

## WHAT A WEEK IT WAS IN BRITISH POLITICS – NEXT WEEK COULD BE EQUALLY TURBULENT

Once the lectern was rolled out yesterday in front of No. 10, there was little doubt that one of the most tumultuous and economically damaging periods in modern British political history was about to come to an abrupt, and embarrassing, end. In a [statement](#) that lasted less than 90 seconds, Prime Minister Liz Truss admitted she could not deliver on her vision of a “low-tax, high growth economy that would take advantage of the freedoms of Brexit” and therefore could not deliver on the mandate on which she was elected. Free-market “Trussonomics,” an ideological experiment launched with great fanfare on September 23 in the form of then Chancellor Kwasi Kwarteng’s “mini-budget” and having its origins in the Tufton Street think tanks, died with her resignation. That resignation set in motion the second leadership contest within the Tory party in four months. The winner will be the fifth British prime minister in six years and the third this year. Two of this year’s incumbents will have come to power without a general election.

It is impossible to overstate the significance of the developments in British politics over the past few weeks and the febrile state of those politics. The miscalculations embedded in the “mini-budget” have been likened to the 1956 Suez Crisis. One would have been hard pressed to find, with the exception of the most ardent Brexiteers, anyone in Westminster who believed Liz Truss would last – it was only a question of time, often measured in days. The PM had hoped at the very least to make it to October 31, the date set for her new chancellor to issue his medium-term fiscal plan. By Monday, she seemed to be prime minister in name only as her new chancellor charted a path forward. The answer, crystalized yesterday, was that the resignation came 45 days after she took office (with a quiet period due to mourning for the Queen) – the shortest premiership in British history.

While Labour leader Keir Starmer has [called](#) for a general election, as have Scotland’s first minister Nicola Sturgeon and Liberal Democrats leader Ed Davey, once again, the fate of Britain is in the hands of Tory MPs and, potentially, the Tory party membership. (*See* my prior briefing note, available [here](#).)

By the end of next week at the latest, Britain will have a new leader of the Conservative party and a new prime minister. We should not, however, expect smooth sailing over the coming weeks and months. Once we get past next week, the Tories have at most two years to restore a brand that already was tarnished when Liz Truss emerged victorious from the last leadership contest – her premiership was born out of a crisis of integrity – Boris’s reputation for probity was shredded. Now, that brand suffers from a series of decisions that in only a few short weeks managed to shred the British government’s reputation for competence.

In any event, before we get to that following week, this next week has the potential to be full of surprises, not the least of which will depend on what Boris Johnson decides to do.

### **Meltdown over Two Weeks**

One could be forgiven for losing track of the announcements and reversals over the past few days. In brief, since the debacles chronicled in my briefing note of September 29 (available [here](#)):

- At the annual Tory party conference in Birmingham in early October, the PM doubled down on her intention to break out of the “high-tax, low growth cycle” undermining the

British economy, and [spoke](#) dismissively of an “anti-growth coalition” that included Labour, Liberal Democrat and Scottish Nationalist Party politicians, “militant” unions, the “vested interests dressed up as think tanks” and Brexit deniers. Her promise of further disruption did not sit well.

- On October 3, the plan to abolish the 45% tax band for high earners was scrapped as was the promise not to increase the corporate tax rate from 19% to 25%. On October 10, the chancellor agreed to bring forward publication of his medium-term fiscal plan and economic forecasts from the Office for Budget Responsibility (OBR) from November 23 to October 31.
- Last Thursday night, then Chancellor Kwasi Kwarteng left the IMF meetings in Washington, having been recalled to London. The conversation with his boss on Friday did not go well from his perspective (or reportedly, as he expected), and he was fired, making him the British chancellor with the second-shortest tenure since 1900. The Q&A at the PM’s [press conference](#) following the sacking was for many cringe-worthy. Jeremy Hunt was named as his successor.
- Late Monday morning, of what was left of Liz Truss’ economic agenda, one element after another over the course of six minutes was reversed in an unprecedented U-turn:
  - the plan to cut the basic income tax rate of 20% to 19% was abandoned;
  - the plan to offer tax-free shopping for visitors to the UK was abandoned; and
  - the planned cap on energy costs for a typical household at £2,500 for two years would be rolled back to six months and would be reviewed in the spring to provide more assistance to those most vulnerable.

Jeremy Hunt did not rule out a windfall profits tax, and stated that he envisions a combination of tax increases and spending cuts to address the £40 billion shortfall in the budget. He also announced the appointment of a four-person advisory panel to advise the government on the economy.

Liz Truss, in an interview with the BBC, conceded that mistakes had been made. This followed an apology earlier in the day to the One Nation group of Tory MPs.

