

The labour
government's
response to the
economic crisis of
2008 was reckless
and ...



The Labour government's response to the economic crisis of 2008 was reckless and irresponsible. Discuss. The 1998 Comprehensive Spending Review boosted NHS spending by ? 21 billion 1999-2002 and Education by ? 19 billion despite a 1% cut in income tax announced in November 1997. Hague and Portillo described this as "reckless and irresponsible" words that haunted them in the 2001 election. However in the aftermath of the most severe recession that many can remember, these same criticisms re-emerge, only with a little more verbosity. The economy of the?? United Kingdom?? had been hit by rising oil prices and the credit crisis.

Sir Win Bischoff, chairman of?? Citigroup, said he believed that house prices in Britain would keep falling for another two years. The?? Ernst & Young?? Item club predicted growth of only 1.5 % in 2008, slowing to 1 % in 2009. The?? Institute of Directors' quarterly business opinion survey showed business optimism at its lowest level since the survey began in 1996. Deputy Governor of the?? Bank of England,?? John Gieve?? said inflation would accelerate "well over" 4 % while economic growth is "slowing fast." Bank of England Governor?? Mervyn King?? said there may be "an odd quarter or two of negative growth," following the first quarter of 2009.

Nationwide, the UK's biggest building society, warned the UK could head into a recession after house prices in July 2008 fell 8.1 % from the previous year. Standard & Poor's said on 30 July 2008 that 70,000 homeowners were in?? negative equity?? and it could rise to 1.7 million or about one in six homeowners in the UK based on an expected 17 % decline into 2009. The Bank of England reported that mortgage approvals fell by a record of nearly

70 %. In other words, the situation was serious. Labour's approach to the very sharp downturn of 2008-9 was a largely Keynesian one.

They spent very heavily to save the financial institutions on the point of collapse. A bank rescue package totalling some 500 billion was announced by the British government on 8 October 2008, as a response to the ongoing global financial crisis. After two unsteady weeks at the end of September, the first week of October had seen major falls in the stock market and severe worries about the stability of British banks. The plan aimed to restore market confidence and help stabilise the British banking system, and provided for a range of short-term loans and guarantees of interbank lending, as well as up to 20 billion of state investment in the banks themselves. The announcement occurred less than 48 hours after Britain's leading share index, the FTSE100, recorded its largest single-day points fall since 1987. Alistair Darling, the Chancellor of the Exchequer, told the House of Commons in a statement on 8 October 2008 that the proposals were "designed to restore confidence in the banking system", and that the funding would "put the banks on a stronger footing".

Prime Minister Gordon Brown suggested that the government's actions had 'led the way' for other nations to follow whilst Shadow Chancellor George Osborne stated that "This is the final chapter of the age of irresponsibility and it's absolutely extraordinary that a government has been driven by events to today's announcement". Thus, there was the famous, or perhaps infamous, nationalisation of Northern Rock, Bradford and Bingley and part nationalisation of RBS and the Lloyds group. These did save the financial sector from total collapse.

<https://assignbuster.com/the-labour-governments-response-to-the-economic-crisis-of-2008-was-reckless-and-irresponsible-discuss-assignment/>

HBOS was 24 hours from collapse but due to the steps taken, it was saved. By many, these steps were seen as beneficial, and this sentiment goes beyond the likes of Gordon Brown who claimed in the House of Commons that he had 'saved the world's banking system'. For example, Paul Krugman, the Nobel Prize winner for Economics, stated in his New York Times column that "Mr Brown and Alistair Darling, the Chancellor of the Exchequer have defined the character of the worldwide rescue effort, with other wealthy nations playing catch-up." He also stated that "Luckily for the world economy, ... Gordon Brown and his officials are making sense, ... And they may have shown us the way through this crisis."

Furthermore, The British banking bail-out example was closely followed by the rest of Europe, as well as America. However, it has led to massive national debt which the coalition government is now trying to rectify through spending cuts. In the sense, Labour's steps were incredibly reckless as they banked on the economy growing again to pay back the debt.

