LIZ TRUSS – FULE BRITANNIA

Could there be a worse Prime Minister than the boisterous buffoon Johnson, yes, the dull lampooned Truss. A party which is sacrificed to dumb down society by using the dream of Brexit to prevent a left-wing alternative, ends up paying a high price. First Johnson then Truss. With "no handouts" Truss, the Tory Party is about to elect its final grave digger.

In contrast to the classical twit Johnson, Truss is so boring she makes chloroform look like a stimulant. With her promise of tax cuts she has created a car crash before she has even sat down behind the steering wheel. In contrast to the deceptive Johnson who over-promised and under-delivered, the sinister Truss, despite under-promising will still under-deliver. Workers watch out.

The UK economy is in a parlous state with government finances in a worse state. There is no headroom for tax cuts as the F.T. reported on Saturday and as the Office for Budgetary Responsibility will be reporting shortly. The drought has not only killed crops it has killed the money tree as well. The economic ground on which Truss will be walking will be cracked and scorched. Her tax cuts, if implemented, will be like a wrecking ball to an economy already subsiding

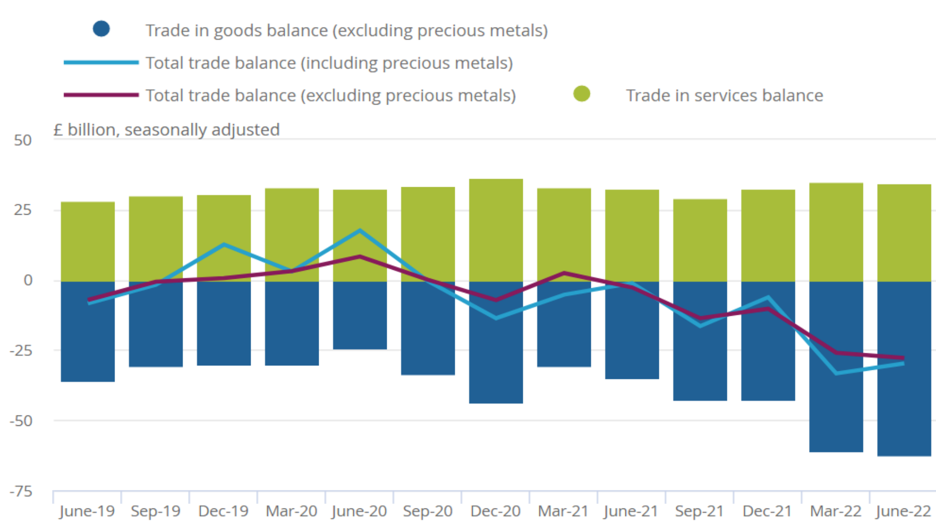
The UK economy, despite the data being disturbed by the plethora of imputed sales, is now in recession The economy shrank by 0.1% because June tumbled by 0.6%. The National Institute of Economic & Social Research expects output to continue falling over the next three quarters. They are more pessimistic than the BoE. Truss seems to be addressing the closed circle of party members at various hustings with all the curtains drawn.

The Brexit effect dragging on the economy is best seen with exports. Britain's export performance post-pandemic has lagged far behind its competitors. This effect can be seen in the graph below.

Graph 1.

Figure 5: The total trade deficit, excluding precious metals, widened in Quarter 2 (Apr to June) 2022

UK trade balances, three-month periods, June 2019 to June 2022



"[The total trade in goods and services deficit](), excluding precious metals, widened by £2.0 billion to £27.9 billion in Quarter 2 (Apr to June) 2022 compared with the previous quarter; this is the largest quarterly deficit in current prices since records began in January 1997." This deteriorating trade performance would be bad in good times, but with a global recession developing it will be far worse for the vulnerable British economy.

Insolvencies data for the UK was released recently covering the second quarter of 2022. They were the highest since 2012, having risen 12.7% quarter on quarter. "*The 4,908 businesses put into liquidation through Creditors' Voluntary Liquidations (CVLs) was the highest quarterly figure ever recorded."* But this is nothing compared to the deluge to come.

