

In Liz We Trust[ed]

Dr. Steven McCabe, Associate Professor, Institute for Design, Economic Acceleration & Sustainability (IDEAS) and Senior Fellow, Centre for Brexit Studies, Birmingham City University

When I started writing this blog on Thursday morning, the intention was to examine the first few days of new Conservative Party leader Liz Truss. In particular, to consider how she will deal with the multitude of crises which confront her, the cost-of living crisis caused by a vast rise in energy costs being the most urgent.

I'm reminded of the reply given by former Conservative Prime Minister Harold Macmillan to the question of what's the greatest challenge he thought any person holding this role must face was of "Events, dear boy, events".

Until just after midday on Thursday, the announcement being made in Parliament by Truss as to what her new administration intended to do to alleviate the emerging financial catastrophe confronting almost all the whole population and the vast majority of businesses was the biggest story in this country.

However as became increasingly obvious in the following couple of hours, the world as we know it was about to change.

Whatever else 2022 may be remembered for, and let's face it there's already plenty to choose from, it will be forever known as the year when the 70-year reign of Elizabeth II ended on 8th September.

Though inevitable that someone in their late 90s would eventually pass on, Queen Elizabeth's death has come as a shock to the nation. After all, we saw her only on Tuesday in Balmoral when she performed her last duty as monarch in granting permission to the new leader of the Conservative Party, Liz Truss, to form a government.

Notably, the change in leadership of the Conservatives has, because of the requirement to involve all members, the whole of the summer. A change in monarch based on succession, occurs within a day.

Queen Elizabeth's passing feels like a seminal moment in the modern history of Britain. Having been monarch since early 1952 when, as a 25-year-old, she found herself suddenly cast into a role she'd not expected to assume for many years, there's been stability in Royalty which has frequently contrasted with the febrile nature of politics.

In the constitutional monarchy in which we live, King Charles III, as his mother did, as monarch will reign but not rule beyond being the overseer of government in providing royal assent to any legislation which has completed all stages of established parliamentary procedure through the Lower House (Commons) and Upper House (Lords).

Like his mother understood, King Charles III will understand his power and role are, largely, ceremonial.

The British monarch appoints whichever government emerges from due process following a general election or, as occurred last week, accept the resignation of an existing Prime Minister and, in turn, willingly agree that whoever replaces them should become Prime Minister.

Before moving on to political matters, I wish to state my admiration for the unswerving ability of the late Queen to adhere to the dictum, stated on the Royal Family's official website, that a monarch must "remain strictly neutral with respect to political matters".

It can safely be assumed that whatever concerns some commentators may have harboured about the new King's desire to meddle, protocol – not to mention the officials who advise and guide him – will ensure the maxim of neutrality will continue.

So, as widely anticipated, Liz Truss became this country's 56th PM and succeeded Boris Johnson who, only a couple was, had been forced to resign by the fact that over 50 of his ministers quit his government in a form of protest over his inept handling of the Pincher scandal (Elgot, 2022).

Truss received 57.4% of the votes (81,326) cast by Conservative Party members, on a turnout of 82.6% (Crear, 2022). However, as many point out, her victory, by less than half the membership was much narrower than had been hoped for.

Very significantly, given the magnitude of issues confronting her, during the round of initial voting by Parliamentary members of the Conservative Party, she was not as popular as her defeated rival former Chancellor Rishi Sunak. Indeed, in the first four rounds of votes cast by Tory MPs, she was third most popular behind Sunak and Penny Mordant. It was only in the fifth round she managed to get onto the ballot by the 171,579 Conservative Party members.

The system of allowing members at 'grassroots' to determine who leads the Conservative Party was introduced in 2001. Truss' victory is the narrowest achieved. Iain Duncan Smith won in 2001 by 61%. David Cameron won in 2005 by 68%. Theresa May, who succeeded Cameron when he resigned after the outcome of the EU referendum in 2016, was not subject to a vote by members as her rival, Andrea Leadsome, withdrew. Boris Johnson won against Jeremy Hunt in 2019 by 66%.

New Stateman commentator Ben Walker speaks for many when he states that the fact that Truss' victory is far from emphatic "means she enters office with less support than her predecessors, and in far more difficult circumstances" (2022).

That Truss faces a number of very serious issue is beyond doubt.

