

## OUR VIEW

### The Austerity Myth

Since taking office in 2010, the Coalition government and George Osborne have talked endlessly about **austerity** and the need to rein in excessive public spending. Their pledge was to eliminate the **deficit** within the lifetime of the parliament. So the plan was to align government spending with income by 2015 and at the same time conveniently forget about the **debt** mountain inherited from Gordon Brown (which totalled **£800 billion** at the end of Labour's disastrous stewardship of the nation's finances).

Although a significant proportion of the population seem to believe that the government does have unlimited money to spend, most people seem to grasp that genuine cuts in spending are required. We have highlighted in previous newsletters how it is morally wrong for our generation to spend and consume beyond our means and effectively pass this debt on to future generations to deal with through higher taxes and a lower standard of living.

So, having talked the talk with the ill-advised 'we're all in this together' slogan, it is fairly amazing to see that George Osborne has failed by any measure to match his rhetoric with his actions. For the 2011/12 year the **deficit** totalled **£120 billion** with similar figures expected for 2012/13 and 2013/14.

It is projected that the Coalition government will oversee an increase in the national **debt** of **£600 billion** in five years (an additional £25,000 per household) and will ratchet up the overall national **debt** to an eye-watering **£1,400 billion** by 2015.

The government's overall expenditure is projected to fall in real terms, adjusted for inflation, by a measly **2.7%** between 2010 and 2017. Given that government expenditure rose by **53%** from 2000 to 2010, it is barely credible that the idea of **austerity** has gained such a foothold in the nation's consciousness. Far from taking a radical approach, the Coalition is merely 'rearranging the deck chairs on the Titanic'.

Real **austerity** would have led to big cuts in nominal wages, pensions and benefits and would have been accompanied by huge tax increases. No doubt this strategy would have been ill advised and self defeating. But I can't help thinking how utterly bizarre and politically inept it is for the government to willingly portray itself as being tough on spending, thus leaving it open to accusations of being heartless and sadistic, without achieving any meaningful savings.

### The Welfare Monster

There has been a great deal of Press coverage recently about changes the Coalition government is bringing in regarding welfare payments and entitlements. As usual, most of the coverage has been ill-informed and shallow.

Most people believe that the welfare system should provide a safety net for those who have fallen on hard times, but for too many people it now provides a hammock.

A recent survey showed that 64% of Britons think the benefits system “doesn’t work”. With one third of all government spending now going towards welfare (Social Protection) this is clearly an area of paramount importance.

Iain Duncan Smith has attempted to reconstruct elements of the welfare system to restore at least some of the original vision and integrity as proposed by William Beveridge. So the belated capping of welfare benefits (admittedly at the extraordinarily high figure of £26,000 per household), the replacement of Disability Living Allowance by a more realistic system, the removal of the state paying for unused bedrooms and the proposed introduction of Universal Credit, which has the laudable and overdue intention of removing the financial disincentive to work, are all proposals which should be broadly welcomed.

However, Iain Duncan Smith himself has admitted that at best these changes will merely slow the rate of increase in the welfare budget, which rose by 60% under the Labour government.

The Coalition either lacks the vision or the political will to really tackle this gigantic issue. The welfare system is clearly not fit for purpose, is unaffordable and encourages dependence. Changes to the system will inevitably result in unintended consequences, with some deserving people losing out and some undeserving people benefitting.

However the integrity and affordability of the system could be genuinely improved at a stroke by introducing three fundamental principles as follows:

- 1) that welfare and access to the NHS should be provided on the basis of contributions made
- 2) that a residency test should be used to determine eligibility
- 3) welfare can never pay more than work

These proposals would undoubtedly attract the opprobrium of many, but they are the only sensible way to reform this failed system and are broadly what the estimable Frank Field (Labour MP for Birkenhead) has recently proposed. Sadly, I suspect history will show Iain Duncan Smith’s reforms to have been little more than tinkering.

### **The European Catastrophe**

Our last two newsletters highlighted the intractable problems in the Eurozone and how the Euro will eventually collapse under the weight of its own contradictions. I have a low opinion of the vast majority of our own political class in this country, but when you look to Europe, you see that the lunatics over there are firmly in charge of the asylum.

So in the last year we have been told that:

“I am totally and absolutely convinced that the worst (of the Euro crisis) has passed”  
(Spanish Prime minister)

“people who thought the Euro would fail have been proved wrong” (Vice President of the  
European Commission)

“we have seen the worst of the Euro area crisis” (Italian Prime minister)

“I think we can say that the existential threat against the Euro has essentially been  
overcome” (The European Commission President)

All these statements are of course complete hogwash as events in Cyprus have recently  
proved. The bailout imposed on Cyprus has finally shattered the myth that the Euro  
project can ever work, with money being confiscated from accounts and currency  
controls being put in place which totally contradict one of the most fundamental  
principles underpinning the EU’s internal market (the free movement of goods, services,  
**capital** and labour).

As things currently stand, Cyprus has left the Euro, but none of the European elite will  
admit this. I wonder how many of the 27 all powerful, unelected EU commissioners  
would be happy to swap a 100,000 Euro deposit in a German bank for a 100,000 Euro  
deposit in a Cypriot bank?

The European project is heading towards a tragic denouement. The EU leaders are  
presiding over an exceptionally heartless project which has visited enormous misery and  
suffering on peace time Europe, unseen since the 1930s. With youth unemployment in  
Greece at 58%, in Spain at 55% and in Portugal 38%, the hopes of an entire generation  
are being destroyed.

The European project was supposed to ensure there could never be another European  
war. But in reality it is much more likely to achieve the exact opposite. The Greek  
government has recently been forced to admit that its Finance Ministry has prepared a  
report that calculates Germany owes it **162 billion Euro** for war reparations.

