

Tullett Prebon Research, a blog by Dr Tim Morgan

Is Britain facing the 'Armageddon' reckoning?

by Tim Morgan on October 10, 2012

In his conference speech today, David Cameron is expected to warn that Britain faces “an hour of reckoning”. “Sink or swim”, the Prime Minister will warn. “Do or decline”.

Regular readers of our research will recall that we said something remarkably similar last summer, when we published *Thinking the unthinkable*, the concluding report of our 'Project Armageddon' analysis of the true scale of the challenges facing Britain.

Our conclusion then was cautionary, warning against a 'culture of entitlement' which led to the assumption that the UK would always 'muddle through' in the end, irrespective of the scale of the policy errors made along the way.

Some of the challenges that Britain faces are pan-Western, applying to most OECD countries to a greater or lesser extent. The West has behaved in an absurdly self-indulgent manner for several decades. We have consumed too much, and invested too little. We have allowed inflated housing markets to act as huge and unproductive capital sinks. We have created welfare states that may not be affordable in the future. We have ramped up government spending on the assumption of perpetual growth. We have shackled business by imposing ever more meddlesome red tape and regulation. We have increased taxes to levels which stifle growth. We have pursued deregulation in the banking sector to a degree which strays beyond the “light touch” into the frankly negligent. And, of course, we have clocked up truly frightening levels of debt, both government and private.

Where these errors are concerned, Britain has behaved more irresponsibly than most. In addition to published government debt (of 84% of GDP, on the Maastricht Treaty definition), the state has truly enormous hidden commitments including perhaps £1,000bn in public sector pension obligations alone. Such commitments are kept off the balance sheet as “contingent liabilities”, but there is nothing contingent about them at all. There has been a shocking failure to invest in energy infrastructure, where Britain may be facing a need to spend perhaps £150bn over the next decade.

Under Gordon Brown, the British economy was allowed to become massively dependent on private borrowing and public spending. Between them, retailing and the CREF (construction, real estate and finance) industries – hitherto propelled by borrowing – plus the state-spending-driven HEPA (health, education and public administration) sectors, account for about 69% of output, making it very hard to see where growth can be delivered.

Economic outcomes do not result from the caprices of a malignant deity, but follow from decisions. British governments have made too many bad decisions, and have made them too often, and this is why the economy is struggling and the deficit remains unsustainably large. None of these weaknesses will solve themselves, but will depend on choices, yet our system of politics produces governments that back off from even pretty trivial measures (such as taxing pasties) at the merest whiff of short-term unpopularity.

Unless things improve pretty quickly, I'm sure it won't be long before someone tries to invoke “the blitz spirit” (which tends to be hugely romanticised, by the way).

The reality is that Britain will not remain one of the world's wealthiest countries unless unpalatable decisions are taken. Where big, painful choices are concerned, we all too often hide profound self-interest under a thin veneer of sentimentality.

We are entering an era of profound change in the global economy, change created in part by population growth, resource constraint, and the debt burdens of past profligacy. All such eras of major change have casualties.