

The Economy – A Personal View

Everyone is trying to avoid getting into detail on the economy but the fact is that we are in deep trouble.

In order to bail out the banks Labour borrowed £ 178 billion. The government sold its debt to domestic and mainly overseas investors to achieve this.

Then Labour had a really good idea. We would create £ 200 billion out thin air and use it to provide liquidity in the market by buying corporate bonds from banks and other institutions which held them thus releasing much needed cash into the market which could be used to re-finance commerce thus staving off the crisis. Needless to say this is not quite what happened. Instead of using it to buy corporate debt and so creating liquidity – it was used to buy the governments own debt which it could not sell to a saturated market which was reeling from a flood of government paper from the Western world. Thus the government achieved the sleight of hand which enabled it to create money to provide funding for itself while pretending that it was actually creating money to prime the economy. How they are going to unwind that one I'm not sure.

We have an ongoing tax shortfall of some £ 60 billion per annum due to the economic downturn and the loss of tax revenue from the banks.

Just to make our budget balance the Chancellor will have to increase taxes by 12 p in the pound. Impossible you might say? **I AGREE!** So what is the alternative. You cut costs by laying off hundreds of thousands of local and national government workers? You stop buying goods and services? You disband the armed forces?

I have some suggestions:-

1. Cancel Trident – Save £ 100 billion
2. Abolish the House of Lords – Save £ 100 million
3. Cancel ID cards – Save £ 5 billion
4. Abolish the Scottish Office – Save £ 10 million

Am I going anywhere on this?

The reality is that whichever government comes to power after the election they have only one genuine choice. INFLATION! Something we have not seen for a very long time. When the Tories under Thatcher came to power in 1979 they loosed inflation which rose to some 23%pa. The result was that they depreciated government debt and brought the real value down to something manageable. Personal debt was brought back under control by the same means.

However, those with savings; fixed incomes; pensions; small investments; were frankly screwed.

Scotland has a third way. We actually run an acknowledged budget surplus which in the 3 years to 2007/8 totalled £ 2.3 billion. As an independent country we would have to take on our share of the National Debt – but we can afford to service it without resorting to inflation as the easy way out.

For the present I would call on either the Tories or Labour while they are working on their combination of budget cuts and tax rises to consider the vulnerable in our society and the impact on them.

Gordon Brown, while Chancellor of the Exchequer, famously announced the end of boom and bust only to preside over the most catastrophic financial crisis to hit the world in recorded history. We are far from out of the woods and none of the London based parties are admitting to what will really be needed to sort this out. They argue about peripheral tax rises such as National Insurance while avoiding the debate on the big issues.

Watch this space.