As the *New York Times* commenting on Liz Truss' to Replace Boris Johnson as Prime Minister someone seen as a "hawkish foreign secretary" will inherit a country "in serious economic crisis" (2022). As such, it asserts, in becoming Britain's fourth prime minister in six years and third female leader, Truss will face "a fearsome array of problems":

"Double-digit inflation, a looming recession, labor [sic] unrest, soaring household energy bills and possible fuel shortages this winter — all will confront Ms. Truss as she moves into 10 Downing Street. She also must repair a party deeply divided after Mr. Johnson's turbulent three-year tenure, which peaked in 2019 with a landslide general election victory but descended into unrelenting scandals after that."

Though many make comparison to May 1979 when new Conservative leader Margaret Thatcher become PM, the Truss will have to deal with are of a different order. For sure, inflation is increasing in a way that's a problem which has resonance with what was experienced in the 1970s. However, its origins are very different.

The ending of the temporary shutdown of literally every country's economy, necessitated by the pandemic, resulted in inevitable supply-side problems. An almost simultaneous restarting of these economics, predictably, resulted in a spike in demand for all major resources. That oil and gas would rise in price followed.

If the sudden rise in the price of energy whilst the world reset after then pandemic had been the only issue Truss needed to deal with having replaced Boris Johnson whose premiership was

characterised by poor judgment, incompetence, half-truths, obfuscations and downright lies, that would be one thing. Unfortunately, as we're discovering to our cost, Europe's dependence on Russia for oil and, more particularly, gas, has created the latest devastating 'energy price shock'.

Russia's invasion of Ukraine has created a set of consequences which are as bad, if not worse, than the very rapid increase in the price of oil in the early 70s which almost quadrupled. Inflation which followed was exacerbated by workers who used their muscle to ensure their standards of living were maintained.

Students of industrial history will discover that both the Conservative government under Ted Heath and the Labour administration which replaced it in 1974 under Harold Wilson struggled to reach a compromise with unions which tried to ensure inflation was controlled through accommodation of reasonable rises in workers' pay.

Margaret Thatcher who replaced Ted Heath in 1975 had almost four years to hone her policies which were explicitly dedicated to reducing inflation through tight control of money. As well as making it clear she was willing to take on the unions by, as cynics claim, closing down swathes of manufacturing which led to rising levels of unemployment funded by North Sea oil revenues, she believed that taxes were too high.

Reduction of taxes was considered essential by Thatcher to underpin the move towards a more dynamic state in which entrepreneurialism was valued.

If this sounds familiar it's worth remembering that when Thatcher entered 10 Downing Street, the highest tax rate was 83% and the basic rate was 33%. These are way above current rates of 20% for basic rate and 40% for the higher rate (45% over £150,000). Importantly, though, Thatcher whose access to public finance was better than Truss' is now, balanced the reduction in income tax receipts by raising Value Added Tax (VAT) from 8% to 15%.

As economist William Keegan writing in the *Observer* recently, this adhered to an election manifesto in 1979's general election not to double VAT as "in those days campaign commitments were serious" (2022). Perhaps Truss, who clearly wishes to emulate Thatcher's commitment to being consistent, believes that her steadfast belief that cutting taxes and refusal to countenance a 'windfall tax' on oil producers will make her seem like a contemporary 'Iron Lady'.

However, as we're seeing already, commitments made during the Tory hustings for members is one thing, dealing with the economic reality of power is quite another thing. Despite saying that she didn't believe in handouts, Truss is, certainly on the matter of energy prices, altering her stance.

The assistance on energy announced by her on Thursday in Parliament is explicitly intended to ensure there is support for households and businesses. What she rolled out is the greatest government intervention since the financial crisis and, with a price tag of at least £150 billion, possibly a great deal more as the initiatives are as yet not 'costed', dwarfs what was spent by the Conservative government led by her predecessor during the pandemic (Elgot, Walker and Lawson, 2022).

Had it not been for the death of Queen Elizabeth, we could have expected to Truss's announcement and, thus far, stated approach to the economy to have received more intense scrutiny than has been the case.

Nonetheless, many commentators across the political spectrum express concern.

Fascinatingly, the Telegraph's Jeremy Warner, who is assistant editor and a business and economics commentator, pulls no punches in his article 'We are plunging into economic darkness as the Elizabethan age ends' asserts the second Elizabethan age is ending as it began in 1952, "the nation up to its neck in debt" (2022).

There's a view that the cost of the energy intervention which Truss has proposed could, as well as protecting large energy producers' profits, end up costing over £200 billion (Wallace, 2022).