The Federation of Small Businesses reported that in the three months to June 30 input prices had doubled for Small & Medium Enterprises (SMEs). Many companies are facing energy bills six to seven times higher than in 2021. And this at a time when the volume of their sales is falling, aggravated by the issues arising from Brexit. (Johnson may have had an oven ready Brexit but in reality he has cooked the goose for many small businesses.) The Federation is predicting more businesses will fail than the 390,000 small businesses which failed in 2020 because of Covid.

In an article on Saturday titled; Debt Payment and Welfare Bills Set to Soar, the economics editor of the F.T. debunks the Tory claim that there is scope for tax cuts now and in the future before an election. The mythical $30 billion has long since evaporated. Next year debt servicing and the social welfare bill is likely to soar by $90 billion. $90 billion is an understatement because taxation is bound to fall significantly. We just need to recall the collapse of hundreds of thousands of SMEs predicted above by the Federation as one example.

The debt servicing payments on the Reserves held by the Bank of England following QE is eye popping. (I have commented on this previously.) During Quantitative Easing, the Bank of England (BoE) bought bonds mainly from Commercial Banks. The definition of bought is that the asset and any benefit accrue to the buyer not the seller, except of course if you are an exalted banker. Sellers normally do not get to eat their cake while keeping it as the National Institute of Economic and Social Research pointed out. When investors sold gilts to the BoE during the QE period, mainly commercial banks, they received back newly created BoE money. Much of this money was not reinvested but was deposited in the form of reserves held with the Bank because of the risk-free interest the BoE paid for these reserves. The New Economic Foundation reported in June that this payment or ransom to the banks will amount to £57 billion by 2025. This £57 billion is more than the £37 billion pledged so far on household support this year for energy bills. What a triple insult to workers. The banks caused the economic crisis in 2008, then they were bailed out, then from 2009 they were given an interest rate bung to compensate them for the interest they lost selling the bonds to the BoE in the first place. Its scamdalous. Talk about shirking scroungers.

On top of this, for every 1% rise in the BoE rate, the Treasury needs to pay an additional £5.5 billion on its index-linked Gilts which amount to a quarter of all Gilts. The days of free money are over temporarily. The burden of interest rate payments will eat into the government's spending plans and make a mockery of promised tax cuts. Truss's first visit to the Treasury will be interesting and should be politically life changing for Truss.

Record fall in wages.

The Office for National Statistics announced the biggest fall in real wages in Q2 2022 on the 16th August. While prices rose on average over the quarter by 8% (without owner occupier rent adjustments) wages on average rose by 4.7% resulting in a real wage cut of 3.3%. *Darren Morgan, director of economic statistics at the ONS said the "real value" of pay was continuing to fall. "Excluding bonuses, it is still dropping faster than at any time since comparable records began in 2001," he said. The data also highlighted a gap between public and private sector wage growth. Private sector wages grew by 5.9% while those working in the public sector saw pay growth of 1.8% - which Mr Morgan said is the "largest difference we have seen for 20 years".*

Graph 2.

Average pay in the first Quarter was 4.2% meaning that pay rose by just 0.5% annualised between the quarters. At this rate it is unlikely to reach much higher than 6% even with pending pay rises in the public sector. More ominously the gap between wages and prices is growing. Prices grew on average by 3% between Q1 & Q2 from 5 to 8% but wages rose only by 0.5%. Therefore it is likely given the projections for inflation up to year end that real wages could fall between 4 and 5% over the year using the official data. (Of course inflation for workers is always higher given the basket of goods they live on.)

In the public sector where wage growth was the slowest at 1.8% resulting in a wage cut of 6.2%, worker unrest is most intense. Such a savage cut can have only one response, a general strike beginning with the public sector workers and extending to the private sector where disaffection is high as well. The appetite for struggle is seen everywhere because this is not simply an injustice, it is a humiliation.

The forgotten food crises.

The energy crisis is solvable, just tax the greedy companies properly and increase their taxes every time they threaten an investment strike, or expropriate them. The food crisis may not be so easily solvable, at least not this side of a revolution. In an insightful article in the F.T., *Farmers Fight To Save Crops Stunted by Heat,* Judith Evans reviews the drought and its effects on the UK. She reports in Saturday's F.T. that farmers expect crop failures of up to 40% as they hit the limits of irrigation. In addition agricultural cost input costs have risen by 23.5%. This time imports from the EU cannot help as Europe is experiencing its worst drought in 500 years with major rivers running dry. So while all the attention is on gas prices, little attention is being paid to the more consequential and enduring increases in food prices.