With old scores like this now being dragged up, it is abundantly clear that the feather  
headed lunatics behind the grand European project have ignored for too long the  
centuries old realities of sovereign states with different cultures, values and ways of life.  
The fundamental problem remains unaltered. European nations wanted to enjoy the  
benefits of a single currency, without the discipline of a single state. It doesn’t work and  
it never will.

## **Lions led by donkeys**

Over the last twenty years I have had the privilege to act for hundreds of clients, the majority of whom have been self employed. The self employed innately understand the necessity to align income and expenditure over time, the requirement to provide a quality service/product at a reasonable cost and the need to look after customers. They also see at first hand the negative impact that excessive and intrusive regulation has.

Compliance with unrealistic regulations dreamt up by harebrained civil servants (who ignore consultation feedback) has created a disincentive to those who genuinely want to work hard and provide for themselves. Politicians talk endlessly about 'hard working families' and 'strivers' but clearly don't understand them.

So I have been drawn to the conclusion that the majority of our MPs and vast swathes of the Civil Service are ignorant, ill-informed, lacking life experience and always overstate what their policies will achieve at the same time as understating the disruption, chaos, cost and unintended consequences that will result.

We clearly need a radical change in the makeup of our MPs. So few of today's MPs have held down real jobs, either in the public or private sector and as a result their thinking is muddled and out of touch. We need MPs who have had real jobs before entering parliament and I don't mean as lobbyists, speech writers or PR advisers. Their lack of experience, judgement and competence results in endless bad policy initiatives.

Absurd policies are being pursued in so many areas, it is impossible to list even a fraction of them. But off the top of my head I would highlight these five policies:

### **1) The Help to Buy scheme.**

Announced with a flourish by George Osborne in the Budget, this scheme will offer support to borrowers who otherwise would be unable to secure a mortgage. So the State will either through shared ownership buy a stake of up to 20% in a new-build home or act as a guarantor for a borrower who has a 5% deposit on any home so that they can secure a bigger mortgage.

This policy is wrong in so many ways. It will be horrifically complex to administer, is liable to create a house price bubble, will displace the sensible lending policies now in place after the insanity of excess credit and will be administered by Northern Rock Asset Management, the bad bit of Northern Rock now under Treasury control.

An insane idea, in every respect.

## **2&3) Real Time Information (RTI) & The High Income Child Benefit Charge (HICBC)**

See our Budget summary.

## **4) High Speed Rail 2 (HS2)**

If this scheme goes ahead, it will prove a hugely costly mistake. Even the Treasury have been forced to admit the business case is paper thin. I am more than happy to admit my 'Nimby' status in relation to this project and appreciate this partially invalidates my opinion. However, numerous transport experts and economists have condemned this project as an expensive vanity project, dreamt up by the last Labour government and supported by the Coalition. Sir Christopher Foster, an economist and former director of Railtrack concluded; "I doubt one could find a worse current example than HS2 of a failure to make a credible case for a major project. If you were chancellor, would you really regard HS2 as the best way of spending such a large amount of taxpayers' money? No, neither would we. HS2 should be abandoned."

## **5) Energy policy**

We have highlighted in previous newsletters how we are sleepwalking into an energy crisis in this country, which will result in vast increases in energy costs, power cuts, fuel poverty, economic damage and increased deaths.

Ed Miliband oversaw the ridiculous Climate Change Act in 2008 which will impose huge costs on the economy/households for years to come. Unfortunately, David Cameron vowed to preside over the 'greenest Government ever' and the odious Chris Huhne was tasked with continuing the cloud cuckoo land policies of offering huge taxpayer funded subsidies for wind farms and other forms of 'green' energy which require a conventional back up.

The Coalition has decided it is sensible to impose a carbon tax on our cheaper and more reliable coal and gas fired power stations to drive them out of business as soon as possible. The provision of new nuclear power stations remains a distant and expensive solution.

It is quite extraordinary that at the end of the coldest March for over fifty years, with Age UK reporting an additional 5,000 deaths during the month, that politicians seem to think deliberately increasing the cost of energy is a good policy. Of course they justify these moronic policies on the grounds that they are saving the planet from the (scientifically unproven) horrors of CO2 induced global warming. I understand that India has plans to build 455 new coal fired power stations and China a further 363. These power stations will add more CO2 to the atmosphere each week than we emit in a year.

So that's a rational energy policy is it? I despair.

## **Reasons to be cheerful**

As usual, we have highlighted in this newsletter many of the problems facing the UK and some of the many shortcomings of our policymakers. However, the overall growth in the world economy in years to come should very much be seen as an opportunity, rather than a threat.

The UK should look to exploit the huge demand from developing economies such as India, China and Brazil for British goods and services. We are blessed with some key advantages: our language (the international language of business), our own currency, historical links across the Commonwealth and beyond and the esteem that is still felt for many British products and ideas.

The media tend to concentrate on economic data which shows stagnation or contraction, with headlines regularly pronouncing double-dip and triple-dip recessions etc. In reality, our economy appears to be flatlining, which compared to many of our European neighbours, is not too bad.

The short to medium term prospects for the economy look tough, as private and public indebtedness reduces demand. However, when you travel around this part of England, there is little obvious sign of genuine austerity or great hardship.

We remain a nation with many budding entrepreneurs who can create wealth and employment if the unhelpful shackles of the State can be eliminated. Our current crop of second rate politicians seem unable to grasp this as they fiddle around endlessly searching for new ways to tax and regulate businesses and individuals. We can only hope that the inevitable failure of “Big Government” will lead to some more enlightened leadership in the future where genuine economic growth is possible.