

Newsweek

How Liz Truss' Libertarian Experiment Crashed and Burned in U.K.

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After only 44 days in power marked by political drama and market chaos, Liz Truss resigned as U.K. prime minister on Thursday, with a 90-second speech that briefly and dryly acknowledged that, "given the situation," she couldn't "deliver the mandate on which she was elected."

In the six tumultuous weeks that have followed her rise to power, which included the death of Queen Elizabeth II, Truss tried to bring to life the libertarian dream of tax cuts and trickle-down economics that she had pledged during her campaign, only to see this same dream crash and burn when it met with the harsh reality of the current economic situation.

Inspired by Reaganomics, the free-market policies adopted by Ronald Reagan in 1980, Truss wanted to unleash economic growth in the U.K. through tax cuts for the wealthy and deregulation. She described anyone who criticized this plan as part of the "anti-growth coalition."

Critics have said that many right-wing, libertarian think tanks have been trying to push their agenda into Downing Street for years, and Truss becoming prime minister finally gave them the chance to try their ideas out.

Among them is the Institute of Economics Affairs (IEA), a free-market think tank with links to both Truss and her former Chancellor of the Exchequer Kwasi Kwarteng. The prime minister's government was a chance to turn the U.K. into a laboratory for the group's ideas, wrote conservative journalist Tim Montgomerie.

"A massive moment for [the IEA]. They've been advocating these policies for years. They incubated Truss and Kwarteng during their early years as MPs. Britain is now their laboratory," he wrote in a tweet.

Truss took the chance to bring in policies that such think tanks had been advocating for years.

"She primarily thought that economic growth in the U.K. had been extremely low and that bad policy was the cause of that," Ryan Bourne, policy scholar at the Cato Institute, a think tank promoting libertarian ideas in policy debates, told *Newsweek*.

"And really she wanted a two-pronged approach to dealing with that. She wanted to cut a bunch of tax rates, or at least in some cases, avoid raising taxes, which was what the plan was under the last chancellor. She wanted to freeze corporation tax at 19 percent. She wanted to trim interest income tax rates. She wanted to cut the Social Security tax that had just been increased.

"But then she wanted to combine that with supply-side reforms: she wanted to make it easier to build houses. She wanted to increase the U.K.'s energy supply through fracking and more wind capacity, wind turbine capacity, and more North Sea oil exploration. And she wanted to review environmental laws to make it easier to build infrastructure."

Bourne thinks that all of "those things make sense from a microeconomic perspective," but Truss' policies didn't go according to plan because "the problem for her, and what ultimately caused her downfall, is that she went too far cutting taxes without cutting spending or restraining spending."

When Kwarteng announced tax cuts on September 23 as part of his mini-budget, which he said would be funded by future debt, the market went into a frenzy.

"The budget deficit was already forecast to be about 4 percent of GDP, and the previous years it had been considerably higher because of pandemic spending and it had never really been brought down since the crisis of 2008. So the public finances were in a delicate state," Professor James Foreman-Peck of Cardiff University told *Newsweek*.

"And so it's hardly surprising that if you have a policy that's intending to push the budget deficit up from 4 percent to at least 8 percent of GDP, the markets are going to panic—and that's what happened."

As investors went into a panic, expecting the prices of bonds to go down and interest rates to go up, the Bank of England had to make a rare intervention to stabilize the price of government bonds.

At the same time, the value of sterling slumped to a record low compared with the U.S. dollar.

"Markets took fright at the sheer scale of borrowing," said Bourne. "And as a result of that, government borrowing costs spiked dramatically, which would have raised people's mortgage payments and had a whole range of other consequences."

The economic policies of Kwarteng and Truss were harshly criticized by the Labour opposition at home, but also by the International Monetary Fund (IMF), which asked the chancellor and the prime minister to backtrack on their decision. It had already forecast a slowdown in the country's growth from 3.6 percent this year to 0.3 percent in 2023.

Senior bankers at the Bank of England, which was forced to intervene three times to stabilize the pension market, openly blamed the government for the panic raised among investors.

As a result of the chaos generated by the chancellor's new policies, Kwarteng was sacked last week and replaced with the more conciliatory Jeremy Hunt, who immediately reversed almost all the measures introduced by Truss and Kwarteng.

Foreman-Peck said Truss' and Kwarteng's libertarian dream collapsed because "it was a fantasy."

"President Reagan tried this sort of thing and it didn't work," Foreman-Peck said.

"And, arguably, Edward Heath in the early 70s tried a similar sort of exercise that you pump up spending enough, you think the world will change for the better instead of for the worse, and all the evidence suggests that it doesn't."

Did Reaganomics Fail in the U.K.?

What the collapse of Truss' libertarian dream has shown is that Reaganomics didn't quite perfectly translate into Trussonomics, said Bourne.

"I think Truss was inspired by Reaganomics, but unfortunately the U.K. doesn't have the dollar as a reserve currency," said Bourne, laughing, "so is less able to just cut taxes and not worry about the deficit, and that ultimately was the problem."

"[Truss] wanted to cut taxes for borrowing and spend vast, vast amounts subsidizing people's energy bills," he said. "And that was just too much for markets to bear."

That is pretty much what David Stockman, Reagan's director of the Office of Management and Budget until 1985, said about the U.K. talking to *The Times* in early October.

"Little England should stop trying to throw its weight around in the world, because it doesn't amount to much," he told the British newspaper.

According to Stockman, Truss' policies failed not because of the tax cuts, but because the country couldn't pay for those cuts. The economist said he was surprised that after 40 years since Arthur Laffer drew his Laffer curve in the back of a napkin in 1974, saying that tax cuts can increase government revenue and thereby pay for themselves, "there is a conservative faction in the Western world that still believes that complete nonsense."

Laffer himself, in early October, was convinced that Truss' policies would have brought higher growth to the U.K. It's not clear what he thinks now, but *Newsweek* has reached out to him for comment.

Is This The End Of Libertarianism In The U.K.?

Bourne believes the fall of the Truss premiership has "certainly harmed" Britain's prospects of introducing new libertarian policies any time soon.

"I think that it will be extremely difficult in the near-future to advocate for tax cuts without first outlining how you are going to make up for the revenue or which spending you are going to cut," he said

"Ultimately, libertarians should care about the footprint of the state in terms of spending, so if it leads to more focus on restraining spending, that might be a good thing for libertarian politics in the long run," Bourne added.

Most importantly, the vulnerable state of the Conservative Party in the U.K., with the Tories trailing far behind Labour in polls, has cast serious doubt in the near-future on the kind of non-tax, supply-side reforms proposed by Truss and Kwarteng.

"So, yes, it has harmed the prospects for tax cuts and deregulation," said Bourne. "It may have improved the prospects a bit for restraining spending."