The Rise of Trussonomics

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It's impossible to know whether the new British Prime Minister is genuinely serious about constructive policy or not. She is certainly interested in greasing palms and calming the storms, if only to delay the inevitable. Having proven herself the shallowest of candidates to succeed her disgraced, not wholly banished predecessor, Liz Truss has leapt into economic policy as her starting point.

Kwasi Kwarteng, the newly minted Chancellor of the Exchequer, has given us a sense of what Trussonomics looks like in his "mini budget" announced on September 23. In line with this new policy, undertaken at a time of stroppily rising inflation (currently 9.9%), more fiscal stimulus is promised: £30 billion per year (or 1.2% of GDP), and mammoth subsidies to soften energy bills with costs that could rise to £150 billion.

Cuts have been promised across the board, from income tax to stamp duty on home purchases. The 45% additional rate of income tax for those earning above £150,000 will be scrapped, leaving the rate of 40% for those having incomes above £50,271. A cut in the basic rate of income tax from 20% to 19% will be brought forward to April 2023. Corporation tax would remain at 19%, and not increased to 25% as had been initially planned.

High tax rates, the Chancellor claimed in a Commons statement, "damage Britain's competitiveness". The focus, instead, should be on growth. "For too long in this country, we have indulged in a fight over redistribution. Now, we need to focus on growth, not just how we tax and spend." It was time to get away from the "vicious cycle of stagnation" and focus, instead on "a virtuous circle of growth".

This is a curious statement, given that virtue here will only shine upon those on the wealthy scale, who will be receiving twice as much aid in softening their living costs as the poorest. Companies, notably oil and gas entities, will also continue to rake in staggering profits without fear of windfall taxation.

While one should never treat the markets as omniscient, there was something ironic in how

Kwarteng's announcement was greeted in an environment of high natural gas prices, sluggish growth and labour shortages. The sacred British pound received a terrible battering, falling to a 37-year low against the US dollar. Government bonds were sold off at a rate unseen since 1989, when the Tory heroine, Margaret Thatcher, was still clinging to power.

Another feature of the new policy is that old neoliberal favourite, deregulation. This is hardly surprising, given that two authors of the 2012 tribute to the free market, *Britannia Unchained*, now occupy the posts of prime minister and chancellor.

Having witnessed the vicious effects of an unregulated financial sector – think the Great Financial Crisis, subprime mortgages, vigilante banks – Truss is putting economic history to one side. By way of example, the bankers' bonus cap will be done away with. Not even predatory businesses should be shackled in Truss's Britain. The credo of Gordon Gekko can be assured of a revival.

Despite this grand salute to the market, the Truss economic turn has not impressed conservative finance outlets. *The Economist*picked up on a parallel between Truss and US President Ronald Reagan, who gave us that unfortunate, deservedly maligned term Reaganomics. On coming to power, Reagan promised to reduce federal taxation at a time of peaking inflation rates and high interest rates.

In his characteristically dim-witted way, the optimistic Gipper decided that tax cuts and deregulation was the way to go. Storms were not so much to be calmed down as stirred. In August 1981, the shock through the US economic system was registered with a tax cut heftier than any seen since the First World War. In doing so, the concept of Reaganomics demonstrated that Conservatives were less keen on responsible thrift and balanced budgets than scale and populist disruption.

The Economist, however, choses to see Reaganomics as right for its time, though it even concedes that returns from the program were "mixed". Trussonomics is quite something else. "Reaganomics was accompanied by a strengthening dollar. So were Donald Trump's tax cuts in 2018, which also happened alongside monetary tightening." While the US dollar appreciated, the British pound has slumped and rumpled.

Privateer outlets such as the *Wall Street Journal* are not with Truss on her bingeworthy enterprise either. Note is made that the Britain of today is not held in the grip of powerful unions or governed by high corporate tax rates. State owned businesses have, for the most part, been privatised. Red tape has been slashed. Their deluded point: Reaganomics or Thatcherite slash and burn did its work, leaving neoliberalism victorious. Now was not the time to re-invent that wheel.

There is also the niggling issue of borrowing credentials. Truss's fiscally strapped Britain, unlike that of Thatcher's (is that possible?), faces a current account deficit and debt beyond 100% GDP. The figure will bulge with tax cuts and the energy package. The *WSJ* is keen to lecture Truss on this, and typically anthropomorphises the market as an unruly pet in need of pacifying. "To mitigate all these problems the government should have taken care to prepare the markets, explain its position and project a confident future for the country's finances. Instead it has merely promised that its independent forecasting body will show the effects of all the extra borrowing by the end of the year."

The nightmarish effect here is that the Bank of England is left to hold the reins on inflation using monetary policy while the fiscal buccaneers cut loose and raid the treasury. Truss and Kwarteng add the catnip, thereby driving the economy to heated hysterics; the BOE will have to bring in the sedative, lower the temperature and detain the pleasure seekers. The situation will not cure the structural defects in an ailing Britain, but by then Truss may well have vanished into the increasingly dense undergrowth of the country's doomed and forgotten prime ministers.

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