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Trickle down or bottom-up economics? It's the wrong question

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Our new Prime Minister and Chancellor want to change things for the better. Their economic policy is naturally a little un-fleshed, but the skeleton of the programme is visible; it is a return to a Thatcherite or Reaganite past informed by Hayek, Friedman, Keith Joseph and Enoch Powell, the latter two described as "very great men" in an interview with Mrs Thatcher in 1996.

Mrs Thatcher's Chancellor, Nigel Lawson, described Thatcherism as, "a mixture of free markets, financial discipline, firm control over public expenditure, tax cuts, nationalism, "Victorian values," privatisation and a dash of populism." The politics of the "Road to Serfdom" with the economics of "Capitalism and Freedom."

Ms Truss is likely to diverge from her mentor only in one important respect: control of the public finances, albeit in the short term.

The energy crisis has forced the new prime minister to cap energy bills by recourse to the public purse. Current estimates put the costs of the energy cap in the same ballpark as the Covid pandemic. Consequently, the national debt will continue to rise to significantly more than 100% of GDP.

Ms Truss has a further problem in that, not unlike Mrs Thatcher, she inherits severe inflation which is driving interest rates and the costs of servicing debts much higher. Indeed, one quarter of the national debt is index-linked.

Getting inflation down will, therefore, be a key priority for this or, any other government.

The strategy has been described by the new government as "going for growth," and the basic premise of Ms Truss's policy programme is that lower taxes combined with low regulation will raise UK growth. It is a reformulation of the "trickle-down" economics of the Thatcher/Reagan period.

There is contradictory evidence that less regulation actually increases growth, and there is also little evidence that lower taxes always raise growth. It depends on where you start from in reality.

The other problem with the strategy is that by rich economy standards, the UK is already a relatively low-taxed economy. One of the achievements of the Thatcher/Lawson government was to introduce and effect a lower tax burden that has persisted to this day. In 1979, the basic rate of income tax was 33% and higher rate was 83%; by 1990 they were 25% and 40%. Today, basic rate tax is 20% and the higher rate remains at 40% for incomes up to £150,000 (45% thereafter).

At Tacit we do not forecast which economic policy is best; that is a puzzle many brighter minds have attempted to solve. Our analysis is focussed on how current assets and their prices, be they low or high, could benefit from the changes in the world moving forward, created by new leadership and innovation. We do not see it as our role to agree or not with government policy, but we must be flexible enough to take advantage of opportunities thrown up to generate positive real returns for our clients over the medium term.

performance is not a guide to future results, and the value of investments can go down as well as up.