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COMMENTARY / WORLD

## The dilemmas and delusions of Britain's political and economic predicaments

The country faces several issues including whether to keep the new prime minister in office or replace her



At the heart of the recent turmoil in Britain lie two major dilemmas. The way they are unfolding is instructive for all advanced economies, which are suffering some of the same global effects, Japan included.

The first dilemma is financial and the second is political. The financial one arises from the simple fact that the U.K. has suffered three major blows in recent times — one might describe them as illnesses — all of them very severe and unforeseen: the pandemic, the energy price explosion and a nasty war in Europe.

Each one of these events has had the effect of making truly massive demands on public finances and therefore on borrowing. The U.K. government's borrowing at 97% of gross

domestic product is at the highest level for decades. It is not as high as some other major countries (Japan for example), but for a nation that lives by its reputation for financial acumen and stability, it is far too high. It just has to come down before big fresh demands are made on the economy.

To pursue a medical metaphor: The patient will recover to full fitness in due course, but in the meantime is convalescent. And if you drag someone out of bed too soon and set them on a demanding growth marathon, or the like, we all know what the results will be — and have been for the British economy

The second dilemma, the political one, turns on whether the recently appointed prime minister, Liz Truss, understands this key point. Sadly it appears she does not. Despite her high intelligence and robust ambition, it seems that she lacks the crucial quality of patience. She wants the new growth exercise to begin here and now, when the patient is plainly not yet recovered and fit again. The outcome has been near disaster in financial markets.

So now the ruling Conservative Party has to decide whether to keep her in office or replace her with yet another leader — the fourth in four years. At least she has now sacked her chancellor of the exchequer (chief finance minister) and brought in a more savvy and experienced minister: Jeremy Hunt, who brings deep experience and natural caution. So should she herself stay on as the party and country's leader?

The arguments for keeping her in place are that with her new chief aide and chancellor, she might be able to correct course and reassure international markets. With a readiness to ease up on all the radical and immediate growth demands for which she has been pressing, especially by reversing her proposed unfunded tax cuts, it is just possible that balance and calm can be restored and sustainable economic expansion — which all desire in the longer run — can, after a recovery pause, commence.

But there is a further negative argument for keeping her in place, and this is where the political dilemma lies. If the ruling party tried to sack her, not only would it invite ridicule, it could bring the whole house of cards down. The demands for a general election might prove irresistible. With only 19% of the electorate now in support (according to the daily polls), the Conservatives would be wiped out and their once mighty majority of only three years would evaporate.

So, dare the deeply anxious MPs who want to get rid of her go ahead? Can they actually do so without in effect committing suicide, “kamikaze-style”? That is the delicate and dangerous gamble, and it worries every one of them in parliament.

Beyond that, can they unite on a single new alternative? Could the new chancellor, Jeremy Hunt the moderate, move up to become prime minister and another chancellor be found (maybe the former one whom Truss defeated in the recent leadership battle)? The worst of all worlds would be if, having dismissed Truss, the Conservative Party proved unable to agree on a single replacement. Another ugly leadership battle would then ensue, creating more, not less, disruption. The nation would not forgive the Conservatives for that for years to come, if ever.

The deadline date for judgement on Truss’s future will be Oct. 31, when the new chancellor of finance brings forward his complete plans for cutting expenditure and higher taxation as part of the vital short-term treatment to settle things down.

That in turn rests on not just the U.K. government’s actions but on such imponderables as the next phase in the Ukraine war, what Russian President Vladimir Putin does and whether he still has Chinese backing for his murderous campaign and how much world support he generally retains. And as the ground campaign goes against Russia and Putin, will he or will he not use tactical nuclear weapons? Nobody knows.

None of these prospects will help Truss. All eyes are therefore on financial markets, especially the bond market, where high rates mean bigger borrowing costs than ever for

the government, as well as on the exchange rate, the stock market and other “confidence” indicators.

On these grim and uncertain statistics, and on global factors, such as the outcome for the Ukraine war, the size of global oil and gas production and the final conquest of the pandemic, the fate of the British prime minister depends, and probably the fate of the whole government as well.

However politicians may try to deny it, but we live, after all, in a globalized system.