Three years on and the economy is still flat lining and many see double dip recession as a real possibility. Perhaps then, Labour's response in terms of the banking sector was somewhat responsibly reckless. This is due to the fact that other westernised countries followed suit. Thus, whilst it was a slightly reckless chance to take, it flourished from a responsible mindset whereby some kind of action had to be taken. History has shown that the markets do not cure themselves in the midst of a recession.

Another action the Labour government took was to tackle the housing market, as not only was its bubble of growth bursting, it also made it difficult for individuals to get on the property ladder and for those who were on it to

<https://assignbuster.com/the-labour-governments-response-to-the-economic-crisis-of-2008-was-reckless-and-irresponsible-discuss-assignment/>

stay on it. The Homeowners Mortgage Support Scheme (HMSS) is a scheme supported mainly by lenders in which the government has a big or controlling stake. People made redundant or who face a significant loss of income were allowed to defer a proportion of interest payments for up to two years.

They still had to pay back that money eventually, though. The aim of this, was to help families with one earner who has become redundant, a homeowner who has suffered a significant loss of overtime, or people who have had to take a lower-paid job. The deferred payments will be added on to repayments for the rest of the term, ideally when people are able to find a new job. The Treasury will underwrite the extra risk taken by lenders. That means if someone eventually defaults, the government will pay the lender 80% of the missed interest payments.

This plan is in addition to two other main schemes. One gives more income support than before to unemployed homeowners with mortgage interest payments to pay. The other, called a mortgage rescue scheme, lets some homeowners who are threatened with repossession be converted into housing association tenants, while staying in their homes. Measures to rescue the housing market were very effective, with a 25% drop reversed within a year. The main measure was the HMSS scheme. The government also effectively forced the nationalised lenders to relax repossessions.

However, some individuals would argue that this was reckless in that the British housing market was heating up and needed a correction, as pointed out by Vince Cable. A recorection therefore, would have been a wholly

beneficial thing in the long term and could have actually favoured first time buyers trying to get on the property ladder. In fact, this has some historical justification too; the US, Ireland and Spain had similar property booms and then massive collapses and let the market failures filter out the industry, effectively cleansing it of faulty characteristics.

Perhaps Labour should have adopted a more neo-liberal approach and let market forces take their natural paths as opposed to implementing Keynesian policies. In terms of tax, On 1 December 2008, VAT was reduced to 15%, as a reaction to the?? recession. Alistair Darling implemented this tax in order to decrease the price of 'normal' goods, in order to make spending more attractive with the objective of increasing consumption and stimulating economic growth.

He also removed the 10% starting rate in the same year, which also saw the 22% income tax rate drop to 20%. In the aftermath of the recession,?? Alistair Darling?? announced in the 2009 budget that, from April 2010 there would be a new 50% income tax rate for those earning more than ? 150, 000 in an effort to raise fiscal revenue to pay for the recessionary policies and the UK national debt. Thus one on level, this can be seen as wholeheartedly responsible and cautious, as the initial tax change was simply to encourage spending.

However, many argue that whilst this initial policy was not reckless or irresponsible, its legacy was, as it led to a decrease in fiscal revenue and ultimately a form of a 'robin hood tax', where money is taken from the rich and given to the poor. This is in some ways an accurate reflection of Labour's

'Third Way' by combining an initial Keynesian policy with a more Neo-Classical one, however, when tackling a recession, perhaps it is better to introduce decisive, consistent policies rather than confusing and inconsistent ones. Labour also chose to target specific markets.

The UK?? Vehicle scrappage scheme is a?? scheme?? that was introduced in the?? 2009 United Kingdom Budget?? to encourage UK citizens to purchase a new car or van and scrap an old one that they have owned for more than 12 months. The initial scheme, costing the government ? 300m was introduced in 2009 to support the replacement of 300, 000 cars purchased. The government agreed to provide a ? 1, 000 payment towards the purchase of a new car ordered from participating manufacturers after 23 April 2009 and first registered on or after 16 May 2009 to UK citizens.

