

UK in double-dip recession

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Britain is mired in its second official recession since the global financial meltdown of the autumn of 2008.

In May, the British economy entered a “double-dip” recession for the first since the 1970s.

Figures released by the UK Office for National Statistics (ONS) show the economy shrank by a larger-than-expected 0.7 percent in the second quarter of the year. This was the third successive quarter of negative economic growth and was far higher than the forecast drop of 0.2 percent. It follows a decline of 0.3 percent recorded in the first three months of 2012.

The ONS figures are a first estimate and will be revised but still confirm that the UK is in the longest double-dip recession since quarterly records began in 1955. It is also the longest period of recession since the Second World War.

The Conservative-Liberal Democrat coalition immediately sought to play down the figures, which are a devastating indictment of its economic policies. Such has been the systematic wrecking of the UK economy that economic output is now 4.5 percent smaller than when the coalition government took office just two years ago.

Speaking in London at the Global Investment Conference, organised to coincide with Olympics Games, Prime Minister David Cameron said he was “disappointed” with the figures, but added, “We’ve taken bold decisions to sort out our public finances and earn credibility with the markets”.

Referring to the government’s seven-year, £123 billion austerity programme, he said, “We will continue to take the tough decisions that are necessary for business leaders and investors to have confidence in the long-term future of the British economy”.

Michael Saunders, an economist at Citigroup, told the *Financial Times* that he questioned any analysis based on citing one-off factors: “There are always special effects. The big picture is that when a recession has gone on this long, we are in a depression”.

Earlier this year, Saunders declared that the UK economy was suffering “the deepest recession and weakest recovery for 100 years”.

The coalition’s October 2010 austerity programme was unveiled alongside government insistence that as public spending was drastically cut back, the basis would be laid for a “private-sector led recovery”. The opposite has occurred, with hundreds of thousands of jobs lost in the public sector combined with an unprecedented contraction of the private sector.

Other economists ruled out any recovery, let alone one based on the private sector. Gerard Lyons, chief economist at Standard Chartered, forecast a 1.3 percent fall in GDP this year, saying, “I think it’s inconceivable that there’ll be positive growth this year”.

Peter Dixon, economist at Commerzbank, said of the ONS statistics, “Terrible data. Frankly there’s nothing good that comes out of these numbers at all.... The economy looks to be badly holed below the water line at this stage. It’s a far worse period of activity than we’d expected”.

Guardian commentator Will Hutton stated, “Even if a strong economic recovery were to begin now—which it will not—the news is bleak. As the prospect is for a slow and faltering two years in which output recovers to its peak levels of 2008, the worst economic performance since the 19th century, with only a weak follow-through in prospect afterwards, the news is bleaker still”.

The biggest collapse in output came in the construction industry, which fell by more than 10 percent in the last six months. The latest 5.2 percent fall comes on top of a 4.9 percent first-quarter decline. Global financial services firm Morgan Stanley estimated that the precipitous decline in the construction industry output alone has eliminated 0.4 percent from total UK GDP.

Industrial production as a whole fell by 1.3 percent over the past quarter, while output in the services industry, accounting for fully 77 percent of the UK economy, fell by 0.1 percent. The only sectors that saw any growth were public-sector services output and business services.

Despite the unprecedented economic collapse, a number of commentators and political figures pointed to the Olympic Games as the means for providing some temporary economic respite. Labour Party shadow chancellor Ed Balls commented, “Thank goodness the Olympics will give our economy a much-needed shot in the arm”.

The reality is there is no historic evidence for a substantial or even short-term reversal in economic fortunes as a result of the Olympics. Brian Dennehy, managing director of FundExpert.co.uk, stated that such was the contraction of the UK economy that any growth related to the Olympics would “definitely not be enough to get the UK out of recession”.

Analysing growth of 0.75 percent recorded in the Australian economy after the Sydney Olympics of 2000, Dennehy said, “However, the UK’s economy is almost twice the size of Australia’s—which means almost twice the size relative to the economic importance of the Olympics”.

Any growth would be at most “0.4 percentage points—not enough to overcome a contraction on a 0.7 percent level”, he said. The Bank of England is predicting the Olympics will give just a 0.2 percentage point increase in growth.

The ONS report also reveals that the government’s “quantitative easing” (printing money) has done little or nothing to alleviate the situation. The policy is supposedly aimed at promoting economic recovery at a time of weakening demand and rising unemployment.

At its meeting earlier this month, the Bank of England’s monetary policy committee voted to add a further £50 billion in quantitative easing to the existing £325 billion stimulus

committed since 2009. But this money, which is handed over to the banks on the basis that it will stimulate the economy by allowing desperate and struggling businesses access to credit, has largely remained with the banks.

The Bank of England's latest figures on lending to business saw a £3 billion fall in the three months to May. According to the Federation of Small Businesses, 4 in 10 small firms are still being refused credit.

Indicators point to the worsening of economic conditions. A central factor in the continuing recession is the fall in the number of full-time employees since the crisis began in 2008. In that year, the number of full-time employees as a percentage of the UK's total workforce stood at 58.9 percent. In the first quarter of 2012, that number had fallen to just 54.7 percent of the workforce, down nearly 2 percent from a year earlier.

The economy is in freefall, even though 90 percent of the government's cuts have yet to come into effect. Further slashing of public spending and services, including the full privatisation of the National Health Service and public education, will lead to even greater social and economic misery.

Cameron does little else but provide verbal assurances to the British and global financial elite that the government remains committed to its austerity agenda. Last week, he told the *Daily Telegraph*, "The way I put it is look, it's like there's a sort of global race on right now, in which countries are going to make it and which countries aren't. And in this highly competitive world, you've got to get on top of your debts, you've got to reform welfare, you've got to make sure you can pay your pensions...you've got a public sector you can afford".

Asked if spending cuts would last the entirety of the next parliament, through to 2020, Cameron made clear that there will be at least a decade of austerity. "I don't see a time when difficult spending choices are going to go away", he said. "I can't see any time soon when the pressure will be off".

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