

Lunatics Seem to Have Taken Over the 'Asylum'!

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In 1981 the Fun Boy Three single 'The Lunatics Have Taken Over the Asylum' was a hit.

Written by Terry Hall who'd previously be lead singer for the Coventry band The Specials, he wished to make clear his concerns about UK and US leaders Margaret Thatcher and Ronald Reagan and their advocacy of neoliberalism.

What Hall makes of recent British political leaders can only be guessed at but safe to say he won't be impressed.

I'm reminded of the ironic expression/proverb, "May you live in interesting times", mistakenly, believed to an ancient Chinese curse.

Curiously, the expression is more likely to have originated from a late-19th-century speech made by seminal former Mayor of Birmingham Joseph Chamberlain and subsequently incorrectly transcribed by his Nobel Peace Prize winner son Austen.

Though not Chinese, being wished to live in "interesting times" does have an equivalent expression used in that country which goes, "Better to be a dog in times of tranquillity than a human in times of chaos."

There can be little doubt that the current times under the government led by Liz Truss feel utterly chaotic and, worryingly, there are likely to be even more turbulent times ahead.

In the last blog I wrote, in the week leading up to Chancellor Kwasi Kwarteng's now infamous 'mini budget' statement on Friday 23rd September, I mischievously compared the economic strategy which Truss had stated she intended to pursue during her campaign to become leader of the Conservative Party as having less worth than horse poo. Let's face it, manure can at least be used to cultivate the soil; to improve it for growth the following season.

Cultivation of the economic environment is what Liz Truss explicitly claimed her approach was intended to achieve. But as I stated in the very last line of my last blog, "if the economic experiment [she and her chancellor] goes wrong, we'll all end up in the 'brown stuff'!"

Though I believed Truss and Kwarteng's advocacy of supply-side economics and what's frequently referred to as 'trickle-down' economic theory is, at best, spurious, few could have foreseen how badly the contents of the mini statement would be received by money markets.

Tax cuts, including the proposed scrapping of the top rate of 45% for those earning over £150,000, which, in absence of an accompanying a statement from the Office for Budget Responsibility (OBR), were 'uncosted'. This meant public borrowing would need to increase by around £45 billion.

On top of the many tens of billions needed for assistance needed to reduce utility bills for households and businesses, the reaction to Kwarteng's statement was swift and, as we're all likely to discover, economically, painful.

According to Easton writing on Bloomberg UK's website, over £300 billion (\$340 billion) was lost from the combined value of the UK' stock and bond markets (2022). In addition, the UK government bond index has lost £160 billion in market value, the drop in the pound against the dollar, as well as an increase in the mortgage rates which will mean those on variable rates or coming off a 'fixed' rate

will be paying at least 6% and the impact of Kwarteng statement at just over half an hour has been profound to say the least.

Many commentators contend that the issues confronting the British economy are so serious as to mean that more intervention, such as the Bank of England's to secure pensions, will be needed. The problems confronting the Chancellor will only get worse as bond yields and interest rates increase meaning the scope for action becomes increasingly limited.

Rating agency Fitch, so concerned about the UK's economic outlook and in particular, the amount of debt, that it has reduced its credit rating from "stable" to "negative", on Monday predicted GDP will fall by 1% in 2023, following the "extreme volatility in UK financial markets and the prospect of sharply higher interest rates."

Families, facing a rapid spike in the cost of food which and energy which, despite the intervention announced by the government to limit the increase in unit rates so that a "typical household" will pay no more than £2,500 annually – which will mean double what was needed for utility bills this time last year – are facing a squeeze in standard of living which will ensure any millions are going to be worse off.

Even the most dismal predictions about the economic incompetence of the approach of Truss and her supporters in cabinet could hardly have foreseen the remarkable speed at which the economy has taken a turn for the worse.

Statements made subsequently by Truss and Kwarteng have done nothing to assuage concerns that the situation is going to get better.

Appearances by Truss and Kwarteng as well as other members of the government, seeming to consist of initial bluster and myopic denial that there was any alternative, followed by policy reversal at breakneck speed combined with a party conference in Birmingham last week bordering on farcical, suggests government in turmoil.

That malcontents who've been passed over, including star performer and ex-cabinet minister Michael Gove 'pissing into the tent' in terms of criticising Truss' approach, though unwelcome, should have been anticipated.

However, ministers publicly disagreeing with major parts of the Kwarteng statement during the party's conference is not a good look and not likely to increase confidence.

Indeed, the sense that things could get even worse is neatly summed up by Liberum Capital Limited's strategist, Joachim Klement who, states that as long as such "government chaos" the UK will be regarded as off-limits and "uninvestable" (Easton, *ibid.*).

Truss' administration, in power for only five weeks, has managed to make the previous one under Boris Johnson, someone known to be a poor organiser and his lack of attention to detail, appear to have been a model of stability.

It's hardly a surprise some wonder how long Truss can last and there are calls within to bring back Johnson or, even better, replace her with the MP she beat in the membership phase of the leadership campaign and who was the Parliamentary Party's preferred choice.

A raft of opinion polls suggest the Conservative Party will suffer a rout at the next general election which will mean the vast majority of those who won 'Red Wall' seats will be looking for a new job.

As Helm and Savage in their *Guardian* article, 'Voters abandon Tories as faith in economic competence dives', published on the eve of the Conservative Party conference, quote a survey carried out by Opinium which shows that "Three-quarters of UK voters, including a staggering 71% of those who backed the Conservatives at the last general election, believe the prime minister, Liz Truss, and the chancellor, Kwasi Kwarteng, have "lost control" of the economy" (2022).