In one sense, this was a responsible and proactive decision to make, which was widely seen to stimulate the market and secure jobs. However, The?? Institute for Fiscal Studies?? criticised the scheme saying that a reduction of emissions per mile from newer cars would be offset by new vehicles being driven more, as a fiscal stimulus it will only benefit one industry, many new cars are not produced in Britain and it will mean that fewer sales will occur after the economy has picked up. Thus in this sense, the scheme, whilst wasn't overwhelmingly reckless, was somewhat irresponsible as Labour simply followed Germany, rather than onsulted experts within the industry. In the aftermath of the recession, Labour quickly began to consider how they could reform the banking sector and implement effective financial regulation. The reforms were mainly implemented through The?? Financial Services

Authority??(FSA), a?? quasi-judicial body?? responsible for the?? regulation of <https://assignbuster.com/the-labour-governments-response-to-the-economic-crisis-of-2008-was-reckless-and-irresponsible-discuss-assignment/>

the?? financial services industry?? in the?? United Kingdom. The FSA has been held by some observers to be weak and inactive in allowing irresponsible banking to precipitate the credit crunch which commenced in 2007.

On 18 September 2008, the FSA announced a ban on?? short selling?? to reduce volatility in difficult markets lasting until 16 January 2009.

Furthermore, Labour announced a 'super tax' on banker's bonuses, however the amount of revenue this will proportionately raise is insignificant and it was introduced as an electoral imperative. However, most of the industry changing reforms were implemented a while after the recession, not in its immediate occurrence. Additionally, the FSA's implementation of?? capital requirements?? for banks has been lax relative to some other countries.

In March 2009, Lord Turner published a regulatory review of the global financial crisis. The review broadly acknowledges that 'light touch' regulation has failed. Rather worryingly, there were no further promises to improve consumer protection or to directly intervene against financial institutions that treat their customers badly. The review was reportedly met with widespread relief in the city of London where firms had feared a 'revolution' in the way that they would be regulated. Thus, the way in which Labour tackled the economic crisis of 2008, is a multifaceted and contentious issue.

In some senses, the response was cautious and responsible. The initial Liberal Democrat position broadly supported the Keynesian approach as responsible, but would have gone further in response to the initial crisis

<https://assignbuster.com/the-labour-governments-response-to-the-economic-crisis-of-2008-was-reckless-and-irresponsible-discuss-assignment/>

affecting the banking sector, taking into public ownership the institutions that were insolvent, however, they supported the proposed policies and actions nonetheless. Similarly, more neo-liberal positions, such as that on many Conservatives, initially supported the financial support and stimulus package to save the banking sector.

However, this line of argument ultimately evolved into a critique arguing that high levels of government spending were creating a budget deficit that is now a huge burden on present and subsequent generations. They believe that a more responsible approach is reducing public spending and lowering taxes, and these are more likely to deliver an economic revival, a reduced deficit and lower debt burden. Some neo-liberals, much like the Austrian School of thought, believe that the failed banks should have been allowed to collapse, thus allowing much reduced borrowing by the government and ultimately creating a more competitive financial sector.

Opponents of this would identify the damage this would have caused to individuals and businesses as reckless and irresponsible. Ultimately, as is highlighted by the significant differences not simply in policy, as is often seen the case when perceiving British politics as consensus, but by differences in ideology and to some extent a return to partisan politics, Labour would never have been able to please the majority of its eventual critics. Labour was not overwhelmingly reckless or irresponsible in its response to the 2008 economic crisis.

In fact, not only did its policies match those of the rest of the world, in the banking sector which was the epicentre of the disaster, the UK actually

paved the way. It was also bold and confident in its expenditure on large capital projects. The real recklessness and irresponsibility lies in the fact that Labour spent 10 years spending money they didn't truly have, leading to the infamous note left in the treasury, ' Sorry, there's no money left. ' Labour's real irresponsibility and recklessness was before the 2008 economic crisis, not after it.