

Tullett Prebon Research, a blog by Dr Tim Morgan

A real Autumn Statement, part 1 – lemmings in denial

by Tim Morgan on December 5, 2012

As things stand, Britain is going bust.

This was the first message that George Osborne didn't – couldn't – deliver today. The second, equally-undeliverable verity was that most of Britain's problems have been self-inflicted.

Instead, the chancellor tried to seem upbeat in his Autumn Statement, even as he conceded that growth, debt and the deficit hadn't, thus far, gone according to plan. In terms of realpolitik, there was no other line that he could take. In his reply (which anyone could have pre-scripted), Ed Balls called yet again for a shift from austerity to stimulus (meaning, of course, that the government should borrow even more than it already is).

Businesses fail when they are grotesquely mismanaged, and the same is true of countries. The difference here is that Britain's disastrous mismanagement has been the responsibility at least as much of the shareholders (in this context, the electorate) as of the directors (the politicians).

Let's start with the politicians. With a minority of honourable exceptions (few of whom have reached cabinet rank), Britain has suffered from two decades of leadership (if such it can be called) which has been delusional, short-sighted, vainglorious, obsessive and spineless.

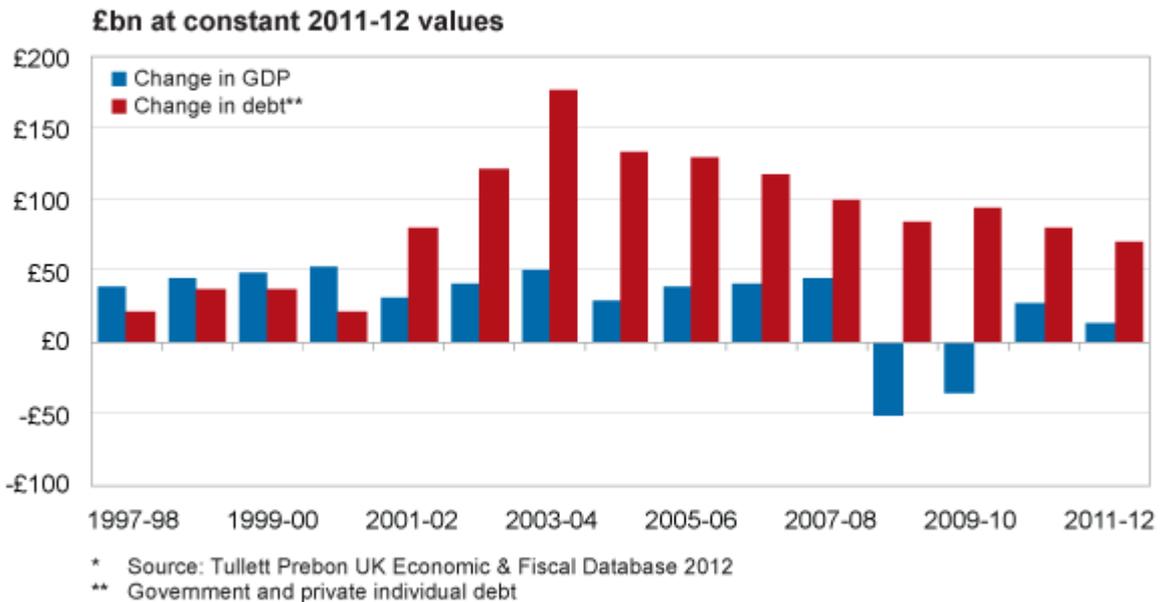
This said, though, a country tends to get the leaders it deserves. The really intractable problem is not that Britain is going bust, but that, in many ways, it seems to lack a collective willingness to change direction.

Britain has become obsessed with consumption whilst turning its back on production. In inflation-adjusted terms, manufacturing output declined by about 19% between 1997 and 2007, whilst the real estate (+37%) and finance (+41%) sectors thrived, and there was a 27% real increase in retailing.

Where did Britain's obsessive consumerism come from? To be sure, the advertising industry now spends at least £15bn annually in pushing the gospel of "you are what you own", but this message is surely so vacuous that only no sensible person would fall for it.

Yes, it did appear that the economy grew (by 27%) over the decade to 2007. But that "growth", of £423bn, looks pretty meagre when compared with an £876bn increase in individual and government debt over the same period (see chart).

GDP and Debt Change comparison (1997- 2012)*



Even in the supposedly “good” years, then, each £1 of “growth” involved borrowing an extra £2.07 (a ratio which worsened steadily as time went on, averaging £3.14 between 2002-03 and 2007-08). Within that additional borrowing, individuals took on an extra £669bn for the wholly futile purpose of inflating house prices by 133% (over and above inflation), and then used the comfort of inflated equity to rack up an extra £128bn in unsecured credit. People then professed themselves both surprised and dismayed when a debt-fuelled boom came to an end.

Far from moderating this recklessness, the Labour government got in on the act, increasing public spending by 42%, in real terms, between 1996-97 and 2006-07. Then, when the imaginary – borrowed – growth of the pre-2008 period fell away, government, professing itself just as bemused as almost everyone else, slumped into a larger deficit than any other major economy, and started racking up stupendous amounts of public debt.

This process has left Britain in a hole, but hardly anyone has stopped digging. Needless to say, debt continues to escalate, and the current government has been criticised by many for “cuts” which actually left real public spending higher in 2011-12 (£696bn) than it was in 2008-09 (£673bn), let alone 2000-01 (£498bn).

For all of this public sector largesse, defence has been cut to (and beyond) the bone by a country which needs to use reservists to replace the soldiers that it cannot afford, and whose budget no longer runs to a single aircraft carrier. You wouldn’t guess any of this, of course, from Britain’s continued posturing on the world stage, or from the apparently-serious consideration being given to the mind-bogglingly unaffordable idea of replacing the Trident nuclear deterrent.

Serial mismanagement over two decades has left the British economy not only debt-addicted but grotesquely skewed towards ex-growth industries. The state-dominated health, education and public administration sectors account for about 20% of the economy, whilst construction, real estate and finance contribute a further 38%.

Britain's exports fall far short of paying for essentials such as energy and food, and businesses are hampered by socially-interventionist regulation, and by the burden of paying for a level of government that the economy simply cannot afford. Many big companies, British as well as foreign-owned, seem to regard the payment of corporation tax as an optional extra.

The free market economy has degenerated into something that has been called "spiv capitalism", a system in which companies shelter behind "terms and conditions", the public is exploited on an epic scale, and Britain's over-grown legal trade is allowed to use "no win, no fee" terms as it feeds a national obsession with compensation. Even the pensions system is in disarray, with private schemes drained of funds by taxation whilst government continues, cynically, to promise public sector workers generous pensions that the taxpayers of the future will be neither able nor willing to afford.

Neither George Osborne nor Ed Balls is going to tell us any of this, of course. Having stated the problem, a future blog might try to set out a viable route to recovery, though whether anyone would be prepared to follow such a route must be very doubtful indeed.

"A country", it has been said, "is more an idea than a place". In Britain, ideas need to change – and fast.