# UK Labour government in crisis as ruling class demands ramped up war on the working class

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A tax sleaze scandal has been used to remove Angela Rayner as Britain's deputy prime minister and deputy leader of the Labour Party.

Having led the government's "workers' rights" bill and house building initiatives, and not always being on message when it comes to welfare benefits cuts, she has been a hate figure in the right-wing press despite her total loyalty to Starmer's reactionary government.

Her downfall comes amid a cabinet reshuffle by Prime Minister Keir Starmer undermining Chancellor Rachel Reeves and placing economic matters more firmly under the "safe-hands" control of his own office prior to the autumn budget set for November 26.

Starmer poached two key figures from Reeves' office, Dan York-Smith and Reeves' number two Darren Jones—the latter referred to by the *Guardian* as a "Blairite-style reformer who has privately urged the government to be more radical."

The Prime Minister also appointed Baroness Shafik, an economist by training, as his chief economic adviser. According to *The Times*, "Senior figures in Labour have been bewildered by why it has taken so long for Starmer to appoint someone with economic clout in No 10." Tim Allan, Tony Blair's director of communications, has been brought back to play the same role.

In a pronounced shift to the right, Foreign Secretary David Lammy—a key ally of Starmer in backing Israel's genocide in Gaza—is promoted to deputy prime minister, replacing Rayner.

Behind this escalating government crisis lay the demands of Britain's ruling elite that Labour massively escalate its offensive against the working class to tackle rising public debts and create the necessary conditions for imperialism to pursue an agenda of trade and military war.

International attention has focused on the budgetary and political crisis in France, but British capitalism is moving rapidly toward its own reckoning. The government has faced sustained criticism from corporate circles for climbing down from some of the savage cuts demanded of them, and for failing to ramp up military spending with sufficient speed.

### The UK debt crisis

British capitalism is in a perilous position. Public debt is now around 96 percent of GDP. This was, the Office for Budget Responsibility (OBR) noted in July, the "fourth highest among advanced European economies, and the sixth highest among advanced economies". Since the pandemic, debt as a percentage of GDP has been the highest the UK has seen since the 1960s, when it was on its way down from a Second World War-era peak of 270 percent of GDP to a low of 24 percent in 1991-2.

The OBR added that the deficit between annual public income and public expenditure was 5.7 percent in 2024, "four percentage points higher than the average advanced economy and the third highest among 28 advanced European economies."

International investors are turning the screws, with the UK government forced to pay over 5.7 percent interest on 30-year bonds, the highest rate in 27 years, and 4.5 percent on 10-year bonds in June, the "third-highest borrowing costs of any advanced economy". Close to 10 percent of government expenditure now goes towards paying interests on its debts, nearly £125 billion in 2024-5.

The fear of the ruling class is that a wobble in the markets could collapse the whole house of cards. Robert Tipp, head of global bonds at PGIM Fixed Income, warned last September, "We are truly in an unmoored environment for government debt compared with previous centuries … Everyone is getting a pass right now, whether you are in the US or Italy, but there have been some signs recently that investors and rating agencies are starting to think about this again."

A House of Lords committee noted, "The IMF [International Monetary Fund] stated in its April 2024 Fiscal Monitor that 'global debt is projected to increase to close to 100 percent of GDP by 2029' led by some large economies 'which critically need to take policy action to address fundamental imbalances between spending and revenues.'"

### Economic stagnation and war sound a death knell for social spending

The UK's mountain of debt, mirroring France, Italy, and the United States, is one of the most severe manifestations of a long-term, deeply rooted crisis of world capitalism. Two enormous economic shocks in less than two decades—the financial crisis of 2007-8 and the pandemic crisis of 2020-21—drastically widened the gap between national governments' revenues and expenditures. Everywhere, the difference was made up by taking on massive levels of debt.

After the 2008 crisis, an era of "austerity" was declared to close the deficit, making workers pay for the capitalist crisis. In the UK, public spending was slashed from 44 percent of GDP to 38 percent of GDP in 2019. However, the pandemic crisis reversed this process, taking public spending back to 44 percent of GDP in 2024.

Piling on the pressure, Starmer's and every European government is committed to finding the money for a boost in military spending comparable only with rearmament drives during the 1930s—a process which has barely begun. Britain has so far only increased spending on the military from 2.2 to 2.3 percent of GDP in the last five years. It is targeting 3.5 percent by 2035, amid howls from the military that it must go much further much faster.

Multiple commentators have insisted that Labour act based on the reality that the “peace dividend”, the extra money made available to governments in the previous period of much lower military spending and a boom in global trade, has ended.

The full consequences of the capitalist class offensive of the last decades are being laid bare, placing governments between the threat of a debt crisis on the one hand, and a social explosion triggered by attempts to avert it on the other. This is compounded by the absence of any substantial economic growth, with chief economics commentator at the *Financial Times* Martin Wolf writing in July:

“According to the IMF, the trend growth of GDP per head in the UK had been 2.5 percent a year from 1990 to 2007: then, between 2008 and 2025, it was just 0.7 percent. This reduction of 1.8 percentage points in the growth rate was the largest in the group of seven high-income countries (plus Spain). In the second period, only Italy has grown considerably more slowly than the UK. As a result, UK GDP per head in 2025 is forecast to be 33 percent lower than it would have been if the 1990-2007 trend growth had continued. This is the biggest shortfall among all these countries.”

There is no indication of that changing, with productivity growth over the last 15 years averaging just a quarter of what it was in decades prior. And the *Guardian’s* economic editor Larry Elliot adds that “On past form, the UK will have a recession every decade for the next 50 years, with each downturn pushing up the debt ratio by 10 percentage points.”