July 2022 was the hottest July recorded globally alongside 2016 and 2019. However, what makes July 2022 stand out is that these temperatures were recorded despite the cooling influence of the "*continuing La Niña conditions*". Unfortunately, this seems to confirm the effect of increasing irradiance as solar 25 begins to roar. If I am right and I hope I am not, then 2022 was merely a foretaste of conditions the planet will experience by 2024-5 when sun cycle 25 reaches its maximum and when there is no cooling La Niña.

By then, given the depressed state of the world economy, the issue of high energy prices will be but a bitter memory of profit gouging and cowardly politicians, overtaken by a world desperately short of food. The new pandemic will be the virus of hunger. The conditions for revolution mature. Capitalism is just as parched and cracked as the soil its profit motive has sucked dry.

There have been elegant studies done with marshmallows or pretzels on children. The first one in 1970 was the Stanford Experiment testing delayed gratification using 32 children. Capitalism is no different, profits are its marshmallow. It succumbs to short termism disregarding long termism. As a result there is little or no resilience built into coping with climate change. The world is run by infantile accountants who cannot see further than their profit and loss accounts. Just as the pandemic caught the capitalists off-guard, so has global warming, but unlike the pandemic with its cheap option of vaccines, there is no cheap solution to global warming.

Worse they have provoked a war which is making things worse. It really takes a lot of cheek for the British MOD and Intelligence to be more off beam than even the British press especially the *Telegraph* and the *Express*. According to them Russia is advancing by losing and running out of equipment. The greater the Russian progress the more the Russian's are failing. It is last year's Afghani debacle all over again. How was Britain caught with its pants down in Kabul, well now it is British under-pants which will be down in the Ukraine. But the reason is all so simple. If it becomes clear the Ukraine is being defeated why keep pumping arms into that theatre especially when it will take the UK military 5 to 10 years to replenish their stocks. Why keep extending the war indefinitely with all its horrors and casualties? So create the illusion that Russia can be beaten, because if the MOD has its way, Europe is facing another 100-year war unless we put a stop to it. The UK MOD is being taught a salutary lesson together with its NATO allies that losing a proxy war is almost as damaging and consequential as losing a real war.

That Blairite Avatar – Starmer.

The biggest ace in Truss's deck is Starmer. Three recent polls have recently been conducted as to which politician would make the better Prime Minister, Truss or Starmer. Two gave the edge to Starmer and one to Truss. Perhaps it was these poor polls which forced Starmer in front of the TV cameras and out of the long grass where he had been beavering away on policy for two months. While history speeds up the sedate Starmer gathers up his colleagues for an extended session on how to move forward.

And this is what two months has delivered. Interviewed on the *Today* programme on BBC Radio 4 at 8-10 am on the 15th, and in response to fairly intense questioning he replied as follows. No, he does not support strikes because you see he wants to become Prime Minister. It seems that supporting strikes would either make him a bad future prime minister or rule out the possibility of him becoming one in the first place. For Starmer gaining office is the higher duty because you see Labour can do more for workers when in office than when out of office. I wonder if this lawyer ever studied history. If he did, he would discover that most Labour governments seemed to only prepare the grounds for the next Tory victory by betraying workers as Starmer, "I can't possibly comment on strikes", would undoubtedly do. Since 1945 the Tories have held power over 60% of the time with only the Blaire government winning two consecutive elections. How could it be, that a party representing a minority of Toffs could win office so often and for so long? Answer, because Labour governments ended up doing harm rather than good to workers while in office.

He was asked whether he supported nationalizing the energy companies? No, he declared, that would put money into the pockets of shareholders rather than where it was needed, in the pockets of consumers. Talk about being disingenuous. As if it was either or. He sounded as if he had practiced this answer for hours.

Maybe Starmer should not have dawdled for two months because Labour's flagship policy of putting a price cap on household energy costs is already old hat. The Lib-Dems had already called for it last week. Nor is it novel as a number of European countries have already implemented it, and it may be added, their financial support to household's pro-rata far exceeds the £37 billion already pledged by the UK government.

