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## Weekly Market Flash

### UK Election Reflects a Failure of Imagination

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The United Kingdom reached its zenith of global power and influence in the last three decades of the nineteenth century. This was a period of sustained peace between the great powers (all European) of the day and fluid, free trade around the world – Globalism version 1.0, if you like. At the epicenter of the system that made this period of prosperity and growth work was the gold standard – a club of free-trade nations willing to fix their national currencies to the price of gold (expressed as three British pounds sterling, seventeen shillings and nine pence to be precise). The gold standard kept the peace, until the system started to fray in the first decade of the 20<sup>th</sup> century and then completely came apart in 1914 with the advent of the Great War.

#### The Economic Consequences of Mr. Churchill

We bring this up not for the purpose of some random lesson in economic history but because what happened after the deluge, when the war-torn nations tried to rebuild themselves, has some relevance to what is happening today in Great Britain. It is happening elsewhere in the world as well, but Britain happens to be having an election of no small consequence next week, so that is our principal frame of reference for this discussion.

What Britain tried to do after the war was to go back to the way things were, back when Britannia ruled the waves and the pound sterling was the bedrock of the global economy. The decision to revive the gold standard on the exact same terms as that prewar rate cited above was made in 1925. The decision was a popular one at the time, but not without some prominent critics – foremost among whom was one John Maynard Keynes, the already-famous economist who wrote a paper warning that the government and specifically its Chancellor of the Exchequer (one Winston Churchill) was making a terrible mistake.

#### Those Times Are Gone

The mistake made by Churchill and his government was to assume that the conditions that made the gold standard work during the latter part of the nineteenth century were still in place in the mid-1920s. They were not. The world had changed, and had changed dramatically. But rather than accept the new realities of the postwar period and think creatively about appropriate solutions for them, both the rulers and the ruled of the day sought comfort and solace in the familiar. This was a failure of imagination, and in due course it led to a failure of the system itself as the Western world stumbled into economic depression, autarky and eventually an even more devastating global conflagration than the first.

#### Clowns to the Left Of Me, Jokers to the Right

Next week Britons will go to the polls to cast their votes for a remarkably awful slate of alternative candidates. The Conservatives, led by current prime minister Boris Johnson, promise to “get Brexit done” by which they actually mean to accept a deal that in most ways is manifestly worse than the earlier deal negotiated by Theresa May which went down in ignominious defeat. Not that implementing this deal in any meaningful way “gets Brexit done.” It solves the Article 50 issue of leaving the EU, which will then usher in a twelve month transition period during which the UK will need to actually negotiate and agree on the terms for future economic cooperation with the EU. Those negotiations promise to make the

Article 50 process look easy by comparison. Nevertheless, the “get Brexit done” message seems to be winning among those who somehow imagine a return to a cozier Britain of earlier times.

What’s on offer by Labour, the main opposition party, is an even more colossal failure of imagination. To “reverse our economic policy” as Labour promises would mean to essentially replace policies that have been working, if not particularly well, with other policies that flat-out failed in the 20<sup>th</sup> century. If Mr. Churchill was deluded in thinking that a system that worked in 1890 was the right prescription for 1925, the notion that a system that conspicuously did not work (the nationalization and related policies of the 1970s) is the right medicine for 2020 is, as the Brits themselves might say, gobsmackingly bollocks.

### **It’s Lonely In the Center**

One might imagine that British voters longing for some company in the center, away from the polarized platforms of the Tories on the right and Labour on the left, might find comfort in the avowedly centrist Liberal Democrats. Unfortunately, this party has done a spectacularly good job of reminding voters why they hated smug elites enough in the first place to go out and cast a vote for Brexit. The Lib Dem platform includes an immediate revocation of Article 50, i.e. summarily doing away with Brexit altogether. Not a second referendum (which would be a sensible idea) but an outright cancellation of something that half the country voted for in 2016 and which remains within a plus/minus margin of support even today. Here is yet another failure of imagination – willfully closing one’s eyes to the genuine problems that the “long ‘80s,” as we sometimes refer to the quarter century leading up to the market crash and 2008 recession, caused for such a large swath of the population.

At least the 1920s and 30s had political figures of the stature of Churchill, who would help navigate their countries out of seemingly intractable problems. The complexities of the world today demand more than unimaginative leaders with half-baked non-solutions to real, pressing concerns. We could use some genuine imagination, and not just in Great Britain.

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