

# a very british honeymoon

the coalition's impressive  
first hundred days

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### Summary of Key Points

- When David Cameron and Nick Clegg created the coalition government, the media naturally depicted it as a political 'marriage'. One hundred days later, has the 'honeymoon' been a good one?
- The coalition's inheritance was appallingly nasty – Britain had a bigger budget deficit (11% of GDP) than any other developed economy. Public debt was, to all intents and purposes, out of control. And the UK was coming to terms with the hangover from a huge and uncontrolled consumer and property borrowing binge.
- This 11% deficit was far greater than that confronted by Margaret Thatcher (5%), let alone by Tony Blair (3.4%). In fact, it was unprecedented in peace-time Britain.
- Worse still, the Brown administration had staved off the pain of recession by throwing bucket-loads of borrowed and newly-printed money at the problem. In just two years, Labour had borrowed £250bn and printed (via 'quantitative easing') a further £200bn. Together, these equate to a staggering 32% of current GDP. This is, very obviously, not a sustainable strategy.
- Thanks to this tactic of 'borrowing and printing', Labour had avoided either spending cuts or tax rises. Add in ultra-low interest rates – which cut typical monthly mortgage payments dramatically – and many people actually felt *better* rather than worse off.
- But there is no such thing as a pain-free recession. Continued borrowing at prior levels would have sent interest rates sharply higher, inflicting huge pain on mortgage-payers. Further money-printing could have driven inflation sharply upwards. And massive tax increases would have hamstrung the economy.
- To their lasting credit, the coalition bit the fiscal bullet. Moreover, they created the independent Office for Budget Responsibility (OBR). Thanks to the OBR, chancellors can no longer dream up heroic growth assumptions credible only to those who also have implicit faith in Santa Claus and the tooth-fairy.
- In this situation, spending cuts are inevitable. They can also be accomplished without inflicting structural damage to front-line services. After all, public spending increased in real-terms by more than 50%<sup>1</sup> between 2000 and 2009. An increase of this scale necessarily creates huge waste, not least in the proliferation of quangos.
- If the pain of the recession is now turning up, the coalition can at least offer the public a major benefit. The government's reform agenda aims to roll back the successive reductions in civil liberties that had been a hallmark of Labour's statism and moral absolutism.
- The coalition has, then, put its honeymoon to very good use, by biting the fiscal bullet and creating a refreshingly libertarian agenda.

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<sup>1</sup> In 1999-2000, public spending was £343bn. Had this merely risen in line with inflation (as measured by the GDP deflator), it would have totalled £437bn in 2009-10. The actual figure for that year - £669bn – represented a real-terms increase of 53%).

## I. Introduction – a tough inheritance

### *“You campaign in poetry. You govern in prose”*

Mario Cuomo<sup>2</sup>

On August 18<sup>th</sup>, the British coalition government will have been in office for one hundred days, a period generally regarded as the duration of the political honeymoon which a newly-elected government can anticipate. Though the concept of a hundred-day political honeymoon is better understood in America than in it is in Britain, it has particular resonance now because of the way in which the media initially portrayed the alliance between David Cameron and Nick Clegg as a ‘marriage’.

This note looks at how well the alliance has used its honeymoon, and at how it is positioned for the challenges which lie ahead. We conclude that, though these are of course very early days and much remains to be done, **the coalition government has started remarkably well**. The big future challenges will be, first, to sustain the early radical momentum, and, second and more importantly, to win the domestic political battle for ‘hearts and minds’. The British public needs to come to a consensus answer to one overriding question – does the coalition government represent a decisive, libertarian change in the country’s political direction, or is it merely a cleaning-up parenthesis between periods of statism, waste and intervention?

In a recent interview<sup>3</sup>, cabinet office minister Francis Maude claimed that the Cameron administration has started its term of office more radically than those of either Margaret Thatcher or Tony Blair. If this claim is true – and we believe that it is – then this radicalism is an appropriate response to a truly awful economic, political and social legacy.

