

# BusinessSpectator

## COMMENTARY

Published 6:51 AM, 11 Mar 2010

Last update 9:58 AM, 11 Mar 2010

OLIVER MARC HARTWICH

### No more hope or glory for Britain

The last time the Bank of England had much reason to celebrate was on March 13, 2007. It was on this day that Britain's central bankers put their stylish new £20 note into circulation, which carries on it a portrait of Adam Smith. At the time, it replaced the increasingly dated looking £20 note that had depicted Edward Elgar, Britain's most famous composer.

Sadly for sterling, though, the great economist did not turn out to be a lucky charm. Since the day that the Bank of England dropped the composer of the music for *Land of Hope and Glory*, the British currency lost much of its value – 22 per cent against the US dollar, 24 per cent against the troubled euro and even 33 per cent against the Australian dollar. That's bad enough, but much worse is to come if the country does not manage to reassure investors of its fiscal credibility.

While the [Greek crisis](#) has dominated international headlines for weeks, few commentators had paid much attention to sterling's difficulties. True, the British [growth](#) and budget figures hardly looked more convincing than Greece's, but at least there was the idea that a likely new conservative government after this year's UK general election would sort out Britain's public finances.

It was a single opinion [poll](#) in the London *Sunday Times* which reminded analysts that election results should never be treated as a foregone conclusion. The Tory lead, which had at one stage been more than 20 per cent, had shrunk to a meagre 2 points. Thanks to the UK's electoral system, such a result at the ballot box could lead to a hung parliament. It might even help British Prime Minister Gordon Brown to keep the keys to Downing Street, albeit as head of minority government – and as the most unpopular British Prime Minister of all time.

After the *Sunday Times* published its poll, sterling's fall, which had begun years earlier, accelerated ([Sterling takes a battering](#), March 2). Markets hate nothing more than uncertainty, and the feeble state of public opinion in Britain revealed a great deal of just that. Suddenly a Conservative government was almost as likely as a hung parliament, a Labour minority government, or even a coalition government with largely unknown quantities like the Liberal Democrats or even the Ulster Unionists. What any of these alternatives would mean for future fiscal policy in Britain is left to educated guesswork.

In one sense, though, the market's panic reaction to the decimated lead of the Conservative party is curious for it assumes that at least an incoming Tory administration under would-be Prime Minister David Cameron had a clear idea about how to tackle Britain's gargantuan budget deficit of £178 billion. However, nothing could be further from the truth. In the face of the greatest public finance challenge the UK has experienced for decades the oppositional Tories are as vague in their response to the crisis as the incumbent Labour Party.

The lack of a credible Conservative alternative to Labour's fiscal policy has a long history. Before the [financial crisis](#), British political debates about public finances had been framed almost entirely in terms of Labour 'investment' in public services versus Tory cuts. When Gordon Brown was still Chancellor of the Exchequer, he had successfully scared voters in the 2005 election about possible hospital closures under a potential Tory government.

To avoid falling into this trap once more, Conservative leader David Cameron promised early on in his leadership to honour Labour's spending plans, putting off any thoughts of fiscal consolidation. Although the financial crisis should have rendered these plans obsolete, it took the Tories until spring 2009 to finally withdraw their commitment to increased public spending. Yet they did not manage to spell out their alternative to Labour's spending plans, either.

Thus the Conservative Party's strategy for budget consolidation remains nebulous at best and self-contradictory at worst. For example, David Cameron ran a personal advertising campaign in January of this year under the slogan "I'll cut the deficit, not the National Health Service". Such empty rhetoric can hardly bolster his economic credentials since any attempt at reducing the deficit that excludes one of the biggest chunks of government spending will not work. In the same way, Mr Cameron has already ruled out "swingeing cuts" for his first year in office. Yet it is precisely such decisive action on the deficit that financial markets expect from the next government.

In a sense, the market's reaction to the tightening opinion polls is thus ironic. The greatest danger to Britain's long-term fiscal health does not result from the indecisiveness of the voters or the pitfalls of the electoral system. It is the lack of clarity and conviction of all parties that should worry analysts. Neither Brown nor Cameron, nor any other British politician for that matter, has so far had the courage to spell out which steps are necessary to bring the deficit under control. But with no such commitment to spending cuts or tax increases, no party will be able to claim a mandate for tough but ultimately unavoidable reforms after the election.

The stakes for Britain could hardly be higher. A return to the pre-crisis times of 'Cool Britannia', let alone Elgar's *Land of Hope and Glory* is nowhere in sight. And instead of only printing Adam Smith's portrait on their bank notes, British policy-makers should rather have read the great master. *In the Wealth of Nations* published in 1776 he wrote: "The practice of funding has gradually enfeebled every state which has adopted it. ... Is it likely that in Great Britain alone a practice which has brought either weakness or desolation into every other country should prove altogether innocent?"

The value of the bank notes carrying Adam Smith's portrait now depends on how seriously policy-makers are going to take his warning against reckless public spending.

**Dr Oliver Marc Hartwich** is a research fellow at the [Centre for Independent Studies](#).

<http://www.businessspectator.com.au/bs.nsf/Article/No-more-hope-or-glory-for-Britain-pd20100309-3CTHG?OpenDocument&src=kqb>