- Tuesday was a quiet day – in fact, the calm before the storm.
- Wednesday, the storm hit – late that afternoon Home Secretary Suella Braverman announced she was resigning over a security breach. It was reported that, following a night in the field on a law enforcement operation, she apparently inadvertently emailed from her private email address a government document concerning immigration. Her [resignation letter](#) set out a scathing indictment of the PM, positing that “[p]retending we haven’t made mistakes, carrying on as if everyone can’t see that we have made them, and hoping that things will magically come right is not serious politics.” There may be a backstory here in that Suella Braverman is a hardliner on immigration, who reportedly clashed with Liz Truss’ belated recognition that, notwithstanding the centrality of shutting down immigration to the Brexit orthodoxy, she was prepared to overlook the perceived evils of immigration if it advanced her vision of growth. Suella Braverman became the shortest-serving home secretary since 1834.
- The PM may have weathered the storm that was sure to follow as the home secretary had the backing of the hard Brexiteers – the European Research Group. There was a sense

that Liz Truss was broadening her base by appointing Grant Shapps, a Remain and One Nation Tory MP, as the new home secretary.

However, a chaotic scene in the voting lobbies of the Commons that left Tory MPs first confused and then enraged over the actions of the whips in connection with a vote on fracking that the government ended up winning easily underscored not only the incompetence over policy but the PM's inability to control her own party. The chief whip and her team declared the vote a confidence issue, meaning those who failed to support the government risked "losing the whip." Then an announcement was made that this was not the case, and a later message indicated it was. In the meantime, there were allegations that the whips had physically shoved some recalcitrant MPs into the government voting lobby. The chief whip and her deputy were reported to have been sacked, but a subsequent announcement clarified that their jobs were intact. This was the tipping point.

- Late Thursday morning, 1922 Chairman Sir Graham Brady delivered the news to the PM that prompted her resignation shortly before 1:30 pm. Incidentally, a YouGov [poll](#) found that only 2% viewed her as a "great" or "good" prime minister – 64% had rated her "terrible." Overall, 79% believed she was right to resign.

The irony is that this was all unnecessary – like the Brexit project itself, an "own goal." During the summer leadership contest, candidate Liz Truss clearly telegraphed an intention to cancel the planned increase in national insurance contributions and in corporation tax. These policy pronouncements, together with her proposed energy price cap, would have been a safe and respectable way to kick off her premiership. Instead, ideology led her and her chancellor to go to war against orthodoxy. The unfunded tax cuts were bad enough, with market concerns exacerbated by the absence of any economic forecasts from OBR. (By labelling the September 23 announcement as a "fiscal event," the PM had taken the position that OBR did not need to be consulted. The markets obviously did not agree.) But as Larry Elliott writing in the Guardian eloquently put it, paraphrasing the Bobby Fuller Four in reference to Kwasi Kwarteng, "I fought the orthodoxy, and the orthodoxy won." The warnings came in fast and furious, and not just from the "anti-growth coalition," unless by then that term encompassed all but the ardent free-marketers. And then came the reaction. The mini-budget crashed the pound and turbo-charged borrowing costs.

### **The Process**

The hope is for the emergence of a unity candidate to avoid another divisive and drawn out process. Under new rules set by the 1922 Committee and designed to truncate a process that this summer ran for nearly two months, the contenders have until 2:00 pm Monday afternoon to round up support from at least 100 of the 357 Tory MPs to be eligible to run. If only one candidate reaches the 100-MP threshold, he or she automatically becomes the new leader of the party and the PM. Despite reservations of extending the final round to a vote of the membership, if there is more than one who reaches the threshold, there will be a vote of the membership. Last summer, Rishi Sunak, Penny Mordaunt and Liz Truss each received more than 100 votes.

The new chancellor Jeremy Hunt has said he will not run. The defence secretary Ben Wallace and Michael Gove also ruled themselves out. Penny Mordaunt has confirmed she is running, and Rishi Sunak can be expected to run. Boris Johnson may also run, though he is a deeply divisive figure among Tory MPs (although he would have significant backing from the membership) and still faces an inquiry before the Commons Privileges Committee as to whether he misled

Parliament over “Partygate.” His potential comeback is dominating the headlines tonight. Trade Secretary Kemi Badenoch and now former Home Secretary Suella Braverman may also join the race.

Consensus may prove illusive in that the Tory party is riven by oft-documented factionalism and united only in the desperate quest to remain in power and avoid a general election.

