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Who will pay the price for the crisis?

Feature by Danny Dorling , April 2009

While politicians clearly have no idea of how to solve the economic crisis unemployment continues to rise across Britain. But where is it having the most impact? Danny Dorling argues that it is the young - "Thatcher's grandchildren" - who will bear the brunt of the recession.

How government reacts to a crisis is revealing. The initial reaction of the British government to the credit crunch was concern for those who initially appeared to have most to lose - those with savings in banks. The reaction was not carefully calculated or well thought out; it was no capitalist conspiracy; it was a reaction replicated around the rich world by exhausted looking finance ministers who knew their advisers were telling them they had no clue as to what would happen next.

Around the world promises were made that savings would be safe. Ministers stumbled over the precise words of the promise and no one was allowed to ask too openly how such promises could be honoured in the last resort. To ask such a question, let alone answer it, quickly became labelled as "irresponsible".

The second reaction was concern for those who had mortgages. Could they be given a little more time to cope with payments before their homes were repossessed? These are the next most well off group after savers, those respectable enough to have been allowed to secure a very large debt on the supposed value of the property they are buying. Despite what is frequently said about the irresponsibility of lending, in Britain this group had been shrinking in size in recent years. A smaller proportion of households had mortgages in 2001 as compared to 1991.

Long before the credit crunch began fewer and fewer people had been able to afford to take out a mortgage. Rising income inequalities and even more sharply rising wealth inequalities had ensured that. That fall had not reduced prices because, until recession hit, it had been countered by a rising aging population of whom the more wealthy were coming to own the properties they lived in outright. The increased wealth of the very richest allowed them to buy second, third or fourth homes, holding prices up.

The third reaction of national governments was concern for those who had jobs as it became clear that unemployment would very quickly soar. In contrast to guaranteeing hundreds of thousands of pounds of savings, or allowing debtors longer to repay tens of thousands of pounds of home loans, to preserve jobs it was thought best to cut some 2.5 percentage points off value added tax (VAT). Equally uninspiring "fiscal boosts" were attempted elsewhere in rich countries.

To understand why they reduced a consumption tax, rather than increase social benefits, you have to realise that enough people in the Treasury clearly believed that the economic model they run is associated with the outside world. In that economic model tweaking the lever marked "VAT" results in the dial labelled unemployment dropping. Increasing social benefits, including unemployment benefit, is seen as an economic incentive to be out of work.

Those running the Treasury model are not callous, and they'll have very fine university degrees, but they will seldom have been unemployed and they won't have been allowed into the hallowed Treasury halls without the belief that the model is the truth. The model is of the market as an efficient, well oiled machine that delivers the best of all possible worlds, requiring the occasional tweak when there is brief "market failure". Tweaking VAT in 2008 is the modern equivalent of praying for rain.

No future

The fourth and slowest reaction of the British and similar governments was for those who actually have most to lose: their futures. The savers still have most of their savings. Almost all mortgage holders are still repaying their mortgages. Unemployment is rising, but it will be rising fastest for the young, who have mostly never had work. Two of the largest ever social surveys in British history, the censuses, were held during the recessions of 1980-81 and 1990-91. They revealed that it is predominantly the young who suffer. Youth unemployment then was two or three times higher than that suffered by older folk, even higher within cities, and even higher again for those who are not white. Now, again, those who have least, no savings, no mortgage, no work experience, are most likely to suffer most.

It is those who have never worked who are most unable to find a job when jobs are scarce. Most of these young adults live with family and do not appear as separate household units in the Treasury model. They will get a few more apprentice posts, which will not be enough. They were the only age group to see suicide rates rise in absolute terms following those earlier recessions. In the early 1980s they were called "Thatcher's children" as they were children when they had their benefits cut and searched for work at age 16 or 17. Around 1990 (as they were in their 20s) many of them came to have their own children. Many lost work in that second recession. Their children, Thatcher's grandchildren, are entering the labour market now, at a time when few will want their labour.

Around Christmas 2008 the International Monetary Fund (IMF) predicted Britain's GDP would fall by 3 percent over the course of 2009, a dire prediction of unprecedented magnitude. Britain's economic policy had been the model of what the IMF suggested beforehand. Unemployment was increasing year on year most quickly in the north east (by 42 percent), Wales (34 percent) and the south west (31 percent) at rates and in a direction looking to replicate what had been so cruelly called a "price worth paying" in the early 1980s. *The House of Commons Economic Review of February 2009*, from which all these figures are drawn, reads like a horror story.