But short of nationalization, capping prices is the cheapest option provided it is linked to a consumption tax on the top 20% whose carbon footprint is many times larger than the bottom 50% and who will benefit by £10 billion from price capping. (In any case the richer section of society should face a progressive consumption tax to cap their carbon footprint as I proposed when Corbyn led the Labour Party.)

The reason for capping is that the outlook for energy prices is dimming as the world economy implodes. All the talk of enduring high prices is baloney despite the war in the Ukraine. With prices falling Russia will have no option but to increase gas supplies to Europe to compensate. (Below is the graph for oil prices.) The Institute for Fiscal Studies, which has criticized price capping claiming it is too expensive, assumes the same price pressures in the future as currently.

The price cap is popular, and it will boost both Starmer and the LP's popularity, further isolating the dim-witted *"no hand-outs"* future Tory Prime Minister. But it will do little to ease the cost-of-living crisis. At just under £2000 the current price cap is still more than two and a half times the average heating and lighting bill in 2021. Worse if it is in place when energy prices collapse, as has already happened with oil prices which have reversed back to pre-Ukraine levels, it could still be a bonanza for energy companies. In short the imbecilic wholesale market for energy based on privatisation and fragmentation is a nonsense except for shareholders and traders. But of course Starmer is mute on changing this.

Graph 1. ICE Brent Crude (Oct'22)

Finally on windfall taxes. Once again Starmer had to be converted over to the view that windfall taxes are a good thing having initially resisted it. His Truss moment. It would have been silly to resist when even the Tories belatedly came round to a limited tax. All that Starmer could add on Radio 4 was that it should be backdated to January when he allowed the Labour Party to support the idea and when it became policy - long after the demand became universally popular and irresistible.

Conclusion.

The outlook for the British economy and that of the global economy grows darker by the minute. Two events highlight the contraction in the world economy. Each one occurring in one of the two largest global economies.

First the Empire State Manufacturing Index prepared by the New York Fed and released on Monday. *"The headline General Business Conditions Index of the Federal Reserve Bank of New York's Empire State Manufacturing survey declined to -31.3 in August from 11.1 in July. This reading missed the market expectation of 8.5 by a wide margin. "New orders and shipments plunged, and unfilled orders declined. Delivery times held steady for the first time in nearly two years, and inventories edged higher,"*. The over 42-point decline was the second highest in the history of the index. Why is this report important? It shows that the last prop holding up production has been kicked away. That prop was backed up orders which filled the supply pipeline. Those orders have now been expedited emptying the pipeline because new orders are faltering, ending the stimulus to production. Of course Wall Street did not see the significance of this report. However soon it will be undeniable as production stalls because new orders are not replacing old orders wiping away any claim that the US economy is resilient and not in recession. As collateral damage it will destroy the narrative supporting the rise in share prices, which is focused on interest rates and not what looms behind the interest rate softening. No! Wall Street, bad news is not good news, even when it improves the outlook for interest rates.

Rolex watches. Ah Yes! In China the price of second-hand luxury watches has collapsed recently. Why is this significant? When the housing market tanked in China and when the stock market provided little relief, Chinese investors (speculators) looked for assets appreciating in value. One of the hottest items was luxury watches which they piled into. The fact that these prices are collapsing wiping out vendors constitutes the canary in the coal mine. Economic conditions are deteriorating quickly in China and in many ways this is more important for global production than developments in the USA, which is why my focus will be on exploring what is happening to the Chinese economy.

What is important to note, is that unlike 2008, there are no areas nor pockets of strength left in the world economy. Even dynamic economies such as Singapore and Taiwan, with their high-tech exports, entered into recession in Q2, by -0.2% and -1.8% respectively.

This is the economic world into which Truss is strutting. Its almost pathetic to watch. Truss is mimicking her hero Thatcher, but whereas Thatcher was praising and promoting neo-liberalism at the dawn of the age, Truss is praising and promoting it in its twilight years, or more accurately, its senile years. Neo-liberalism is dead, but Truss does not realise this. For capitalism to survive in the years ahead, it will have to increasingly lean on the state for support by using it as a crutch. A small state with low taxes, dream on Truss.

Liz Truss better be a quick learner, or she will be trampled on by history. Her fall could be quicker than Johnson or May's, but before she goes, she will have rounded on British workers to make them pay for the deepening capitalist economic crisis. So workers beware, she may be dull, but she is also dangerous.

Brian Green, 16th August 2022.