For a start, **the fiscal deficit inherited by this government is, at 11%, far more severe than that which confronted Mrs Thatcher (5%), let alone Mr Blair (3.4%)**. Worse still, the structural element of this deficit (10.5%) is far worse than those of the United States (9.2%), Japan (7.4%), France (6.8%) or Germany (4.0%)<sup>4</sup>.

The June budget, whilst as much a statement of intent as a definitive plan, plots a generally astute road-map to fiscal sustainability. The required cuts in public spending are perfectly feasible given the reckless expansion in government expenditures which occurred between 2000 and 2009.

On the political front, the coalition has found a flagship policy theme which can be described as a ‘liberty agenda’. Led by deputy premier Nick Clegg, this agenda aims to deliver political reform whilst at the same time rolling back many of Labour’s numerous erosions of civil liberties. This agenda could be the bedrock of the coalition’s political appeal in the future, creating ‘clear blue water’ between Conservative-Liberal Democrat libertarianism and Labour statism. This programme, which unites the Liberal Democrats’ traditional support for individual liberties with the Tories’ instinctive dislike of ‘big government’, can, if sustained, be **the coalition’s biggest achievement, and its political trump card**.

If the fiscal imperatives are pretty obvious – tackling an unsustainable deficit, and heading off what could otherwise become a vortex tendency in national debt – then the political imperatives are almost equally easy to define.

For the coalition parties to win the next election and thus ensure continuity, three objectives are paramount. The first of these, **unity** within the coalition, is imperative. The second is the need to develop **a flagship ideology** to which the public can relate, with the libertarian agenda by far the best option. And the third is to engineer **a fundamental change in public attitudes**, such that liberalism comes to be seen as the norm rather than as a temporary interruption to Labour statism.

<sup>2</sup> *The New Republic*, 4<sup>th</sup> April 1985

<sup>3</sup> ‘Francis Maude drives the pace of coalition’s deep spending cuts’, *The Guardian*, 30<sup>th</sup> July 2010

<sup>4</sup> Source: Bank for International Settlements. The 10.5% UK structural element is within an underlying deficit put at 13.3%, and is not, therefore, directly comparable with the domestically-computed 11% deficit.

Labour may be discredited, dispirited and virtually devoid of leadership talent, but the coalition cannot afford complacency. Since 2008, the impact of recession has been staved off by a variety of unsustainable expedients such as high government borrowing (equivalent to 18% of current GDP over just two years) and the printing of money through quantitative easing (a further 14% of GDP).

As the effect of these expedients drops away, consumers who have actually felt *better* off (through sharp falls in mortgage payments) have a delayed date with austerity. This in turn makes a 'double dip' recession – or something very like it – almost inevitable.

Maintaining public support through a period of economic hardship will not be easy. But it can be achieved, if the coalition sustains the radical dynamism that it has displayed during an excellent (and refreshing) political honeymoon.

## II. Economics – the pursuit of fiscal viability

### *“Dear chief secretary, I'm afraid to tell you there's no money left”*

Liam Byrne, outgoing chief secretary to the treasury, note to his successor, May 2010 <sup>5</sup>

#### Recessions are *never* pain-free

There is one point on which we need to be very clear from the outset, which is that **there is no such thing as a pain-free recession**, though most people in Britain could easily be forgiven for thinking otherwise.

Reported real GDP has fallen by more than 5% since its 2007 peak, yet the pain thus far felt by the majority of British people has been minimal. Providing that you have kept your job (and most people have), and that you have a mortgage (which, again, is typically the case), then you probably feel *better* off today than you did three years ago.

To be sure, wage rates have tended to stagnate, whilst the cost of living has risen. But this has been much more than offset, where mortgage payers are concerned, by drastic reductions in monthly payments. Some people have indeed suffered – most notably, savers and the elderly – but it is fair to say that, for the median British person, **the recession has yet to turn up**. Thus far, then, this has been a remarkably pain-free recession for most people. Can it stay that way?