Wolf concludes, “When economies cease to grow, everything becomes zero-sum: more for one group of people means less for others.”

**Finance capital demands cuts**

The solution demanded by the OBR, Britain’s international creditors and the financial press is the same as in every other country: redoubled austerity, cutting social spending commitments—and, if necessary, some selective raising of taxes.

Having written last September that national debt is on track to reach 270 percent of GDP by the 2070s—due to “the demographic pressures of an ageing population and rising costs of healthcare and other age-related expenditures”—the OBR is clear that these costs must be massively scaled back.

It complained in July that debt has “continued to rise and borrowing remained elevated because governments have reversed plans to consolidate the public finances. Planned tax rises have been reversed, and, more significantly, planned spending reductions have been abandoned.” Worse, “public expectations of what government can and should do in response to emerging threats and future emergencies seem to be rising.”

Its particular concern was “Spending on the state pension,” which “has risen steadily over the past eight decades. It rose from around 2 percent of GDP in the mid-20th century to around 5 percent of GDP (£138 billion) today, and is estimated to rise further to 7.7 percent of GDP by the early 2070s in our central long-term projection.” Last September, the OBR complained that “public health spending” was projected to rise “from 7.9 percent of GDP in 2023-24 to 14.5 percent of GDP by 2073-74.”

The *Telegraph*’s investment editor James Baxter-Derrington summarised, “The core of the problem is that none of us want to admit the promises we were born into were false. We’ve all grown up knowing there is a state pension waiting for us when we’re old, the NHS [National Health Service] when we’re ill and payments when we’re in dire straits. But something has to give—and it will be deeply unpopular.”

**A government of class war**

The question occupying the ruling class is how to push this agenda through.

Jagjit Chadha, an economics professor at the University of Cambridge and former head of the National Institute of Economic and Social Research, worried in the *Guardian*, “Our political masters have time and time again shown an unwillingness to raise taxes and lower expenditure so the markets are increasingly incredulous.”

In June, *Financial Times* columnist Janan Ganesh declared that “Only a crisis will wean the west off debt… The British state in particular is unreformable without pressure from the bond markets.”

Even the threat of an IMF intervention has been invoked. The *Wall Street Journal’s* Joseph C. Sternberg wrote in “Bail Out France and Britain? You’ll Need a Bigger IMF” that “Britain and France aren’t illiquid. They’re insolvent. Their future spending commitments, primarily in the form of expected social-welfare and old-age benefit payouts, far exceed any realistic estimate of the economic growth that will be available to pay those bills.”

These are the marching orders being given to Starmer and Reeves. In the immediate term, the OBR is expected to forecast a £20-50 billion annual “overspend” on day-to-day expenses versus government income, which must be made up in the November budget.

Doing so will provoke massive popular opposition, which must be repressed. When Baxter-Derrington writes that “Whichever government sets us on the right course is signing its own death warrant,” he is admitting that the policy of the capitalist class cannot be pursued democratically.

**The Thatcher comparison: 1976-9 and today**

Talk of IMF involvement invokes the spectre of its 1976 intervention during the Labour government of James Callaghan. Amid soaring inflation and high unemployment, Callaghan agreed to major cuts in return for an IMF loan that led to the “Winter of Discontent” strike wave and paved the way for the election of Conservative Prime Minister Margaret Thatcher in 1979, who then embarked on a programme of savage counter-revolution against the living standards of the working class.

There are clear similarities, with Nigel Farage’s Reform UK standing in pole position to play such a role if Labour proves incapable of doing the job demanded of it. Ganesh this week wrote of the “historical necessity of Starmer’s failure” if he does not satisfy the markets: he “can be a useful prime minister to the extent that he sees the status quo through to its terminal point.”

However, there are stark differences in the domestic and world situation that herald a far more brutal offensive than that waged by Thatcher in the 1980s. A major pillar of her programme was a fire-sale of public assets, for which there was much greater scope. When she came to office, Britain’s net public wealth (the value of state assets minus the value of state liabilities like debts) was roughly £1 trillion in today’s money. In 2023, the figure was -£825 billion.

In the same time period there has also been a vast transfer of money to the rich, with the poorest half of the population today receiving a much smaller percentage of the national income than in 1980, and a larger proportion of people living in relative poverty.

Moreover, military spending actually fell during Thatcher's time in office—after a sharp rise in the first few years—from 4.7 percent to 4 percent of GDP, and would fall much faster thereafter, largely thanks to the boost provided to world imperialism by the restoration of capitalism by the Stalinist bureaucracies in the Soviet Union, Eastern Europe and China.

Today, British imperialism is moving in the opposite direction. Rapid globalisation has been replaced with trade war and punishing tariffs and a drive to redivide the world between the major imperialist powers involving military hostilities directed above all against Russia and China.

**Endless austerity under capitalism or a fight for socialism**

Advocates for capitalism are now openly proclaiming that it cannot provide basic social protections like healthcare and old-age pensions. What they declare an unavoidable necessity is in fact proof of the historical bankruptcy of this social system.

The resources and the technology to provide a good quality of life for all exist in abundance. Standing in the way is senseless production for private profit not human needs, the monopolisation of vast swathes of wealth by the super rich and the anarchy of the market which plunge millions into hardship, and the division of the world into antagonistic nation states that leads inexorably to trade and military war.

A world crisis demands a world solution, which can only be provided by a socialist party of the international working class. If capitalism is bankrupt it should be dissolved, not bailed out by workers, and a new socialist system established in its place.