

UK Fiscal Event

News:

“On Friday morning, Britain’s Chancellor of the Exchequer, Kwasi Kwarteng, was summoned a day early back to London from the United States straight to Downing Street, where he was relieved of his duties. The move came three weeks after Kwarteng announced a controversial mini-budget full of unfunded tax-cutting measures that sent financial markets into meltdown. At one point, the pound sank to its lowest level against the dollar in decades.” CNN reporting continued: “Kwarteng being gone, however, does not mean that Truss is out of the woods. The low-tax, free-market policies that Kwarteng announced were the exact ticket on which Truss ran to be prime minister.”

Comment:

Liz Truss had been in office 39 days after the conservative party got rid of its former clown of a prime minister, Boris Johnson. Now, its new prime minister is in trouble for the economic turmoil that was caused by the mini-budget, otherwise known as the fiscal event, that was introduced within days of taking office. In a brief statement after firing her chancellor she said: “parts of our mini-budget went further and faster” and yet she said she was still “absolutely determined to see through what I promised - to deliver a higher growth, more prosperous United Kingdom to see us through the storm we face.”

The so-called mini-budget’s big tax cuts were to be funded by increased borrowing and that would have raised interest rates. What followed was hedge funds betting against the pound and making big profits while the value of the UK currency plummeted to historic levels and the Bank of England was forced to intervene in order to bring balance to the bond markets – which determine how much it will cost the government to borrow money. Since then, some of the promised tax cuts were cancelled and Truss continued with the policy U-turns after firing Kwarteng. “We need to act now to reassure the markets” she said as she reversed the mini budget’s goal to scrap a planned rise in corporation tax.

She was questioned as to why she should remain prime minister when the disastrous mini-budget was as much her plan as it was Kwarteng’s and considering it implemented a major part of her election pledge to cut taxes and stimulate growth. Her answers have not instilled confidence in her leadership. The apparent incompetence in announcing major budgetary changes without properly explaining how the cuts would be funded, followed by the forced U-turns that followed the market turmoil that resulted have put her and her party into a tight spot. However, there are other questions to ask here.

For one thing, what has happened to the UK that it struggles to find statesmen who can lead the country intelligently at home and independently on the world stage? For another, whatever the macroeconomic and political miscalculations of the budget, the wild instability that the interest-based economies of the West suffer from continue to punish the poor at the expense of the rich. The budget itself greatly favored the wealthy over the poor, and the hedge funds that accentuated the instability made great profits for the rich at the expense of the poor over a matter of hours. Truss promised to seek growth, but using new means. If she succeeds, with her new Chancellor, Jeremy Hunt, the relentless march towards making the rich richer will continue while most can look forward, at best, to a cold and expensive winter in the months ahead and, at worst, deepening economic turmoil, and NATO’s policy of bleeding dry its old enemy Russia through the war in Ukraine spiraling more perilously close to nuclear disaster.

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