The answer, of course - and as the new government well knows - is **'no'**. *Every* recession brings pain, either immediately or – as in Britain's case – further down the line. Quite apart from the likelihood of either a 'double-dip' recession or - our interpretation - flat-lining, the delayed arrival of the economic pain *from the original downturn* is likely to be a key grassroots issue.

Essentially, and for perfectly understandable electoral and economic reasons, the Brown government engineered a seemingly pain-free recession by staving off its consequences. Labour did this in four very straightforward ways:

1. It reduced interest rates to near-zero levels.
2. It printed £200bn of 'new' money through 'quantitative easing' (QE) (a figure which, coincidentally or – as we see it – *not coincidentally at all*) matched the CGNCR<sup>6</sup> gross borrowing requirement during 2009-10.
3. It borrowed massively, at levels equivalent to 18% of current-year GDP in the space of just two years.
4. Courtesy of this borrowing, it fended off any reductions in transfer payments, or in the scale or conditions of public sector employment.

This policy mix - which may be regarded as prudent, cynical or delusional, according to taste – delayed the impact of recession, but it carried very obvious risks, and it is, equally obviously, time-limited. Put simply, government borrowing and QE have, between them,

<sup>5</sup> *The Guardian*, 17<sup>th</sup> May 2010

<sup>6</sup> Central Government Net Cash Requirement

amounted to a staggering 32% of current GDP in the space of just two years. This is not even remotely sustainable. Indeed, **to continue with it would be the economics of the mad-house**. The coalition government has been well aware of this from the outset. Quite obviously, government cannot continue to spend 48% of GDP whilst collecting only 37% in taxes. Printing money is not a viable long- (or even medium-) term strategy.

The new government is very well aware that the pain of recession *will* arrive, in one or more of the following ways:

1. **Sharp reductions in public spending** (of the order of 25%, if the deficit were to be eliminated entirely by immediate cuts spread equally across all spending categories).
2. **Sharp rises in taxation** (an average increase of some 35%, if the immediate elimination of the entire deficit were to be tackled by this route).
3. **Much higher interest rates**, if government is unwilling to implement either of the above.
4. **Very high inflation**, if government were to continue to use QE in a way that has been tantamount to monetising borrowings.

The economic and fiscal task for the new government, then, was to select, from these unpalatable alternatives, a blend best designed (a) to make the inevitable pain as bearable as possible, and (b) to minimise any economic harm, and to maximise any economic benefits, which might result from the reform process.

### Stark choices

What are the merits of each option on the fiscal menu? On the economic criterion, addressing the deficit primarily through tax increases alone was and remains a non-starter. Despite Labour's somewhat cynical electoral arguments to the contrary, tax revenue increases of the required scale can *not* be achieved by putting almost all of the burden onto the highly-paid, because there simply are not enough of them. Raising taxes by an average of about 35% would have had drastically adverse implications for the majority of people. Worse still, it would have impacted industry very severely, pushed unemployment upwards, and impaired national competitiveness very significantly. In short, massive tax increases would have hobbled economic performance for many years to come.

Of the remaining alternatives, two can be – and, thankfully, seem to have been – dismissed out of hand. Whilst running an increased deficit can make good sense in a recession, it is not a viable long-term strategy, not least because it would inevitably drive interest rates upwards, to the detriment of mortgage payers and businesses, and, as a result, would damage the economy as a whole. Similarly, and quite apart from its inflationary implications, prolonging the QE process would make investors suspect that the government was printing money because it was running out of the genuine commodity. This, again, would push interest rates upwards.

Very logically, therefore, the new government arrived at the view that the *only* realistic fiscal option was to cut spending drastically, at the same reluctantly accepting the need for higher taxes. But by how much should spending be reduced? The answer to this question would in part depend upon the extent of any net tax increases, and in part upon the scale and pace of the deficit reduction target deemed necessary and achievable by government. The impact of spending cuts would also depend upon the time period over which any cuts would be implemented.

