

## **LIZ TRUSS TO BECOME BRITISH PRIME MINISTER TOMORROW - AT A TIME WHEN BRITAIN IS A COUNTRY IN TURMOIL FACING MULTIPLE CRISES**

Liz Truss has won the Conservative and Unionist Party leadership contest to lead the party and thereby will become Britain's next Prime Minister. She [won](#) 81,326 votes among party members to Rishi Sunak's 60,399 after a rancorous seven-week election contest triggered by the resignation in early July of scandal-plagued Boris Johnson (see my previous briefing note, available [here](#)). She will meet the Queen tomorrow at Balmoral Castle and will be invited to form a government. She will then announce her cabinet. The victory was widely expected in recent weeks, though with a wider margin.

Today's announcement is a watershed moment. Liz Truss will be the third Tory prime minister to be chosen mid-session since party members were given the right to have the final say in a Tory leadership contest (introduced in 1998), but she is the first prime minister to win a leadership contest who was not the clear preference of the parliamentary party (the Tory MPs). She is the fourth Tory prime minister in just over six years.

Traditionally, when British prime ministers resigned during a session of parliament (rather than losing in a general election), the successor was chosen by the ruling party's MPs. James Callaghan and John Major were chosen this way. The Tories broadened the process to give their party members the opportunity to vote among the final two to make it through successive rounds of voting (Labour had done the same in the early 1980s). Gordon Brown, Theresa May and Boris Johnson were chosen mid-session, but Brown ran unopposed, and May's opponent withdrew. Johnson was the first to be chosen in a run-off, but he had the dominant support among the Tory MPs during the leadership contest. This summer, Rishi Sunak was the clear favorite among the parliamentary party. Liz Truss had the support of 50 of the 357 Tory MPs in the first round (14%, compared to Rishi Sunak's 113 votes), and by the final round, having edged out the second favorite Penny Mordaunt, she received the support of only 113 MPs (32%). (See [BBC tally](#).) That set the stage for the run-off – 12 hustings culminating in the announcement today and trip to Balmoral tomorrow.

So Britain now will have a PM who was neither the favorite of the Tory MPs nor of the rest of the country.<sup>1</sup> The new government assumes power in the face of a host of domestic and foreign policy challenges, and will face these headwinds with a parliamentary party that does not necessarily support her, and with Boris Johnson and Michael Gove on the backbenches.

### **Political Chameleon**

A number of commentators have described Liz Truss as a political chameleon. She is the longest serving member of the cabinet, having served eight years under Cameron, May and Johnson, in six different roles. Most recently, she served as Foreign Secretary, and (in contrast to Rishi Sunak and Sajid Javid) she did not turn on Boris Johnson and join the rebellion that led to Boris' resignation.

The daughter of left-wing, anti-war parents, she started out her political life as a Liberal Democrat, and championed liberal causes, but after studying at Oxford she became a Conservative. She became an MP in 2010, and emerged on the public stage as a co-author (together with the fellow MP she is likely to name as her chancellor, Kwasi Kwarteng) of "Britannia Unchained." Until the referendum produced a win for the Leave campaign, she was a Remainer. She then seized the opportunity to swing far to the right, and became a zealous, hard-line Brexiteer. While she sought to distance herself

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<sup>1</sup> According to a YouGov [poll](#) taken today, 50% of Britons are "disappointed" Liz Truss won, including 33% who say they are "very disappointed"; 34% of Conservatives say they are "disappointed" including 15% who say they are "very disappointed." On the question of the ability of the new government to tackle the cost-of-living crisis, 67% overall, and 54% of Conservatives, have little to no confidence it can do so.

Opinium [polling](#) published by the Observer shows that while 49% of those who voted Tory in 2019 believed Truss looks like a PM "in waiting" at the beginning of August, by the end of August 31% had that view. On the issue of competence, at the beginning of the month 55% felt she was competent, which dropped to 35% by month-end.

from Margaret Thatcher by denying the similarities, the subtle actions were very much the Iron Lady's. She is the closest manifestation of free-market Thatcherism to emerge in Britain in 31 years.

Liz Truss takes over with a general election at most two years and three months away (she implied today there would be no early election). In order to hold on to power (and continue now 12 years of Conservative Party governance) she will have to rescue the tarnished image of the party, while confronting:

- surging inflation (expected by the Bank of England to reach 13% by year-end);
- spiralling energy costs (the energy price cap on so-called “default tariffs,” introduced in 2019, of just under £2,000 as of April 1 increases 80% on October 1 to £3,549; it was £1,138 one year ago and is forecasted to jump well above £3,549 next year) and spiralling food prices;
- a possible recession;
- a health service (NHS) that is in crisis largely due to the effects of the pandemic (that crisis confronts other public services as well);
- growing industrial unrest; and
- an urgency to confront the climate crisis.

