,000 mortgages will renewed, resulting in nearly 3,300 households a day being forced to taking on hundreds of pounds a month in extra repayments of face repossessions. Around 2 million mortgages holders coming to the end of a fixed rate deal will have to do the same in the next year.

According to the Royal Bank of Canada, passing on these costs to tenants could lift already record-high rents by £280 a month.

The working class is already under siege. With inflation at a 40-year high of nearly 12.5 percent, grocery inflation is even higher—surging to a record high of 13.9 percent in September. Research by Kantar found that households face an increase of £643 in their annual supermarket spend (an extra £12 a week), taking an annual grocery bill to £5,265 if they continue to buy the same items.

Even with the energy bills support announced by the government, the cap for a typical annual household bill still rose from £1,971 to £2,500—double the figure last winter.

Since Chancellor Kwasi Kwarteng unveiled his disastrous mini-budget on September 23, consisting of £45 billion in tax cuts for the richest—based on increased government borrowing—the pound has been threatened with collapse and UK bond prices have tanked as the global money markets moved against the Truss government.

The demands of the financial markets were that any tax-cutting measures had to be paid with deepening austerity, not government borrowing. The run on the pound forced the government to pull one of its tax cuts, the proposed abolishing of the 45 percent highest rate of tax, but this still left a £43 billion black hole.

The markets demanded that Kwarteng immediately spell out what austerity measures he intends to carry out to prevent UK public debt growing ever-larger. He responded by moving forward his "medium-term fiscal plan" statement from November 23 to October 31.

On Tuesday the Institute for Fiscal Studies (IFS) issued a report concluding that the chancellor would be required to make £62 billion pounds of spending cuts or tax rises. It said the cost of the energy cap support package was the main factor in increasing government borrowing to almost £200 billion this year.

The *Financial Times* noted, "But the IFS estimated that even in 2026-27, after this support has ended, government borrowing will amount to £103 bn — about £71bn more than official forecasts showed in March — with the increase largely owing to the tax cuts Kwarteng announced last month."

The IFS outlines various "big and painful" scenarios in which the £62 billion could be clawed back, including indexing working-age benefits to earnings rather than inflation for two years (£13 billion), an 8 percent cut in all day-to-day spending on public services (£35 billion), and reducing investment spending to 2 percent of GDP (£14 billion). The *FT* notes IFS calculations that if the entire £62 billion is to come from public spending savings, this would require cuts of 15 percent in every department if defence and the National Health Service were not ringfenced, and of more than quarter (27 percent) if they were.

IFS director Paul Johnson advised, “The specifics of the UK government’s fiscal strategy are under more scrutiny by financial markets than at any point in the recent past... The chancellor should not rely on over-optimistic growth forecasts or promises of unspecified spending cuts.”

Bullying the working class to accept de facto pay cuts, the IFS warns that inflation-matching pay rises in the public sector, costing the public purse an additional £25 billion, would necessitate 500,000 job cuts by 2024?25. This is 8.6 percent of the public sector workforce.

The IFS warns that continuing with below-inflation deals will trigger further working-class resistance. Bee Boileau, an IFS Research Economist, said, “Not offering higher pay awards risks a wave of strikes and ongoing challenges with recruitment and retention.”

Millions of workers have suffered massive shocks to their incomes due to a litany of well below-inflation pay rises agreed by the trade union bureaucracy and the employers throughout the private and public sectors. Union leaders have sought to palm these off as “victories” on the basis that they are the best deals that can be won, and that inflation will start to fall soon.

Such lies are torn apart by an International Monetary Fund (IMF) survey published this week warning that high inflation will persist longer in the UK than similar economies. It predicts that the Consumer Price Index measure of inflation will remain high at 6.3 percent by the end of 2023. This is higher than that forecast for every member of the eurozone apart from Slovakia. CPI, currently at 9.9 percent, is usually 2 to 3 percent lower than the more accurate Retail Prices Index (RPI) measure of inflation, so the IMF prediction means a forecast of inflation at 9 or even 10 percent in a year’s time. Even this could be optimistic given the growing threat of a global economic catastrophe.

The IMF intervened Wednesday to insist that there could be no alternative to the Truss government, or any other, carrying out austerity as the main remedy for high inflation. Its Fiscal Monitor report states that austerity was required and “necessary to help tackle inflation and address debt vulnerabilities”. Once again, austerity demands are directed against the working class, with the insistence that restraining public sector pay “could help contain overall wage and price pressures”.

Other research published this week by the Legatum thinktank shows that a real-terms cut in welfare benefits would increase the number of people in Britain living in poverty to 16 million. The Joseph Rowntree Foundation estimates that the poorest tenth of the population would see earnings fall as a result of the measure by £214 a year once personal tax changes are factored in. Research published by the Child Poverty Action Group found that raising benefits in line with the average increase in workers’ pay (about 5 percent) rather than in line with inflation would push 200,000 more children into poverty.