In its June budget, the government provided some, but by no means all, of the answers to these questions. Before doing so, however, the government introduced an extremely welcome reform, by honouring the Conservative election commitment to create an independent Office for Budget Responsibility (OBR). Henceforward, the economic projections used as the basis for the budget would no longer be decided by the chancellor but, rather, by the OBR. The creation of the OBR, which is in any case desirable on its own merits, became imperative when the Labour government began basing its budget calculations on growth forecasts which could only be believed by those who also have implicit faith in Santa Claus and the tooth-fairy. Critically, the establishment of the independent OBR will serve to give investors a significantly greater level of confidence in government fiscal projections.

The June budget needs to be regarded less as a definitive plan than as an outline statement of intent. For a start, the new government had had barely a month in which to flesh out its planned response to a situation in which – to quote outgoing chief secretary Liam Byrne – “there’s no money left”. Moreover, detailed data on spending plans will not be unveiled until the Comprehensive Spending Review (CSR) is published on 20<sup>th</sup> October.

If much of the detail on the government’s fiscal projections remains to be filled in, the general outline is reasonably clear. Over the coming five years, and in comparison with the 2009-10 fiscal year, tax revenue will increase from 36.5% to 38.7% of GDP. Meanwhile, public spending will decline from 47.5% of GDP to 39.8%. Together, these measures will reduce the deficit from 11% of GDP to just over 1% (see fig. 1).

This seems an eminently reasonable objective for a five-year term, for several reasons. First, it will bring the deficit well within the 3% ceiling which is obligatory under the Maastricht Treaty. Second, it effectively eliminates the structural component of the deficit, which is far worse in the UK than in most other developed economies. Third, debt, as a percentage of GDP, will cease to grow after 2014, because debt increments will be smaller than assumed economic growth.

Fourth – and, we think, most importantly – **the deficit reduction objective will head off what could otherwise have been a lethally dangerous exponential rise in public debt.** This is a subject that we have discussed in detail in previous research<sup>7</sup>, but the essential argument is that, with existing deficits set to be amplified by increases in age-related expenditures, **the public debt of many developed countries is in danger of getting out of control, thereby raising the spectre of a ‘debt vortex’.**

Even so, many will doubtless cavil at some aspects of the budget. First, and despite much public comment to the contrary, the budget includes very material tax increases. With the notable exception of the job-destroying rise in National Insurance, the alliance has accepted the tax rises proposed by Labour, and has added to them an increase in the rate of VAT from 17.5% to 20%. Therefore, the tax take will rise by 2.2% of GDP despite the government’s commitment to a low-tax economy.

**Fig. 1: Fiscal and debt relationships to GDP\***

As % GDP	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Revenue	36.5%	37.2%	38.0%	38.4%	38.7%	38.8%	38.7%
Expenditures	47.5%	47.3%	45.5%	43.9%	42.2%	40.9%	39.8%
Deficit	11.0%	10.1%	7.5%	5.5%	3.5%	2.1%	1.1%
Reported debt	53%	62%	67%	70%	70%	69%	67%
Treaty debt**	71%	79%	84%	85%	85%	83%	80%
Total obligations***	150%	157%	162%	163%	161%	158%	154%

\* Source: Tullett Prebon estimates, based on budget data  
 \*\* Debt on the Maastricht Treaty basis – source: budget, June 2010  
 \*\*\* Treaty debt plus estimated PFI and public sector commitments

<sup>7</sup> Tullett Prebon Strategy Notes, issue six, *Out of Control*, 12<sup>th</sup> May 2010