Compounding all of this is the overlay of Brexit, which presents both a domestic challenge as well as a foreign policy challenge. By appealing to the Tory base (which was overwhelming represented among the members who voted in the leadership contest – approximately 172,000 were eligible to vote; approximately 142,000 voted – around 0.03% of the electorate), she also risks irreparable damage to the union, and particularly as it concerns Scotland's future role in the union. (*See my previous briefing note, available [here](#)*).

As the terms of the last three Tory PMs were cut short – they either resigned (Cameron) or were forced out (May and Johnson), pulling together the disparate parts of her party will be crucial to her own occupancy of Downing Street. That party is far broader ideologically than the 142,000 party members for whom low tax, small government, a hard line on Brexit and culture war wedge issues resonate. She will need the support of the parliamentary party to govern, and in contrast to a PM that wins following an election, she has no “election manifesto,” which means that, under the Salisbury convention, the House of Lords is not bound to defer to the Commons on a second or third reading of a bill expressly mentioned in the manifesto.

## **Taxes**

The dominant campaign message throughout the leadership contest was tax cuts (funded largely by borrowing) and a scepticism of “handouts” to help ease the pain of rising energy costs that many simply will be unable to afford. It is hard to overstate how dire the economic situation may be, come winter. Liz Truss has said she will pursue a policy of lowering taxes to stimulate growth, rather than seek to reduce economic inequality. She has said she intends to reverse Rishi Sunak's increase in national insurance contributions and temporarily suspend the green energy levy. Her reversal of the increase in national insurance contributions is expected to be far more beneficial to higher-income households. Her approach very much resembles Ronald Reagan's trickle-down economics. Rishi Sunak was scathing about her prescriptions for addressing the economic headwinds buffeting Britain.

## **Regulatory Reform**

The new PM is likely to adopt a Thatcher-Reagan approach to regulation. She has talked about consolidating some regulatory agencies, and has focused on reforming Solvency II capital requirements for insurance companies and MiFID II – both EU regimes retained in domestic law. She has promised to scrap by the end of 2023 all remaining EU regulations that were carried over into domestic law following Brexit (the so-called retained laws), including employment and environmental protections. A government review found over 2,400 retained laws across over 300 separate policy areas. Experts and union leaders believe this would be hugely difficult to achieve in short order. Also,

divergence from EU legal and regulatory regimes could have profound negative effects on businesses and others at a time when Britain can ill-afford those pressures. It is unclear how she will tackle the perennial problem of low productivity in Britain.

### **Legacy of Boris**

Boris Johnson is down but not out, and is reported to be plotting his comeback. During the hustings process, Boris' popularity among the base figured prominently in media reports. He choose not to run in the contest.

It will be interesting to see who Liz Truss appoints to her cabinet. In recent weeks there were reports of concerns over potential appointments of Boris Johnson allies, who might stymie the ongoing investigation before the Commons Committee on Privileges and Standards into whether Boris misled parliament over the Downing Street lockdown parties. If she is to unite her party, she will have to balance the loyalists with less hard-line members.

### **Foreign Policy**

The new PM relishes playing in the foreign policy arena, and the invasion of Ukraine handed her an ideal opportunity to stake out hawkish positions on Russia. She sees world conflict through the prism of the need to reverse the west's complacency, dating back to the end of the Cold War, in standing up for its values (*see* her [Atlantic Council speech](#) – March 2022). She has supported taking a hard-line on Russia over Ukraine and thinks the west needs to take a harder line on China. As Britain heads into a potential 2022 winter of discontent on spiralling energy prices, it is unclear how she will finesse the energy component of the hard-line taken against Moscow. Her steadfast backing of Ukraine may well come under pressure as energy costs spiral, in large part due to the war.

According to reports, conversations last month between Secretary Blinken and his British counterpart were fraught. She reportedly questioned the US-UK special relationship, citing the lack of benefits flowing of late to Britain from the United States. She has been viewed as blunt and prone to staking out aggressive positions without leaving much room for nuance, let alone a fallback.

The first flashpoint with the United States, as well as with the European Union, will likely come over the Northern Ireland Protocol (*see* my previous briefing note, available [here](#)), where Liz Truss has carved out a maximalist position that not only violates international law but also imperils the Good Friday (Belfast) Agreement. She took the lead on the Northern Ireland Protocol Bill as it wound its way through the House of Commons over the summer.

