

Pragmatists Don't Bet the House on a Throw of the Dice, PM!

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As Tories from all over the country flood into Birmingham, I can't help wondering how many people will be reassured by Tory Party Chairman, Jake Berry, talking about a rising tide of prosperity trickling under the door of every house in the land. As we enter the Autumn flood season in Worcestershire this analogy does not inspire confidence.

After a screeching week like the one we've just had, Liz Truss must know she's already hanging on for dear life...Apparently 20 letters of no confidence have already been written, Michael Gove MP has stated on Kuenssberg (BBC 2nd Oct 2022) that it's not Tory to support unfunded tax cuts and former MP Rory Stewart has said it will be the lesser of two evils to ditch the PM and whilst it would make the Party seem 'febrile' it might just save the country!

The PM knew she had to deal with the energy crisis first in her first days at No 10. What she and her Chancellor did not need to do beyond that was rock the boat too wildly. But that's what they did. They bet the economic house on a throw of the fiscal dice. In just 23 days Liz Truss has managed to alienate the markets and the public whilst shoring up Labour's ratings just in time for the Tory Party Conference this week.

The PM has shown herself to have a tin ear. She and her Chancellor have doubled down on their position. Their little chat with investment bankers didn't look like it was soothing any rattled nerves last week and this week who knows where this rollercoaster will land?

It is indeed a bit rich to hear the PM refusing to accept that 'Big Bung 2.0' or £45bn of unfunded tax cuts, lies at the heart of last week's frenzied market turbulence and that it was down to poor communication. All the while insisting she believes in 'sound money'. As the FTSE index continues its voyage south and housing stocks come under pressure, the good Tory donors from among these firms won't be feeling too buoyed up at the Birmingham bash this week. However as other Tory donors continue to short the pound and watch their profits mount, it's hard to believe all profit is good as Truss states, while watching the pound fall, interest rates rise and home-owners cower.

Debt markets eyeing up free-flowing government bonds from our inflation-hit economy with our widening balance-of-payments deficits don't need anyone to teach them how to suck eggs. It's surprising Liz Truss and the Chancellor don't recognise this too. Now really is the time for Liz Truss to take a feather from the cap of her icon, Margaret Thatcher, when she said 'you can't buck the markets'.

In an awful way she and her Chancellor have brought the country together. Against them both.

Why is what she and her Chancellor did last week so distasteful to so many?

Partly it's because despite Tory reassurance about Liz Truss is a 'pragmatist', we now know better. We know that she and Kwasi are both ideologues throwing the dice on a gamble with the nation's money, not their own. We know that they really believe that the unfunded low tax gamble will pay off. Liz Truss even said on Kuenssberg (BBC 2nd Oct 2022), 'it will deliver'. That's it. There's no doubt, no question, no humility about the pain caused this week. It will deliver, they say.

Well it certainly hasn't delivered what was expected so far. But will it deliver in future?

The OBR estimates that tax cuts have a relatively low multiplier effect which is likely to be even smaller when focussed on high earners. Hermione Taylor in the FT Weekend (1st October 2022) highlights research in 2020 by political economists David Hope and Julian Limberg from

London School of Economics reviewing data from 18 OECD countries over five decades which found that tax cuts for the rich did not have a significant impact on economic performance and finding no evidence that lower taxes increased working hours or effort.

It's all very well for Liz Truss to say she acknowledges now that they could have laid the ground better for the mini budget unfunded tax cuts, but surely that's what they should have known about already? Surely that's where 'political antennae' come in?

However, Liz Truss can be in no doubt that she's already made her mark.

It's sad to think that so many of us are going to worry not so much about heating our homes but losing them over the coming months.

It's sad to think about those who are having to re-mortgage or trying to buy their first home and who have seen the mortgage market thrown into turmoil as around a third of products were withdrawn from the market last week.

It's sad to think that we are looking down the barrel of Austerity II to make up for unfunded tax cuts with no guarantee of inflation-linked benefit increases for the poorest. With last week's tax cuts amounting to the biggest in half a century and requiring an estimated extra £411 billion in public borrowing over the next five years, it's the incompetence, inequity and ineptitude of introducing this time that sticks in the craw as cost of living increases bite into budgets for the 16 million people having to cut back on food and essentials and for the 4 million children growing up in poverty, even though three quarters of them are from 'working households'.

Even I cannot deny the long-awaited energy cap is good news for homes and businesses, but we're still paying twice as much to heat our homes as we were at end 2021, so it's not as if there are no financial strains on householders and now with rising interest rates the pressures are vastly increased. It would, of course, have helped the public finances to see some of the energy companies' £170bn of estimated super profits going towards the cap, rather than being shouldered by hapless taxpayers.

But it's outrageous to think, as the Tory MP, Julian Smith, points out, that one month we are 'clapping for carers' when the next month we are giving tax cuts to millionaires.

It's beyond careless to think that over £1trn of pensions were threatened with wipeout by rising gilt yields and a rout in bond prices, so much so that the Bank of England had to spend £65bn to salvage this part of the pensions market from collapse. However, as Tim Shipman points out in the Sunday Times this week (2nd October 2022) what happens once the Bank of England has stopped buying bonds as it has said it will do this for just two weeks.

It's outrageous that Kwasi Kwarteng went to a champagne reception with hedge fund managers after the mini budget was delivered. Yes, it's distasteful to read about them referring to him as a "useful idiot"....But he really should know better. He should know that in talking to people like his former boss, Crispin Odey, one of those hedge fund managers who's made millions shorting the pound, that he's exposing himself to allegations of conflict, being used or even some type of collusion.

But it's really galling to read David Smith's comments in the Sunday Times (2nd October 2022). He flagged up last week his concerns about whether the mini-budget would be about 'shock and awe' or 'shockingly awful' and states this week: "these are world-class levels of ineptitude". He highlights how before the Chancellor's fiscal event markets thought the Bank rate would peak at 4% or so.

Expectations have since shifted to a more rapid rise, with expectation of a bumper 1.5% increase on November 3rd, with further increases taking the Bank to a peak of close to 6% next year and with some predicting 7% could be needed....As he concludes: "The government far from going for growth has increased the risk that it will crash the economy. Such an outcome can be avoided, as long as the government does not keep getting it so badly wrong."

Perhaps this week in Birmingham sober-minded Conservatives will give us some clues as to how they are going to sort out this mess of their PM's making. Perhaps they'll show us that there are realists and pragmatists amongst them. Perhaps they will grasp this nettle and uproot Trussonomics before it blows up what's left.