Fig. 2: Protected and unprotected expenditures\*

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	vs 09-10	%
<b>In £bn current:</b>									
Protected spending	£162	£170	£175	£182	£188	£195	£201	+£39	+24%
Interest expense	£31	£43	£47	£52	£58	£63	£67	+£36	+115%
Unprotected spending	£476	£484	£478	£477	£476	£480	£490	+£13	+3%
Public expenditure	£669	£697	£700	£711	£722	£738	£758	+£88	+13%
<b>In £bn 2010**:</b>									
Protected spending	£162	£165	£167	£169	£171	£172	£173	+£11	+7%
Interest expense	£31	£42	£44	£49	£53	£56	£57	+£26	+85%
Unprotected spending	£476	£470	£456	£445	£433	£425	£422	-£54	-11%
Public expenditure	£669	£677	£667	£663	£656	£653	£653	-£17	-2%

\* Source: Tullett Prebon estimates

\*\* Current equivalent calculated using GDP deflator

### An axe, or a pen-knife?

Second, how big are the cuts in public expenditures? To be sure, spending as a proportion of GDP is slated to fall sharply, from 47.5% to 39.8%. Even so, nominal spending is projected to rise from £669bn last year to £753bn in 2015-16. Adjusted for inflation<sup>8</sup>, the latter figure equates to £653bn at 2010 values, a real-terms cut of just 2.4% in comparison to 2009-10. Is a reduction of this pretty modest scale enough?

Part of the answer to this question can be appreciated from fig. 2. Within the public spending total, interest expense cannot, of course, be reduced – rather, the Treasury expects interest costs to more than double, from £31bn last year to £67bn by 2015-16. The government has committed to at least maintain real-terms spending on health and on the department for international development (DFID).

Additionally, we believe that defence spending, too, will need to be ring-fenced, not least because of the impending decision on the replacement of the Trident nuclear deterrent. As well as fighting a war in Afghanistan, Britain has committed to building two new aircraft carriers, which are hugely expensive (£3.9bn for the ships and a reported £9bn for the air wing). But the new carriers are the vital centrepiece of an essentially expeditionary defence strategy – whereas the Cold War was a primarily local (European and Atlantic) threat, the wars of the future are likely to be fought much further from home. If the carriers are cancelled (and quite apart from the loss of the huge sums already spent) the UK would surrender ‘global reach’ and would have to accept relegation to the military third division, and no Conservative government would want to preside over that. Savings can be made in other areas – such as RAF fast jets, tanks, and the MoD’s excessive bureaucracy - but the overall picture is one of higher, not lower, expenditure. This issue is likely to become clearer when the Strategic Defence Review is published towards the end of the year.

Together, health (£122bn), defence (£40bn) and DFID (£7.7bn) account for 24% of projected current-year expenditures (£697bn), a proportion which rises to 31% when projected interest expense (of £43bn) is included. The extent of this ring-fencing obviously amplifies the cuts that need to be found in unprotected expenditures.

Moreover, health and defence costs both tend to rise at rates significantly higher than reported inflation, whilst interest expense is on a secular rising trend. (In parenthesis, numerous other government, private and corporate costs *also* tend to rise at rates higher than inflation. This might lead the investor to conclude that inflation is routinely understated, an issue which we shall explore in a forthcoming research report).

<sup>8</sup> The GDP deflator is used in this calculation

As a result of above-inflation cost pressures in health, defence and debt service, the protected areas of the spending slate are likely to increase to perhaps 35% of the total by 2015-16, putting further pressure on unprotected categories. In practice, therefore, **spending in non-ring-fenced areas probably needs to decline by about 11% in real terms, a figure which can easily be amplified to over 20% for individual departments.**

Much has been made of the supposed pain which such spending cuts will inflict. We regard this argument as bogus, because of the sheer scale of past increases in public spending. In 1999-2000, government spent £343bn which, by 2009-10, would have increased to £437bn if it had simply risen in line with inflation, or £511bn if spending had moved in line with GDP. In fact, public expenditures totalled £669bn last year, a real-terms increase of £232bn, or 53%, since 2000. **We believe that the sheer profligacy of the Labour government makes it possible for the new administration to make seemingly-huge spending cuts without in any way impairing front-line services.** Indeed, we think that the government could usefully go further on the spending front than it did in the budget, and we shall await the CSR with considerable interest.

