Britain Set for A 'Super-Enron'

by Mary Burdman

"The whole financial system is now even more fragile than ever before. . . . The U.S. housing market is the key to the world economy. I am constantly amazed about the 'creativity' of the lenders and the stupidity of the borrowers," remarked a City of London investor, known for his accurate forecasts of the collapse of financial bubbles. He told *EIR* July 19: "Consumerism is down in the U.K., and will be in the U.S. There are all sorts of low-quality lending going on. A lot of people are saying: 'the Fed will have to raise rates,' but this can *not* stop the problem. It is just a matter of time.

"These days, anybody can borrow. This is so dangerous. The U.S. housing market is seriously overvalued, and it will end in tears. Then there is the amount of derivatives. This will go, and not too far in the future." In the U.K.'s own housing bubble, turnover is down 25-30%, and that is the first sign of a slowdown, he said. This is hitting homeowners hard, because in the U.K., he said, the debt is attached to the person, not the house as it is in the United States. In Britain, you cannot walk away from the debt.

"I cannot see the British economy coming to anything else but a 'super-Enron,'" another well-connected British observer told *EIR* July 13. He said he had made the same observation just the day before, when, while delivering a speech in Whitehall, he was asked about the "marvelous" British economy. "The amount of public and private debts, the fact that the balance of payments deficit on the pound has gotten ever-worse over the past decade—the whole thing could do a 'super-Enron.' Nobody had anything to say to me on that," he said.

And finally, another senior City of London analyst told *EIR* July 19, that the liquidity which had been pumped into the system after the London bombings "is already being gradually removed, and you can see the steam coming out of the U.S. and U.K stock markets." On the housing bubble, the problem is that house prices are already "moving sideways," and that "is already a shock for homeowners. I do not know what they will do when prices actually start to go down."

"Consumer spending also is quite soft," he said. "But that is not because of the housing prices. The real issue is, that many Britons now realize that they are not going to have a pension when they retire, and they have stopped spending."

House Prices Go Crabwise

A mid-July report by the Royal Institution of Chartered Surveyors is already predicting that this will be the worst year for the British housing market since 1995. The market will record zero growth this year, and activity is already 25% lower than a year ago. House prices had risen continuously since 1995, after the early-1990s crash, but now, most surveyors are reporting falling prices, the Royal Institution reports.

The housing bubble is one "pillar" of Tony Blair's and Chancellor Gordon Brown's economic "marvel"; the other is alleged high employment. That too is going. Britain's Office for National Statistics (ONS) reported on July 14 that the number of new unemployed in Britain rose for the fifth month in a row in June, the longest sustained rise since the recession of 1992. Hardest hit is industry, which is fast disappearing under the "Labour" government: The manufacturing sector has laid off 81,000 in the three months before May.

Although the unemployment rate is officially 4.8%, actual unemployment is much worse. Figures show a 72,000 drop in the number of people in work over the three months ending in May, the biggest drop in the working population in 12 years. Those most affected are people under 35 and full-time employees. The number of people classed as economically inactive, including non-working mothers, students, early retirees, and those on disability benefits, rose by 125,000 to 7.9 million, a full 20% of the working population.

Before the May national elections, Blair had made a big fuss that he would force 1 million people off the incapacity benefit—which is the main cover for real unemployment levels in Britain. Incapacity benefits are paid to around 2.6 million people, many of them former industrial workers who would no longer qualify for job seekers' allowances. Blair has not succeeded. Now, simply by counting the full population rather than a 5% sample, the Department for Work and Pensions has found out that there are 130,000 more claiming incapacity than previously thought.

These days in Britain, those who work, work either for the financial sector, or for Blair's government. The ONS reported July 16 that one in five of working people in Britain now works for the government, some 5.8 million people. This total has risen by 546,000 in five years.

How to keep them working? Another New Labour fiddle. Gordon Brown on July 20 let it be known that he is having the current British "economic cycle"—an artificial creation—conveniently pre-dated by two years, to 1997. Brown operates on the basis of a so-called "golden rule," which says the government must borrow only to fund investment over the economic cycle, and not beyond. By adding two years of fiscal surplus to his cycle, Brown can postpone a spending review until 2007, and continue to borrow more money without having to raise taxes. This is highly convenient: This June, government borrowing rose 35% year on year, to its highest level for that month since records began in 1984, as Brown is caught between rising spending and falling tax revenues.