### **The Poisoned Chalice**

One insider likened the Truss government to a coalition – with the markets being an unwelcome third partner. Even if the Tories can agree on a unity candidate by the end of next week, and notwithstanding reversal of substantially all of the “mini-budget,” the divisions are stark and the markets are spooked. Britain faces a recession, rising interest rates and inflation exceeding 10%. Many in Britain will face spiralling energy costs and higher mortgage costs. To repair the damage to the economy and to Britain’s reputation, the outlook is likely to be one of a return to austerity to control public spending. Whichever governments follow in the short term, the legacy of the Truss government will be a cautionary tale.

At the same time, there are a host of other issues to contend with, including the war in Ukraine (though perhaps the reference should be broadened to Russia’s war with the West, but that is for another briefing note), the many unsettled matters arising from Brexit, not least of which is the fate of the Northern Ireland Protocol (although in recent weeks the level of positive engagement by the UK government with the European Union has been encouraging), and the need to develop and implement a new policy on energy and address existential climate change issues.

Today, both gilts and sterling remain under pressure, perhaps as [reported](#) by the Financial Times, because of concerns over the possible return of Boris Johnson.

This will be an uncomfortable period for the government. Polling is a disaster for the Tories – Labour leads by well over 30 percentage points. YouGov polling [shows](#) voting intention (October 20-21) at 56% for Labour and 19% for the Tories. PeoplePolling [reports](#) a delta of 39 percentage points. Sonnet Frisbee, of Morning Consult, [reports](#) that, between the end of August and early October, the share of British adults who believe the country is economically unstable has seen its largest month-over-month increase in two years at 9.4 percentage points – 69% strongly or somewhat disagree with the statement that Britain is economically stable. Only Italy has a higher percentage.

There are different schools of thought on an early election. The Tories today have a 71-seat working majority. Logic might dictate that if Tory MPs will in any event end up in electoral wilderness for five years, why wait two years and then lose the election? Why not start now, recognizing too that the scale of the damage to the economy and reputation is enormous, and why not saddle Labour with the burden? Though two years might make a difference, if not for the headline victory, then for the size of a Labour majority and its ability to remain in power for a full parliamentary cycle. As the veteran pollster Peter Kellner [noted](#) yesterday, “[a]ll in all, the Conservatives’ fate at the next election is pretty well sealed. But the destiny for Britain in the second half of the 2020s is still to play for.”

### **Concluding Thoughts**

There are a number of lessons to consider. Liz Truss questioned the independent mandate of the Bank of England and attacked the orthodoxy of the Treasury. Her removal of Tom Scholar as

permanent secretary to the Treasury on her first day in office set off alarm bells across the markets. This war on experts and orthodoxy did not end well; Britain is far worse off because the warnings were not heeded. Rishi Sunak had labelled the key elements of Trussonomics – “borrowing your way out of inflation” – as a “fairy tale,” for which he was branded a fear-monger, the same accusation levelled at Remainers who questioned the economic wisdom of leaving the single markets and customs union.

Another lesson is that ultimately there must be a reckoning when a political party is at war with itself. The Tories have been in power for 12 years and during that time they have had four prime ministers and seven chancellors.

The events of the past few weeks also call into question the relationship between business and the party of business, or at least what used to be the party of business. The tale of Brexit is one of a decoupling of the Tories and business, with so many lamenting the failure of team Brexit to listen to the voices of caution among business leaders. Fast forward to September, it is hard to imagine why business would have cheered the “mini-budget” and why some failed to see the looming political and economic crises that came so quickly and forcefully to pass, or said another way the economic consequences of flawed political decisions that upended political stability. In addition to the hit to the UK’s reputation for economic competence and the related impact on confidence in the UK economy, businesses, particularly small business owners, have the more tangible and immediate concerns of higher costs to service debt, the impact of submerged sterling and uncertainty regarding the phase-out of the energy cap next March.

Will there be a recognition of the role that Brexit has played in exacerbating a series of issues that all of the major economies are facing? OBR has estimated that the hit to UK GDP caused by Brexit would be 4%. While the foreign press has made the connection between this week’s political turmoil and Brexit, no one – including Labour – seems prepared to address in a formal way whether Britain should regain access to the EU single market or customs union. This may well be the time to do so, though if Britain is facing a Boris 2.0 government, a reckoning may be off in the distance.

And, finally, there are the demands of a democracy, an essential element of which is political participation. Liz Truss did not have a mandate from the British people, and neither will her successor. In an environment where political stability is in play (today’s [announcement](#) by Moody’s that its outlook on the UK government has changed to “negative” is prompted in part by concerns over political instability), will the anger of the voters ultimately prompt the Tories to call a general election sooner rather than two years from now when they will be required to? (One [petition](#) has garnered over 800,000 signatures as of tonight.) History suggests it will not.

There is plenty more to unpack, but in the meantime there is little reason to believe that next week will not be as eventful, and tense, as this week.

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