A final point to note on the fiscal front is that, as we have argued before, true government obligations are far greater than reported national debt (which equated to £753bn, or 53% of GDP, at the end of the last fiscal year). In an earlier report<sup>9</sup>, we suggested that future public sector pension commitments are probably equivalent to almost £1tn, and *the Public Sector Pensions Commission seems to agree with us*. In its recent report<sup>10</sup>, the Commission said that estimates of the outstanding liability range from the treasury's 2008 estimate of £770bn to the £1,176bn number put forward by consultants Towers Watson. "We believe", the Commission concluded, "the true figure to be much closer to the larger estimate".

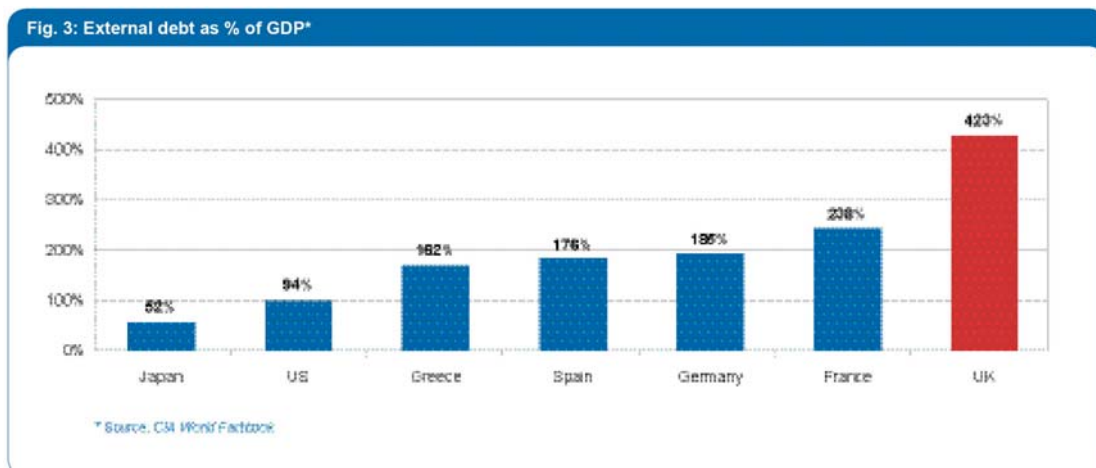
Move the computation onto the Treaty basis, include the outstanding pension obligation, and add in PFI<sup>11</sup> commitments as well, and true government indebtedness is probably about £1.86tn, or 132% of GDP. On the basis of the government's deficit reduction plans, this figure could peak at 160% of GDP in 2014.

As a further reminder that there is no cause whatever for complacency, British external debt (at \$9.1tn, or 423% of GDP) is far higher than that of either Japan (52%), the US (94%), Germany (185%), France (238%), or even Greece (162%) and Spain (176%) (see fig. 3). **The reckless property-based borrowing boom of 2000-2007, when combined with a minimal savings ratio, necessarily sucked in huge amounts of debt from overseas.** Since, in the final analysis, debts owed to foreigners are far more significant than the debts which the citizens of a country owe to each other, a sustained period of austerity seems inevitable if the UK is to begin reducing its obligations to overseas lenders.

<sup>9</sup> Tullett Prebon Strategy Insights, issue four, *Britain at the Crossroads*, April 2010

<sup>10</sup> *Reforming Public Sector Pensions*, Public Sector Pensions Commission, July 2010

<sup>11</sup> Private Finance Initiative



### III. Politics – the pursuit of reform

*“[The] British people have grown tired of the inflated, arbitrary and arrogant power accumulated by this [Labour] Government.....the slow but ceaseless encroachment of the state into their daily lives must come to an end.”*

David Davis, 12<sup>th</sup> June 2008

Thus far in this necessarily brief assessment of the coalition government’s political honeymoon, we have concentrated on fiscal issues, because these issues – and, in particular, the prospect of major cuts in public spending - dominate the current political debate in Britain. But there are broader and, we would argue, even more important challenges beyond the government’s admirable campaign to restore fiscal realism after a decade of reckless spending.