In a [statement](#) released in May, Speaker Pelosi found British efforts around the Protocol to be “deeply concerning.” Liz Truss, during a hustings Q&A in mid-August, had a blunt reply, “I took on responsibility for negotiating the Northern Ireland protocol, and against a lot of advice in Whitehall and against the wishes of some of the people that you've mentioned - and I have been very clear with people like Nancy Pelosi exactly what I think about this and exactly what we need to do - I have got on with delivering this.” Incidentally immediately after this statement, she stated, counter to the view of most legal scholars who have addressed the issue publicly, that the Northern Ireland Protocol Bill is “*absolutely legal* because we need to do it in order to restore the primacy of the Good Friday (Belfast) Agreement” (emphasis added).

If getting a free trade agreement with the United States in the next two years is a priority for the British government, this is not the way to go about doing it. This suggests a failure to grasp nuance and a failure to read the room. The US concern over the Protocol dates back to Speaker Pelosi's warning to then Prime Minister Theresa May in April 2019, and then reiterated in Dublin a few days later. Undermining relations with the European Union and proceeding with the Northern Ireland Protocol Bill could prove highly controversial, and counterproductive. From a US political perspective, while Liz Truss may appeal to Republicans, her position on the Protocol puts her very much at odds with the Democratic leadership and the Biden administration.

The new PM may yet feel emboldened to take action that her predecessor declined to do, namely invoke Article 16 of the Protocol. Britain has until September 15 to respond to legal proceedings brought by the European Union against Britain for failing to properly implement border checks at the Irish Sea. The proceedings were launched in response to the introduction of the Northern Ireland Protocol Bill. Those concerned that she may trigger Article 16 cite the move as possibly temporary while the Northern Ireland Protocol Bill continues to be debated in Parliament.

At the August 25<sup>th</sup> hustings, in answer to a question, Liz Truss responded that the “jury’s out” on whether President Macron is an ally, prompting the French President to respond, “[i]f the French and British are not capable of saying whether we are friends or enemies - the term is not neutral - we are going to have a problem.” Her comment added to the considerable tensions already built up between the British and the European Union over Brexit, and was likely received in Moscow as a sign that the coalition aligned against Russia is vulnerable.

Her position on the Protocol may be more about domestic politics than principle (after all, she started out as a Remainer). A hard-line on the Protocol keeps Brexit alive, which was critical to creating the red wall-blue shires coalition that produced a close to 80-seat majority in the Commons in the 2019 general election. But it may also reflect a deep desire to be a disruptor.

### **Concluding Thoughts**

In observing the debates and policy pronouncements during the past seven weeks, one would be hard pressed to know that Britain is facing a massive cost-of-living crisis and a tsunami of energy bills for businesses and households alike. During these past seven weeks, the problems have worsened significantly. Those energy bills will likely turbo-charge inflation. Government intervention will be necessary, similar to pandemic relief. At the same time, the strain on the NHS must be addressed, and it too was hardly mentioned in the debates. Liz Truss has [ruled out](#) fuel rationing this winter (despite concerns over winter blackouts as fuel supplies dwindle) and an energy company windfall profits tax. And she has [promised](#) no new taxes.

Liz Truss will need to mobilize in the face of scepticism from the parliamentary party and potentially from Tory voters (of which the party members who elected her are a tiny fraction), as well as the internecine damage inflicted by a divisive leadership contest. August polling also saw the Labour lead widen over the Conservatives (43% to 28%, the largest lead for Labour since 2013, according to [YouGov](#)). The new PM will also be looking over her shoulder at her predecessor, Boris Johnson.

As for foreign policy, for some time now, and not just over the period 2016-2020, it was generally said of the United States that the key to its global strength lay in getting its domestic house in order. Secretary Blinken spoke last summer of “domestic renewal as a foreign policy priority.” The same is true for Britain. Britain needs to get its house in order, and that will require tough choices and effective leadership, starting with her own party. While crisis responses on rising energy bills and looming fuel supply shortages are expected to be announced in the next week, the past seven weeks have yielded virtually no details on how the ever-increasing headwinds will be addressed. And Boris has been largely AWOL. The rest of the world has delivered its verdict by dumping sterling – the pound is now languishing at \$1.15. Britain can ill-afford distractions over Brexit-inspired fights with the European Union or the United States. As Liz Truss pointed out in her acceptance remarks today, she has two years to deliver.

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