

Facing Facts about Britain's Budget

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George Orwell once wrote that the best way to tackle a problem was to get up in the morning and simply “Face it.”

Philip Hammond, the Chancellor of the Exchequer, clearly took a page out of Orwell’s playbook this week delivering a budget that looked squarely at the facts of Britain’s diminished economic standing; presenting a no-frills, sober assessment of the future trajectory of the British economy and the future capacity of Britain to pay for the investment and services that it wants.

Two issues stood out; growth and productivity.

The Office for Budget Responsibility, has taken a knife to the outlook for British growth. As recently as October, the IMF published its World Economic Outlook which put UK growth at between 1.6% and 1.7% p.a. between 2017 and 2021.

The OBR has shaved those numbers by between 9.42% and a staggering 24.33% in 2020 when the economy is expected to grow by 1.3% as compared to the IMF forecast of 1.7% for the same period. In a £2 trillion economy, these numbers translate into significant reductions in tax revenues and therefore into meaningfully lower spending or higher borrowing.

According to the World Bank, the UK economy was smaller at the end of 2016 than it was in 2007. Ten lost years.

The principal culprit for this entrenched problem seems to lie in the total failure of UK productivity to recover its pre-crisis trend growth rate of around 2% per annum. There has essentially been no recovery in productivity growth at all. Consequently, the UK is simply not creating wealth as efficiently as it has in the past and, as wage growth is a function of productivity, wages have stagnated.

However, whilst Mr Hammond may not be the ideal dinner companion, he is very obviously a clear-eyed realist who is quite willing to face disquieting facts. Perversely, this is one reason to be more optimistic about the future than a cursory reading of figures such as those cited above might allow.

In the stockmarket the saying goes that “everything has a price.” Expectations are key, which is why when a “growth” stock suddenly goes “ex-growth” the price reaction can be sudden and dramatic. Equally, bad news that is better than the bad news expected can frequently result in a share price rally often counter-intuitively.

What Philip Hammond managed to achieve this week was to embed much diminished expectations into the trajectory of official policy. He has reset “investor expectations.”

In the parlance of the stockmarket he has, just perhaps, turned UK Plc from a “growth stock” into a “value stock” and as Warren Buffett would attest, that is not always a bad thing.

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