

I'm Afraid There's No Money!

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The recent four fiscal reports from the Treasury under the new stewardship of Rachel Reeves recall what is said to be the most expensive joke in British political history. In 2010, Liam Byrne (then Chief Secretary to the Treasury) left a note to Philip Hammond, the incoming Chancellor to effect that “I’m afraid there’s no money.”

Of course, it wasn’t true then and it isn’t true now.

We tend to forget that although the British economy is dwarfed by the likes of the US, China and increasingly India, we are still a 3 trillion-dollar economy.

In 2020, the UK accounted for some 17% of the European economy with only Germany being significantly larger. Recent updates to the OECD’s long-term growth forecasts for the major world economies, somewhat surprisingly but rather positively, show the UK growing rather more quickly than most of continental Europe, including Germany. Out to 2060 only Sweden and Ireland are expected to exhibit stronger growth.

By that date, when the current crop of grandchildren is at the peak of their jobs and careers, the OECD estimate that the UK will be just short of a six trillion-dollar economy and at 19%, generating a slightly larger share of European output than it does today.

Whilst global hegemony belongs to Britain’s past, the sheer depth of its human and capital resources should permit a resumption in the rise in the living standards enjoyed by the “boomer” generation of the 1950s and 60s and in so doing heal some of the divisions so visible in the events of recent weeks. Nonetheless some fractures do need more attention particularly, regional imbalances.

When you look at the data that describes the British economy, the first issue that leaps out of the page is the London centrality of UK activity.

According to figures compiled by the Office for National Statistics, in 2021 (the most recent year for which data is available), the stock of inward investment by foreign corporations had reached a little under £1.8 trillion. Yet of that inward investment some 70% (£1.25 trillion) was allocated to London and the Southeast, with London taking some £907 billion of those funds.

Since 2016, net foreign investment into manufacturing centres of the British economy has declined, with the East of England and the West Midlands recording net outflows of £28 billion in 2021. These regional divergences in investment are reflected in wages and in a deeply skewed distribution of incomes toward the Capital.

In 2023 the median UK gross weekly wage was £570 and the average (squeezed higher by London data) was £581.

Wages in Devon, Blackpool, Leicester, Middlesbrough, Redcar and Rotherham are between 76% and 87% of the median (£437 – £498). At the same time wages in Westminster, Islington, Hammersmith, Kensington and Wandsworth are between 133% and 148% of the median weekly wage (£763- £846).

Back in 2017, Carolyn Fairbairn, then Director-General of the CBI, noted that “the most productive area of the UK is three times more productive than the least. This matters because productivity is the foundation of wages, living standards,

opportunities and prosperity.”

The UK has largely dropped off the radar of international asset allocators, but it seems fair to say that the UK has a large body of underused human capital and a larger body of undervalued capital assets. Effective stewardship of UK plc could turn round both and even accelerate UK growth beyond that expected by the forecasters at the OECD. The UK has passed through two challenging decades; our assessment is that it may be down but is definitely not out.

In the pursuit of balance, it is worth recalling that Labour politicians are not the only perpetrators of bad jokes. In 1964, the Conservative Chancellor Reginald Maudling left a note to his successor, James Callaghan: “Good luck, old cock...Sorry to leave it in such a mess!”

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