Assistant editor of *The Daily Telegraph*, Jeremy Warner, contends that Truss is afflicted by what's known as the "Juncker curse" (2022). As he explains, this is named after former president of the European Commission, Jean-Claude Juncker who once famously exclaimed, "we all know what we have to do, we just don't know how to get re-elected once we have done it".

As Warner suggests, such are the incredibly parlous state of this country's finances that will mean the PM will be forced to choose between reversing everything she and Kwarteng so passionately argued was essential – already happening – and a "screeching U-turn and steep spending cuts" (*ibid.*).

Tim Shipman, always as incisive as he's well-informed, also piled pressure on the current PM by his article 'Liz Truss was told: don't do this. Her attitude was: I don't care', which details the background to the current crisis (2022).

As Shipman, asserts, Truss' belief in the correctness of the ideology she wishes to implement has effectively blinded her to the immense risks which now beset her party, its reputation for management of the economy and will, many within her party believe, lead to her possibly earning the reputation for the PM who was in power for the shortest period ever (*ibid.*).

To beat the current holder of this dubious record Truss will have to serve 119 days. George Canning, a Tory Canningite, differentiated within the party due to favouring Catholic emancipation and free trade, following the resignation of Lord Liverpool in April 1827, died in Downing Street on 8th August from tuberculosis having served only 119 days.

Truss and Kwarteng have not endeared themselves.

Sacking Sir Tom Scholar, permanent secretary at the Treasury, because of his adherence to orthodoxy and long-standing understanding and experience in dealing with financial crises appears ever more reckless. Scholar was in place in the 2008 Global Financial Crisis when there was 'meltdown' caused by bank lending and worked closely with Alistair Darling, chancellor, and Gordon Brown who was PM.

One of the assumptions is that Scholar, because he knows how markets operate and what's needed to reassure them, would have made clear his opposition to what Kwarteng announced in his mini budget which, it can be assumed, will be legendary for all the wrong reasons.

If the objective of Truss and Kwarteng was to apply fertiliser to achieve, as was claimed necessary in the PM's keynote speech to conference, "growth, growth, growth" there's something going wrong.

As respected Times economist David Smith argues, growth, growth, growth is "hard, hard, hard" (2022).

What's surprising is how badly prepared Truss and Kwarteng appear to have been in 'gaming' how their attempt to implement policies straight out of their jointly authored 2012 book, *Britannia Unchained*.

Whether growth based on their policies based on creating low-tax smaller state will ever be achieved is academic.

Based on reactions to what Kwarteng announced in his mini budget, which has caused the cost of gilts to rise, which will make borrowing for the government and, consequentially, those paying interest on loans and, of course, mortgages, it would seem not.

The potential for a rapid drop in house prices appears likely (Lawford, 2022).

At the time of writing on Tuesday morning, the Bank of England had to intervene once again in the bond market intervention to ease volatility as a way achieving a “backstop” and restoration of order in financial markets (Partington, 2022).

When we read stories of major UK pension funds, what everyone relies on for a decent retirement, are having to engage in a “rush for cash” to maintain liquidity which is undermining the “already shaky sterling-denominated corporate debt market” (Johnson, 2022), we need to acknowledge we’re deeply in the brown stuff I referred to in my last blog.

Include the concerns about Kwarteng’s tax pans raised by the International Monetary Fund (IMF) recently and, according to the Institute for Fiscal Studies (IFS), that as a direct result of his disastrous budget the government will need to find £60 billion of savings by 2026 (Inman, 2022), and the situation goes from very bad to alarming.

The OBR report on the nation’s finances which will be published to coincide Kwasi Kwarteng’s debt-cutting plan, brought forward to 31st October due to intense pressure and the financial chaos created by his previous statement on 23rd September, is eagerly awaited.

However, whilst IFS director, Paul Johnson believes it will be “technically possible” for Kwarteng to assuage concerns on international markets by spending cuts, there will be concerns about the savage nature of cuts which would be required and the impact that this will have on key government departments such as health and social care and education.

Given the ongoing conflict in Ukraine and commitment by Truss to raise defence spending something needs to give.

The problem is that “growing the pie” of finance as Truss preposterously suggested in her conference speech is increasingly a forlorn prospect.

As many ask, wouldn’t it be better for Truss and Kwarteng to admit they have made a huge mistake and reverse all of the tax plans announced on 23rd September.

This, naturally, requiring a *mea culpa* of gargantuan proportions would be sensible but politically career-ending.

The likelihood is that the financial damage wreaked on the UK is so immense that nothing Truss and her ministers do can save themselves.

What’s crucial is that they do everything they can to reverse the consequences of the lunacy visited upon us as a direct result of a large number of Conservative Party MPs, including 50 ministers, deciding it could no longer tolerate putting up with the chaos and, it must be stressed, nepotism and vaguely corrupt behaviour of Boris Johnson

Margaret Thatcher in her speech to her party’s conference on 10th October 1980, then under pressure to reverse her monetary policies explicitly intended to reduce inflation, which was

undermining UK competitiveness, stridently proclaimed, “You turn if you want to. This lady’s not for turning.”

Truss is in a very different position to Thatcher in 1980 and it’s precisely her approach which is undermining this country which will collectively cost us dear.

Truss, who former Chief Political Advisor to Boris Johnson, Dominic Cummings, once described as “about as close to properly crackers as anybody I’ve met in parliament”, needs to desist from the lunacy and wise up.

And she needs to do it immediately.

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