The first such issue, which is of understandable and legitimate concern to ministers, is political continuity – **does the Conservative-Liberal Democrat administration herald a fundamental, liberal change in British politics, or is it merely a parenthesis between two periods of Labour statism?**

Essentially, the challenge facing the government is one of retaining electoral viability despite an inevitable period of severe austerity. To achieve continuity, the administration needs to concentrate on three political imperatives:

1. The administration *must* remain **united** (since division, within either a party or a coalition, is electoral suicide).
2. The government needs to pursue **an agenda** which will offer the public an offset to the inevitable material austerity of the coming years.
3. Government must engineer a fundamental change in **public attitudes**, a change that is sometimes described as ‘the battle for hearts and minds’.

We could have added a fourth imperative here, which is that government needs to be prepared to counter changes in a global political and macroeconomic context which will not, of course, remain static during its period in office.

Within the domestic political scene, perhaps the single most encouraging aspect of the administration’s honeymoon period is that the administration has given the clearest possible indication that ministers are very well aware of the ‘three imperatives’ of unity, agenda and attitude. The remarks by Francis Maude, cited earlier, indicate that the government has a clear commitment to radical reform, both fiscal and social. We believe that **the formation of the alliance may well prove to have been a better electoral outcome for the UK than the return of a majority Conservative administration** – whilst the Tories give the coalition its

fiscal steel, the Liberal Democrats are the primary contributors to the necessary political agenda, which will be described shortly.

To understand how these factors inter-relate, we need to look back at the period of Labour government, a period which we regard as an almost unmitigated disaster. Writing in *The Daily Telegraph*, columnist Jeff Randall has aptly described the Labour era as a time in which “a dysfunctional clique took the United Kingdom into an illegal war, dismantled border controls, encouraged unprecedented immigration, debased educational standards, attacked the independence of our best schools and universities, botched devolution, eroded British sovereignty, pumped up a consumer debt bubble, ran our private pension system into the ground, messed up financial regulation and wrecked the country's balance sheet”<sup>12</sup>. To this impressive litany we would add that Labour governed from a position of moral absolutism (which was often inconsistent, and not infrequently hypocritical); attempted to impose an agenda which seemed to have been culled from a student left manifesto, circa 1977; and gravely undermined civil liberties, almost invariably opting for compulsion and coercion.

### The silver lining

Whilst the unprecedented deficit poses a huge problem for the coalition, the rest of the Labour inheritance has two very positive implications for the new government. First, it provides the Cameron-Clegg administration with a ready-made social agenda. Second, it is very likely to leave Labour politically impotent for a lengthy period, in much the same way as the Conservatives were politically moribund after 1997, and as Labour itself was isolated and divided during the Thatcher years.

Taking the negative half of this political calculus first, it seems that, in their ‘wilderness years’, political parties need to go through at least two, and more usually three, changes of leadership before they return to electoral viability. In September’s leadership contest, Labour seems unlikely to give the Conservatives their ‘dream ticket’ – the election of Ed Balls as leader, with Harriet Harman as his deputy, would set the champagne corks popping at Millbank – but none of the leadership candidates seems capable of distancing Labour sufficiently from the Blair-Brown years. Most of the candidates were ministers in the last government, which makes it difficult for them to put the party’s recent past behind it. Of the few politicians who really could have put Labour on the road to recovery, James Purnell has left politics altogether, Frank Field has become a “poverty czar” for the coalition, and John Hutton heads the new government’s Public Sector Pensions Commission.

Beyond the leadership election, two big challenges confront Labour. The first of these is the seemingly-inevitable public sector backlash against spending cuts, where Labour’s instinct (which is to support the public sector unions) could lead the party into a political cul-de-sac. Second, Labour may oppose the government’s reform agenda, thereby reminding the electorate, very uncomfortably, not just of low standards of conduct in the last Parliament but also of the way in which Labour favoured a *nominated* (rather than an elected) upper chamber.

