

## Introduction

1. This paper provides a panoramic view of the financial crisis including the effect on public finances and unemployment and draws together the measures and actions being taken by government that are particularly relevant to the FE and skills sector. It looks at the implications of the crisis for the FE and skills sector (see paragraphs 94-105), identifies concrete examples of ways the sector is supporting economic recovery, and reviews strategies being taken in other countries to address skills and employment capacity.
2. The aim is to support the sector to share experience and practice and to develop a strategic perspective on the sector's contribution to economic recovery.

## Background

3. Very briefly, the financial crisis has its roots in what are known as *subprime mortgages* – the issuing of mortgages to persons deemed at higher-than-average risk of defaulting. The sale of these mortgages was quite common in the United States. The risk from these mortgages was bundled into securities (bonds, etc.), that large numbers of banks purchased, so that when the housing market in America began to decline in 2007, the effects caused losses to banks across the world.
4. Banks thus became reluctant to lend to one another, a phenomenon known as the 'credit crunch'. As a result, banks began to run short of ready cash to continue their day-to-day operations, leading several to collapse. In September 2008, this 'credit crunch' accelerated, taking down banks in the United States, Britain and Europe, starting with the collapse of Lehman Brothers, an American investment bank, on September 15<sup>th</sup>. The spiralling problems in the banking sector generated the current climate of financial crisis, with its attendant job losses, high levels of Government intervention to combat unemployment and increased demand for training.
5. One aspect of the financial crisis that has had a specific effect in the UK is the total collapse of the Icelandic commercial banking sector (which comprised three drastically overextended banks). This caused serious financial losses for British local authorities and universities, among others.