

Avoid lying, except in matters of taxation; there's a special dispensation for fiscal falsehood.

Giovanni Morelli—the exemption applies as much to those who govern as to those governed

Having dealt with the Constitution . . .

The economics priorities of the Lib-Con Coalition became a little clearer last week. Addressing an audience in Yorkshire, the Prime Minister pledged to change things on a number of fronts. He said that the public sector had become bloated, that the huge national debt was debilitating and that most welfare programmes had failed. He wanted to ameliorate things on each front.

. . . the Prime Minister turned his attention to economics.

It was largely politics, of course, but fairly sensible stuff nonetheless. The main anxiety related to taxation. Many of those who were listening thought raising it would be counterproductive. Brown's lot, it was recalled, hadn't incurred the debt by cutting taxes but by lifting expenditure.

Taxation might be the sticking point.

Taxation was already too high; businesses already leaving the UK for less penal jurisdictions. If GDP were to be boosted, the imposition had to be reduced, not increased. The Prime Minister was said to be sympathetic to lower Corporation taxes, but had still to be persuaded of the case for a more moderate CGT.

It might unglue the coalition

It was the LibsDems who were causing the problem. Although they accepted that capital gains taxes could never raise significant sums of money, they argued that the principle of "fairness" demanded it be levied at a nominally high rate! Not a good omen: these guys value perception above reality. They live in their own little world; not in ours.

Welfare is a mess, and always has been.

What was said about welfare was true enough. But it remains to be seen if a fairly accurate analysis of the defects of the current system can be transformed into a sensible alternative in the future. It's not the first time the task has been attempted. Most others have been swamped by bureaucratic inertia within a year. The objective, always, a system that'd be cheaper and more efficient; the result, almost always, one that was more expensive and less efficient!

Britain's GDP is stagnating

News of an upwardly revised estimate of Britain's GDP in the first quarter of 2010 did not get much coverage in the press. Understandably so. The revision was disappointingly small—from 0.8% per annum to 1.2%. The key question was what would happen in the remainder of the year. Would growth return to respectable rates? The outlook wasn't good: taxation was likely to stay penal; and demand in much of the rest of the world might stumble.

America's not quickening.

In this respect, the news from the States was significant. Growth in the early months of 2010 was revised down—but to a still satisfactory 3% per annum. What was more important was the *second* differential. Would the rest of the year see a further slowing or a new quickening? Probably the former: the chronology of the cycle indicated that the US had already embarked upon its phase of moderating growth.

Nor Japan's.

Japan was doing a little better, but not much. Activity there was rising, but unspectacularly. Price levels, though, were falling. The Japanese Government had accepted that this would be the norm for some time to come. So had the people. The main variable was China. When its demand was strong, Japan's exports rose and GDP quickened. When China paused for breath, Japan retreated, probably recessed.

Europe's is subsiding.

Europe, of course, was the worst of the three majors. It was paying the price for its monetary hubris. It'd not recover until it had resolved the issue of the single currency. But that might take a long time. The Merkels and Sarkozys of this world, the Barrosos and Trichets, had set their brains in neutral. They absolutely refused to review the data or to consider the options. They said that to break up the euro would be apocalyptic. So childish! Shall the rest of us have to wait for them to grow up before the problem is tackled?

Did Cameron really get a first? If so, he hides it well.

Cameron said in a recent speech that it was in Britain's interests that the EuroZone be strong and the single currency stable. What a strange duality. Did he really think it was possible that the two might go together? In reality, they're inimical. If the currency bloc persists, the economies will be weak. It's only if the bloc disintegrates that economies will be strong.

Outlook bleak: bankers are dispensable.

In the foreseeable future, in any event, Britain's economy will suffer: its growth inhibited by the EU's scleroticism; its finances impaired by the crippling cost of membership. A double whammy. And securities valuations will be periodically undermined as well. Banks are in trouble. A few high profile failures might help!

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