The Labour party has already encountered the reform challenge over the issue of a referendum on the AV (alternative vote) electoral system. The coalition ambushed Labour - last-minute converts to AV in the run-up to the 2010 election - by neatly tacking a redistribution proposal onto the bill. This measure would equalise the size of constituencies and thus strip Labour of much of the inbuilt advantage which it enjoys with the current distribution of constituencies (which currently range in size from 22,000 electors to 103,000).

More positively, the Labour inheritance gives the coalition its political agenda, which can be described as **the restoration and enhancement of civil liberties**. This libertarian agenda is driven by the strange pairing of right-wing Conservatives on the one hand and Liberal Democrats on the other. One of the most outstanding Conservative advocates of civil liberties is David Davis, who was so concerned about the erosion of freedoms that, in June 2008, he

<sup>12</sup> Jeff Randall, *The Daily Telegraph*, 15<sup>th</sup> July 2010,

went so far as to resign his Haltemprice and Howden seat in order to fight a by-election over the issue.

The erosion of civil liberties under Labour has been well documented, most notably by Eamonn Butler<sup>13</sup>. By 2009, the UK had the greatest density of CCTV surveillance cameras in the developed world. More than 1,000 different categories of government inspector could demand entry to a person's home, for such nationally-vital purposes as the inspection of refrigerators, pot plants and waste bins. One lady was arrested, *under terrorism legislation*, for walking on a cycle path in Dundee. Another was convicted under the same legislation for reading out, at the cenotaph, the names of British soldiers killed in Iraq. A third was arrested at the 2005 Midlands Game Fair for the heinous crime of wearing a T-shirt reading 'Bollocks to Blair', and for compounding this threat to national security by *refusing to remove it (!)*<sup>14</sup>. The only saving grace of Labour's coercive approach seems to have been its incompetence, with data routinely lost when laptops and data-sticks were left on trains or in taxis.

The coalition has very astutely decided to promote a libertarian agenda led by deputy premier Nick Clegg, and launched this programme by inviting the public to suggest restrictive laws which they would like to see consigned to the legislative dustbin. Though derided by some as a bit of a gimmick, this proposal served its purpose by garnering welcome publicity for the libertarian agenda in advance of substantive issues such as the referendum on AV. It could be argued that the agenda needs to go much further, perhaps by tackling an excessive health and safety culture, introducing a fully elected House of Lords, and reforming the honours system.

Looking ahead, the reform programme is likely to mean a very full agenda. Little has yet been done to prevent the recurrence of the lethally dangerous property bubble, or to tackle the excesses of the credit culture. Few incentives have so far been put in place to encourage saving, whilst Britain's administrative and legal systems remain appallingly slow and costly.

Government also needs to plan ahead for the denouement of an exponentials-based economic model<sup>15</sup> which has reached the logical extreme of near-zero interest rates and money-printing, both of which, we believe, are indicative of a system running out of road. It will also be necessary, sooner or later, for government to recognise that terrorism can *not* be defeated by military invasion – unless the West abandons the disastrous intervention strategy launched by George Bush and enthusiastically backed by Labour, NATO troops could yet find themselves fighting unwinnable wars all the way from Pakistan to Somalia. At home, the constitutional settlements which govern relationships between England, Wales, Scotland and Northern Ireland are unfinished business. Above all, the government needs to address a gamut of weaknesses which currently hamstring the competitiveness of the economy.

Clearly, therefore, many challenges lie ahead. **But the coalition can be congratulated on making excellent use of its honeymoon, on the political as well as on the fiscal front.**



Dr Tim Morgan

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<sup>13</sup> See Eamonn Butler, *The Rotten State of Britain*

<sup>14</sup> See Butler, *op cit*

<sup>15</sup> See Tullett Prebon Strategy Insights, issue five, *Dangerous Exponentials*, June 2010

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