**UK Economic Landscape**

[Saad Masood](https://dailytimes.com.pk/writer/saad-masood/)

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Consider these eye-watering statistics: inflation galloping at double digits, the steepest rise in interest rates for 33 years, a two-year recession to look forward to, unemployment nearly doubling by 2025, and the longest downturn since records began!

This is not the outlook for a developing, third-world nation. It is the economic forecast for one of the developed, Western economies – the UK! Lest the reader thinks that these numbers come from the general public, they don’t. This scenario comes from the esteemed Bank of England and as such, can be taken with a degree of credibility.

The path to this point perhaps can be anchored back to the debate between Keynes and Hayek and the dominant idea of the two as practised in modern economies today. John Maynard Keynes and Friedrich August Hayek are two giants of the economic world. Both maintained very robust but strictly divergent views on the workings of the economy and the development of the world. On one hand, Hayekian ideals suggest liberalised and free markets, non-interventionism and curbed governmental expenditure. On the other hand, Keynesian economics broadly prescribe interventionism, heightened government spending and steering of financial markets. Keynes was born in England, widely regarded and a highly influential voice in the British government. That, coupled with the fact that his notion of interventionist economics spoke directly to the human need to control events meant that his ideas prevailed – generally everywhere and especially in the UK. Consequently, one could posture that the current crisis is a direct result of overreliance on Keynesian economics. Consider.

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The “boom and bust” cycles are perennial discussion points in every policy-making calculation. They will probably not go away completely because they are aligned with the “up and down” nature of the world we live in but they can be made less frequent and less severe. While Hayek’s ideas on the economy are rarely practised nowadays, there is one concept that should be taken to heart – the seeds of the bust are almost always sowed in the boom! Practitioners of Keynesian economics tend to go overboard when it comes to providing stimulus to the economy leading to potential ruin sometime later, as has been the case in the UK recently.

So, what should have been done differently?

When it comes to monetary policy, the Bank of England (BoE) should have gone from an expansionary monetary policy to a contractionary monetary policy very quickly. This would have meant liquidity was reduced from high to low swiftly. The BoE should have also raised interest rates earlier and more gradually instead of leaving it too late and then increasing them sharply. Since the financial crisis of 2008, the BoE has been on a Quantitative Easing (QE) spree which it has only started to reverse in November 2022. Considering the high inflationary pressures in the markets and particularly within Office of National Statistics (ONS) guidance, the reversal of QE should have been done sooner without giving into the easy choice of making too much money available due to events such as the COVID-19 pandemic and BREXIT. It is true that the Bank of England walks a fine line between action and inaction but once it had acted on excessive Keynesian impulses it should have prepared for its reversal earlier to bring more balance to the economy.

After years of generating aggregate demand in the economy, as per Keynes, the UK government should have transitioned from a loose fiscal policy towards a tight fiscal policy in the earnest. Instead, the government of the day came out with £64B of unfunded tax cuts! With no way of paying for these other than heavy borrowing, the markets went into a tailspin! For the first time in recent history, international institutions such as the World Bank and IMF commented on the poor handling of a Western economy and rating agencies cut the outlook for the UK drastically. Specifically – actions such as cutting stamp duty on properties, tinkering with caps on banker’s bonuses and ignoring windfall tax on only above-average seasonal profits of companies benefiting from ongoing turmoil exacerbated the situation further.

The regulatory policy should have also been more aware of the unnecessary and untenable handouts in the economy. One of the key reasons for the subprime mortgage crisis of 2008 was self-certified mortgages and mortgages that didn’t require any deposit or down payment. Even today there are a lot of easily available mortgages – including the government’s help-to-buy scheme – which provides a false sense of affordability, leading to turmoil later! Even when consumers are having difficulty paying their heating bills and making ends meet – they are bombarded with cheap credit in the form of credit cards with minimal checks, “pay day loans” with no asset requirements and “buy now, pay later” schemes with minimal proof of earnings. All this artificial generation of wealth and the deception of affordability has contributed monumentally to the grave situation the UK finds itself in today!

It may be too late to rescue this particular cycle of boom and bust but if the UK and the world are keen to avoid similar, desperate circumstances in the future then they should consider a somewhat constrictive monetary, fiscal and regulatory policy to balance out the excesses generated by the highly interventionist policies of the past! Every now and then it pays to just hug the middle of the road!

*The writer is Director Programmes for an international ICT organization based in the UK and writes on corporate strategy, socio-economic and geopolitical issues.*