

# British economy in worst shape since '30s

by William Engdahl

The Feb. 27 OECD report on international "Financial Market Trends" warns that as of the last six months of 1990, "recession or virtual zero growth prevailed in the United States, the United Kingdom, Canada, and Australia." What each of these four national economies share, besides their English-speaking heritage, is an intense commitment over the past decade, to radical Adam Smith-type "free market" financial deregulation policies, such as that of Britain's Margaret Thatcher. It's no accident that these economies of all industrial countries are the ones in the worst shape.

The sickest economy inside the 12 nations of the European Community (EC) today, with the highest inflation, near 10%, and lowest growth, is that of Britain, following 11 years of radical monetarism under Thatcher's "anti-inflation" regime.

Latest official data from England's Central Statistical Office published Feb. 20 shows output in both U.K. manufacturing and service sectors (including banking and finance, one of Thatcher's "success" areas of growth in the past decade) plunged during the last three months of 1990. Manufacturing fell by 3% while services fell 0.5%. In official terms this confirms the onset of what is termed "recession," as it marks the second consecutive month of decline. In real economic terms, though no one dares say so publicly, it marks the likely onset of the second Great Depression in Britain this century, whose duration could last, according to informed estimates, at least four to five years.

According to a new report issued by Labor Party Shadow Industry Secretary Gordon Brown, since Thatcher took office in 1979, British manufacturing has lost 2 million manufacturing jobs, falling below a total of 5 million jobs this February, the lowest of this century. Brown reports that Britain's number of persons employed in manufacturing today stands below that of Germany, France, and Italy, and will soon be smaller than Brazil's.

The industrial jobs decline since 1979 is fully one-third. "The Conservatives have been deluding us in pretending somehow that manufacturing can and should be replaced by the service sector," Brown stated. "We manufacture or perish; the real issue is modernization in both traditional and new industries."

## Debt spiral

The problem with modernizing industry, however, is that British companies today have the highest debt burden, as a ratio of assets, according to a recent Confederation of British Industry study, since the 1975 recession.

British industry on the eve of entering the competition of Europe's Single Market, faces severe tests. In a recent speech to a group of British industrialists in Renfrew, Scotland, Hashime Yamashina of Japan's Kyoto University, pointed to the problem for British companies' ability to compete. "Japan has proportionally twice as many qualified engineers as the U.K.," he said, adding with biting irony that the U.K. has proportionally ten times as many accountants as Japan. A recent study by Britain's National Economic Development Office revealed that British industry is being forced, even before the onset of the current depression, to withdraw from sector after sector internationally, "not because domestic prices are unduly high, but because Britain is out of line on quality." It accused British industry of "specializing in inferior products."

## Financial crisis deepens

But the services sector is also sinking into what already is the most severe crisis since 1974-5. On Feb. 19, Britain's leading bank, Barclays Bank, announced it would reduce total staff by 20%, some 17,000 jobs, as loan losses and other economic troubles hit. On Feb. 26, National Westminster Bank, the second largest, announced bad debt loss provisioning of \$2 billion and 17,000 layoffs over coming months. The troubled Midland Bank is expected to cut 4,000 jobs in the next few months.

Barclays chairman, Sir John Quinton, said in a remarkably frank address Feb. 13 to a group of international bankers, "There is a real threat that the recession in the United States, the United Kingdom and elsewhere will deepen and awaken comparison with the Great Depression of the Thirties." Quinton also warned that the recent trend to "free market" financial deregulation may have been a mistake. "The question is whether the process of relaxation can go too far," he stated.

As in the United States, British banks turned to real estate speculation at home to "recover" from their losses in Latin American lending during the 1970s. Now, with U.K. interest rates the highest in the EC at 13.5%, businesses are going bankrupt in record numbers, causing huge loan losses for the banks.

Figures just published show that in 1990, business failures in England and Wales soared by 35% over 1989, with more than 24,000 companies failing, according to Dun & Bradstreet. This is the highest failure rate in 10 years in Britain. The rate of company failures today is twice that in 1980 when Thatcher took office.

With sky-high interest rates for the past 24 months, and collapsing production, real estate prices are dropping too.