Unemployment reached 2 million last month. Nationally the rise of 43 percent in those allowed to apply for Jobseeker's Allowance was greater than the increase in officially counted unemployment in any region. The greatest drops in output were not in banking, which gets to carry on as it is state supported, but manufacturing, which fell by 5 percent in the fourth quarter of 2008 in output alone. Job losses in the sector of 3 percent are twice those of finance and three times those in construction. Private banking is viewed by the British government as a service as vital as the NHS.

When bankers run out of money it is manufacturers who go bust. The greatest absolute increase in unemployment between the end of 2007 and of 2008 was some 90,000 people in elementary occupations being laid off. Cleaners are sacked long before the people who work in the offices they clean. Nannies are sacked as the few executives who do lose their bonuses come to rely on just one au pair. The TUC is concerned that because it is more often women who do low paid work (such as cleaning and caring jobs) they will suffer most. However, 66 percent of redundancies in autumn 2008 were of men - but very few of these men live in places where the majority working in financial services live.

One remarkable feature of the recession of 2008-2009 is how problems that began with the stuttering of the twin beating hearts of the world's financial system, London and New York, had their greatest effects in the economic hinterlands of those countries. At the very start of the recession, for a few remarkable days, the men moving money around the world would let none of it flow into these financial capitals. It is the memory of the predicted repercussions of that which scares finance ministers most. However, in the event, Main Street, not Wall Street, suffered. Migrants return empty handed to Mexico from the US, or Portugal from Britain. It was these people who had gambled most of what little they had and had lost all. It was workers in Detroit who lost their jobs and the poor of California who lost their homes.

In Britain the highest percentage increases in unemployment rates have almost all been in constituencies in the more affluent parts of the south. But these are percentage rises from extremely low levels: the newly out of work number just a few hundred people in most cases. In contrast, the constituency of Bethnal Green and Bow has one of the slowest percentage rises, but has experienced a far greater absolute increase in unemployment. It is to places like Bethnal Green that those who clean the City offices return after working all night, at around the time as those commuting from the Tory shires arrive in the capital for work.

There have only been three official British recessions since the Second World War that lasted more than one economic quarter. These were Q3 1973 to Q1 1974; Q1 1980 to Q1 1981; and Q3 1990 to Q3 1991. That of the early 1980s was by far the deepest. It is telling that government economists measure recessions not by rates of poverty or unemployment, but by measures of productivity. The social effects of the early 1980s recession were felt long after Q1 1981; unemployment peaked much later. It was in Q1 1981 that the concept of "Not in Employment, Education or Training" became a reality for many young people in Britain, and from then on hundreds of thousands a year got to experience it. Hardly any of their parents had.

Even if Britain technically exits recession before the end of 2009 it will not signal an end to the social repercussions. It is up to government, and the people who vote them in and support them, to decide how bad those repercussions are to be. The Labour government of 1974, I'm sure, was not a wonderful administration, but analysis of poverty surveys from those years saw rates of poverty fall over the course of the 1970s. Geographical inequalities in health fell as well as inequalities in wealth.

Historical parallels

In contrast to the 1970s, the government that dealt with the aftermath of the early 1980s recession positively revelled in the suffering that resulted, seeing mass unemployment as the shock that was needed to usher in a new era of market efficiency. When I was 16 the Youth Training Scheme was introduced to try to cope with mass youth unemployment. It resulted in mass disaffection. Poverty rates rose rapidly during the 1980s and income inequality exploded. The 1980s recession was what Margaret Thatcher needed, what she and her advisers used to keep power, to keep fear, to gain so many votes.

In contrast to the 1980s, the 1990s Conservative government of John Major was not on an ideological mission, nor did it have the unity to carry one out. The recession of the early 1990s was not used as a vehicle to further social divides. Runs on the pound (and the backstabbing from colleagues) probably had a great effect in diverting attention from the original Conservative mission, but the Major years showed that it was not inevitable to follow recession with continuously rising and much later peaking unemployment and ever rising income inequality.