Warner, like many others, myself included as I believe her to be engaging in a form of financial illiteracy, makes clear his concern that the amount of money being promised which will be taking paces against tax cuts and, create a total public debt of £2.69 trillion, about the same as the country's total gross domestic product, means the UK's economy and finances are on what he considers "an unsustainable path" (*ibid*).

Sacking Tom Scholar, Permanent Secretary to the Treasury, by newly appointed chancellor Kwasi Kwarteng, who Warner describes as being "in effect the nation's chief accounting officer" will, he contends, do nothing to calm nerves or reduce the interest rates being paid on UK gilts, increasing pressure on finances.

Influential commentator Will Hutton absolutely agrees (2022).

Hutton excoriatingly criticises Kwarteng's claim that "the same old economic managerialism" is responsible for leaving Britain "with a stagnating economy and anaemic growth" and that the "bold action" of tax cuts combined with profligate spending the new chancellor considers essential is what the country needs at this point (*ibid*):

"It is unsubstantiated hogwash – ideological faith triumphing over evidence and reason. In these terms, Scholar, exemplar of the alleged old economic managerialism, had to go. We are on an economic fairground ride led by fairies and fools."

Ouch!

Hutton's conclusion that the sort of growth Truss claims she wants to inculcate is the result of "well-marshalled and imaginatively directed investment by the public and private sector in an interdependent relationship" is not going to happen and that her approach is doomed to failure.

Unfortunately, of course, failure for Truss will leave the public finances in a parlous state with attendant consequences for all of us. Worse is to come. Thomas and Thomas, writing in the *Financial Times*, who interview ScottishPower's chief executive Keith Anderson, explain that the estimated £150billion intervention by the government is unlikely to be "an end solution" (2022).

Times economist David Smith believes investment by business is key to success (2022). However, he contends such investment will be stymied by the lack of growth in the economy that's likely without better policies. "Merely talking about growth will not ensure that it happens" he claims (*ibid*).

Calver and Spencer in the Sunday Times believe that the intervention will mean we'll all probably pay more for our energy (2022). Indeed, as experts make clear, what's urgently required is that we collectively use less energy by better insulation of our homes and buildings (Savage, 2022).

Energy aside, there's the ongoing difficulties in the UK's relationship with the EU. Triggering Article 16 and/or unilaterally altering the Northern Ireland protocol will not make this relationship any better, quite the contrary (Parker, Foster and Bounds, 2022). The BBC's Washington correspondent Gary O'Donoghue believes that this would also derail "UK/US relations" (2022).

Truss sure has a lot of problems to sort out though the period of mourning will allow her to be under less pressure than would otherwise have been the case.

However, the magnitude of the issues will certainly not diminish in the next week.

We have to hope and trust in her willingness to fully appreciate the need to develop solutions which will enhance our economic prospects and allow us to look forward with hope, as did the population of the UK when Queen Elizabeth became the monarch 70 years ago.

A range of commentators argue Truss should learn from policies implemented in the post-war period to deal with austerity and the cost-of living crisis being experienced in 1952. As Partington claims, Truss should listen to the “leading voice of British industry”, the Confederation of British Industry (CBI), which advocates a policy similar to that “used by the 1945 Labour government” involving proactive collaboration between government and business (2022).

Unfortunately, so far, the espoused economic strategy of Truss and her cabinet, most of whom have little or no experience at this level, does not inspire confidence.

Quite the contrary.

As Will Hutton argues, we will have to endure the “disaster” Truss’ policies inflict on the UK.

In the meantime, in reflecting in the life of Queen Liz, we trusted in her unstinting commitment to public service as well as her ability to be a beacon of stability during tumultuous times over the last 70 years.

References

Calver, T. and Spencer, B. (2022), ‘Why are our energy prices so complex?’, *Sunday Times*, 11th September, <https://www.thetimes.co.uk/article/why-are-our-energy-prices-so-complex-nmxkhj0gv>, accessed 11th September

Crerar, P. (2022), ‘Liz Truss wins Tory leadership race to become Britain’s next PM’, *Guardian*, 5th September, <https://www.theguardian.com/politics/2022/sep/05/liz-truss-wins-tory-leadership-race-to-become-britains-next-pm>, accessed 8th September

Elgot, J. (2022), ‘Liz Truss becomes UK prime minister after meeting Queen at Balmoral’, *Guardian*, 6th September, <https://www.theguardian.com/politics/2022/sep/06/liz-truss-becomes-uk-prime-minister-meeting-queen-balmoral>, accessed 10th September