The average value of commercial property fell an estimated 25% in the past 12 months. Property forms the main collateral for most British bank loans. Rupert Nabarro of the Investment Property Databank notes, "The severity of the [real estate] slump is fast approaching that of 1974 and the most recent trends show few signs of any respite." The largest commercial construction project in Britain, the London Canary Wharf, an \$8 billion project, is in severe financial problems even before construction on the office complex is complete. London office vacancy rates are at 17% and growing by the week as banks and financial houses lay off thousands. The result is collapsing rental prices.

### Human costs of depression

The social and human cost of the British economic depression is the most tragic, especially as it is entirely unnecessary. With the economy contracting and banks fearing to lend, unemployment levels are expected to hit 2 million for the first time in five years in February, the eleventh monthly rise in succession. In the past months, 270,000 names have been added to jobless rolls, a 17% rise over last year, and no end is near.

Manufacturing output is collapsing in the traditional industrial regions, most especially West Midlands, but Confederation of British Industry data indicates depression conditions are spreading across the entire country.

Recent walkouts by nurses and hospital professionals signaled to the government that budget cuts have dangerously undermined medical quality. Urgently-needed new hospital construction has been blocked for months because of prohibitively high interest rates. In ten years of Thatcherism, the cost of private medical insurance has risen 265%; shoes cost an average 226% more; milk is 89% higher, while British farmers are in the worst crisis in 50 years.

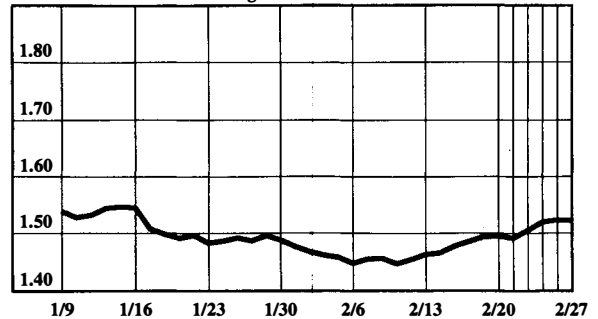
With strict government rules that local municipal governments must balance annual operating expenses with tax income, another Thatcherite innovation, publicly subsidized rents are expected to be increased 21-41% in April to balance the losses. Homelessness is becoming a national phenomenon.

The state of the rail and highway infrastructure is dilapidated, yet cost of travel on the national British Rail has risen 150%. In the recent winter storms, British trains were forced to cancel runs because they did not have the equipment to clear the tracks. British Rail chairman Bob Reid warned that plans to complete a planned high-speed rail link to the new Channel Tunnel linking Britain by rail to the Continent, were endangered unless the government of John Major provided some \$2.6 billion per year for the next five years. He pleaded for funds to rebuild the rail system. "At the moment its infrastructure is wanting and rolling stock is wanting." Reid complained that British Rail gets from the government 20% of the support that the French and German railways receive.

## Currency Rates

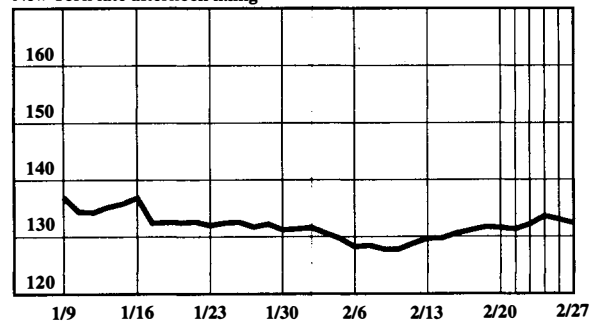
### The dollar in deutschemarks

New York late afternoon fixing



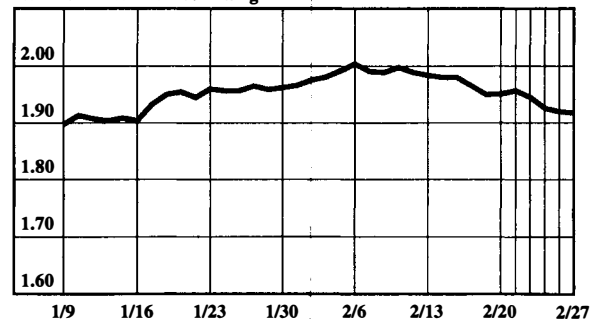
### The dollar in yen

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### The British pound in dollars

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### The dollar in Swiss francs

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