In contrast to the 1990s, the boom of the current century saw those who already had most being most richly rewarded; incomes, wealth and life expectancies rose most quickly in areas that had voted Conservative in 1997. Throughout my thirties I watched social inequalities rise despite officially counted child poverty initially falling under a Labour government. By the time I turned 40, in 2008, banks had begun to fold around the globe, Britain was as unequal in income distribution as it had been in 1997, and the richest fifth had the same share of income that they had when Thatcher was deposed in 1990.

If Britain does not exit recession by the end of 2009, we will have to look to events from the 1920s and 1930s to draw historical parallels. It was partly from the shared awful insecurity of those decades that widespread social solidarity was born, kindled by war. However, as in the 1980s in Britain and the US (and the 1930s in Germany and Spain), mass insecurity can turn just as easily to mass prejudice.

In autumn 2008, as the British economy was crumbling, Britain lent the island of Iceland some £2.2 billion. It did so because Britain cannot afford for Iceland to go bankrupt. Britain cannot afford it, not just because so many British local authorities have their money "invested" in Icelandic banks, but because of the example it would set. The example would be that an island in the North Atlantic that had come to rely too much on banking could go bust. It is an example that is "irresponsible" to talk about. It is said to be irresponsible because there is no plan B.

If anything is to be learnt from the current recession it is that there is no confident conspiracy in the corridors or power. When things are going well it is easy to bluster about "supreme talent", the "best of the best", or suggest that "there is no alternative" to selfishness. When times are going well you can employ bankers to design your social security, education, health, housing and economic policies and ignore anyone who suggests this might be foolishly out of touch.

Now the mess is unravelling and there is no reason why it should not unravel further than it did before. If there is "recovery" before the end of 2009, but we do not change our ways, there is no reason why it will not happen again and be deeper again. The seeds of the recession of 2008 were sown in the 1980s. Rising income inequalities forced people to take on ever more debt, while the wealthy needed more profitable ways of boosting their wealth. Indirectly they lent to the poor at increasingly punitive rates, in increasingly risky ventures, until the pack of cards collapsed.

Following the early 1970s recession there was a political alternative people could jump to, the Tories, and myriad socialist alternatives that meant as little to the voting public as they did to the six year olds of the time. Following the early 1980s recession there were again two political alternatives, the SDP-Liberal Alliance and Labour, and again opposition was split. Following the early 1990s recession there was only one obvious alternative, New Labour. Being seen as the only alternative resulted in a landslide. Following the recession of 2008-2009 there is no viable alternative, all the major parties offer much the same and socialist alternatives appear as individual as ever.

There was no viable immediately available alternative following the great economic crash of the late 1920s, just "irresponsible" alternatives including long argued stories such as socialism. But out of those alternatives politics in rich countries was transformed. In Britain income, wealth and health inequalities were reduced decade after decade from the 1930s through to the end of the 1970s, admittedly partly through exploitation of the poor of the rest of the planet, but with the spoils shared out more equitably at home.

The world economic crisis may look like a conspiracy when you follow the bailout money, but it cannot be orchestrated like an invasion of a poor country, and does not provide "economic opportunities". Instead the crisis is a reaction of panic to collapsing confidence, panic because there was good reason not to be confident. The money in the banks was not safe.

Unlike the 1930s there is not a planet of unsuspecting peasants out there ripe for exploitation. Unlike the 1950s there is no apparently endless sea of oil to burn. Unlike the 1970s we cannot plan to manufacture our way out of trouble, as the world has enough goods, just too badly shared. Unlike the 1990s we, the British, cannot exist on the charlatan lies that we best know how to invest, protect and insure the ill gotten gains of the world's wealthy. The brand of the City of London sells itself primarily on being secure, safe and sensible. There is no reason to disbelieve that the brand will now go the way of 1970s British steel, 1950s British textiles and the British Empire of the 1930s.

It has been such a long time since we most valued work that was actually useful, that it is hard to remember that you need not base your economy on exploiting a former world empire, unfair terms of trade and the financial naivety of others. No wonder finance ministers look scared and say that to talk like this is irresponsible. It is almost impossible for them to imagine an alternative; they were taught that none exists. And they were taught wrong.

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