Elgot, J., Walker, P. and Lawson, A. (2022), ‘Liz Truss to freeze energy bills at £2,500 a year average, funded by borrowing’, *Guardian*, 8th September, <https://www.theguardian.com/politics/2022/sep/08/liz-truss-to-freeze-energy-bills-price-at-2500-a-year-funded-by-borrowing>, accessed 8th September

Hutton, W. (2022), ‘Putin is waging an economic war with Europe. Britain’s absurd energy plan plays into his hands’, *Guardian*, 11th September, <https://www.theguardian.com/commentisfree/2022/sep/11/putin-waging-economic-war-with-europe-britains-absurd-energy-plan-plays-into-his-hands>, accessed 11th September

Keegan, W. (2022), ‘This is not the 1970s. Tory pledges to cut taxes are absurd’, *Observer*, 21st August, <https://www.theguardian.com/business/2022/aug/21/this-is-not-the-1970s-tory-pledges-to-cut-taxes-are-absurd>, accessed 8th September

New York Times (2022), 'Liz Truss to Replace Boris Johnson as Prime Minister', *New York Times website*, 5th September, <https://www.nytimes.com/live/2022/09/05/world/uk-prime-minister>, accessed 8th September

O'Donoghue, G. (2022), 'Liz Truss and Joe Biden: The big issue that could derail UK/US relations', *BBC US and Canada News*, 11th September, <https://www.bbc.co.uk/news/world-us-canada-62819799>, accessed 11th September

Parker, G., Foster, P. and Bounds, A. (2022), 'Liz Truss warned by Brussels to avoid 'provocative act' in Brexit talks', *Financial Times*, 1st September, <https://www.ft.com/content/726f078e-509c-4298-b21c-2b531ebe41eb>, accessed 11th September

Partington, T. (2022), 'Liz Truss can learn from the progress of second Elizabethan age, not its failures', *Guardian*, 11th September, <https://www.theguardian.com/business/2022/sep/11/liz-truss-can-learn-from-the-progress-of-second-elizabethan-age-not-its-failures>, accessed 12th September

Smith, D. (2022), 'Just wishing for 2.5% growth won't make it happen', *Sunday Times*, 11th September, <https://www.thetimes.co.uk/article/just-wishing-for-2-5-growth-wont-make-it-happen-nb9n52hrd>, accessed 11th September

Savage, M. (2022), 'UK must insulate homes or face a worse energy crisis in 2023, say experts', *Guardian*, 11th September, <https://www.theguardian.com/money/2022/sep/11/britain-insulate-homes-energy-crisis-2023-heat-loss-houses-subsidising-bills>, accessed 11th September

Thomas, N. and Thomas, D. (2022), "'Huge' effort is needed to lower UK energy bills, says ScottishPower chief", *Financial Times*, 9th September, <https://www.ft.com/content/fbc94772-c840-49d8-aad5-fa075ab64d0d>, accessed 11th September

Walker, B. (2022), 'Liz Truss's Tory leadership win is the narrowest under the current rules', *New Statesman*, 5th September, <https://www.newstatesman.com/chart-of-the-day/2022/09/liz-truss-leadership-election-win-votes>, accessed 8th September

Wallace, T. (2022), 'Liz Truss sails into uncharted waters – without Bank of England support', *Telegraph*, 11th September, <https://www.telegraph.co.uk/business/2022/09/11/liz-truss-sails-uncharted-waters-without-bank-england-support/>, accessed 11th September

Warner, J. (2022), 'We are plunging into economic darkness as the Elizabethan age ends', *Telegraph*, 11th September, <https://www.telegraph.co.uk/business/2022/09/10/plunging-economic-darkness-elizabethan-age-ends/>. Accessed 11th September

Dr. Steven McCabe is co-editor of *Exploring the Green Economy, Issues, Challenge and Benefits* (ISBN-13 979-8532032347) and companion text, *Green Manufacturing, what this involves and how to achieve success* (ISBN-13 979-8751284619), both published in 2021.

***Stop House Prices Rising! The Essential First Fix for the Broken Housing Market* (ISBN:9781739726102), co-authored with Conall Boyle, and *Another Way: A call for a new direction in British foreign and defence policy*, co-authored with Roger Schafir (ISBN: 978-1739726133), were published, respectively, in January and April this year.**

His latest chapter, 'What's in a name? How Alexander de Pfeffel became Boris', appears in *Boris Johnson: Media Creation, Media Clown, Media Casualty*, edited by Mair, Beck and Connew and will be published by MGM Books on 1st September (ASIN: B0B9QS31MR)