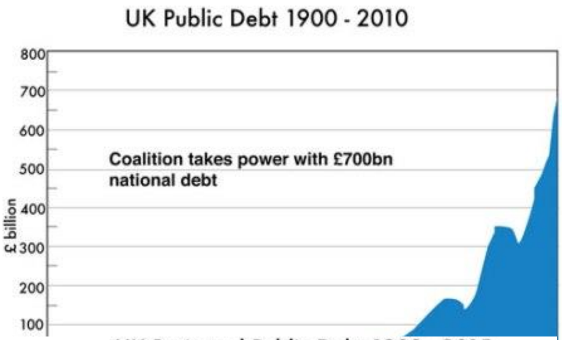
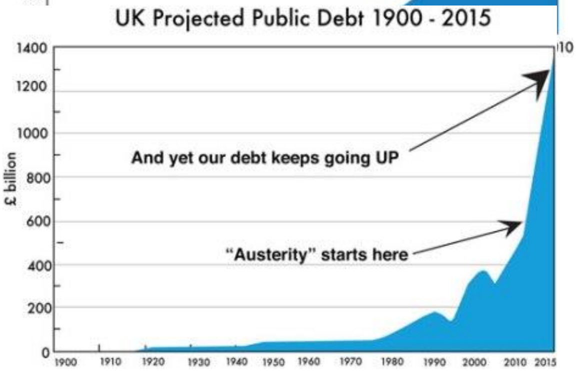
Money Week. End of Britain a condensed version by John Baxter

In all recorded history, no country has ever recovered from the financial position we find ourselves in today. No government has ever been able to reverse this trend. No emergency action has ever come close to a solution. This problem has only ever had one outcome: **financial collapse.**
We fear that most people will not know what to do if banks fold, if the stock exchange suspends trading, if their pension dries up and if their home loses 50% of its value and the NHS is sold off and benefits are scrapped.

Britain is about to be flattened by a tidal wave of debt. Two and a half years ago, when the Coalition government formed, we were already in a huge amount of debt. The previous government left the country sinking under £700 billion's worth. Take a look at the following chart:

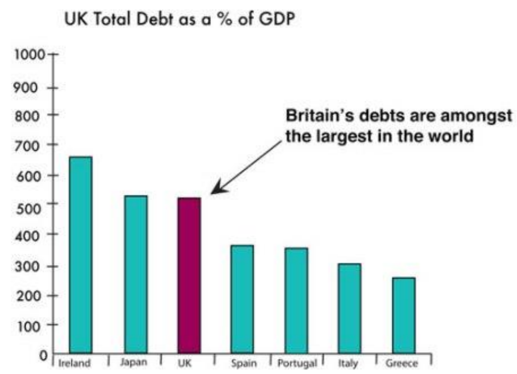


Our national debt is still growing at an incredible rate. Cameron is going to add an estimated £700 billion to the national debt in just five years. That's more than Tony Blair and Gordon Brown added to the national debt in eleven years. The Coalition ***isn't cutting anything.*** State spending is going up… our national debt is going up… and our interest payments are going up. By 2015, our national debt is estimated to stand at almost £1.4 trillion, as this chart shows:



Compared to the size of our economy, Britain is now one of the most heavily indebted countries in the Western world. Our total debts stand at more than FIVE TIMES what our entire economy is worth. Proportionally, that's more debt than Italy… Portugal… Spain… **and almost twice as much debt as Greece.** We haven't collapsed – yet. But things can't stay that way for long. The only countries that have **more** debt are Japan, where the stock market crashed by 75%... and Ireland, where the housing market has crashed 50%, and the government has been forced to accept a bailout.

In fact, **our debts tower above almost every other nation's** – here are the figures that prove it:



Even THAT isn't the full story when you add in all of Britain's "unfunded obligations" – *promises the Government has made on things like public sector pensions – our debts swell to 900% of our economy.* When you add everything up, we owe TEN TIMES what our entire economy is worth.. It's clear to see: **we're totally broke**. A country can either pay back its debts or it can't. And it is very clear to us that Britain can't.

The Welfare State It wasn't until the Second World War was finally over that the welfare state really began to grow… Welfare was seen as a major part of "Winning the Peace"; keeping the forces of Socialism and Fascism at bay. Of course, politicians soon realised welfare wasn't just a tool to win the peace. It was also incredibly effective at winning votes too. This came to be repeated across the world – in the USA, Japan and across Europe. Seemingly limitless economic growth and prosperity allowed politicians to make an essentially unlimited promise: The government promised to look after you "from Cradle to Grave". This single, powerful idea gave government the licence to swell to a size unimaginable just half a century earlier. The promises got bigger, and so did the cost.

The size of the welfare state grew, in new laws. *The Butler Act*, Education. *The Family Allowance Act. The National Insurance Act. The National Health Act.* It was immensely expensive. Everyone assumed we'd be able to pay for it forever. But they were wrong. Any party trying to cut back was simply voted out of power.

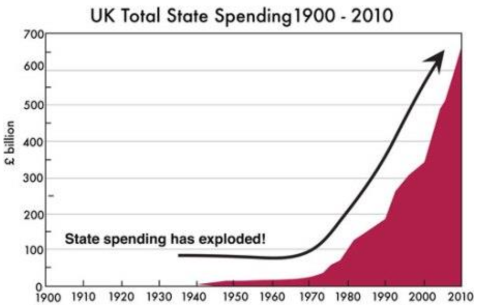
After all, an ever growing proportion of the population now benefitted from the welfare state, in one way or another. The safety net couldn't just be pulled away. The government would forever be saddled with an expense that could ONLY grow. And grow it did:

- Since public pensions were introduced, av life expectancy has grown from 48 to 80 – a 67% increase. But the age at which we retire has remained essentially the same. Result, an estimated £5 trillion worth of pension promises – roughly five times what our entire economy is worth. **No one has any idea how we'll pay these**. The recent attempts to change the retirement age don't go anywhere near solving the problem.

- As people have lived longer, **the strain on the NHS** – the demand for medication, more doctors, nurses and other staff, as well as a skyrocketing cost of caring for the elderly – has pushed our finances to breaking point.

- In fact**, as state spending has grown, so has the cost of running the welfare system itself**. For instance, *the state employs half a million civil servants. To put that into perspective, during the height of the British Empire, when Britain ran a quarter of the planet, the state employed just 4,000 civil servants.*

If you're in any doubt just how out of control state spending has become, simply take a look at this:



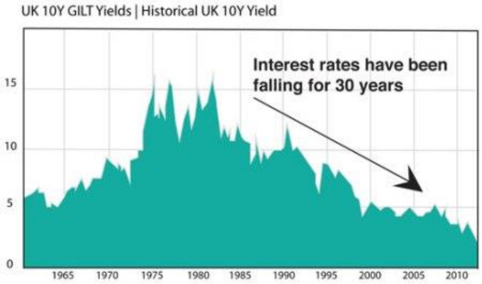
So spending has exploded. Being such a vote-winner, no government could take the bull by the horns and cut it back in any meaningful way. As the population grows larger and lives longer, all they can do is sit back and let a future generation sort it out. And now it's come down to us. In 2012, for example, the government will spend roughly £120 billion more than it collects in taxes.

Government over-spending = BORROWING

When you spend more than you earn – there's only **one way** of paying for it. By borrowing money, and remember, we also have to service our debts – to pay interest on a pile of debt that's mounting ever higher… debt that we'll never pay back. A vicious cycle is in motion. Politicians to remain in office make bigger promises, and ultimately **borrow more and more money.**

This addiction to debt has spread. Debt has become normal. Want a holiday? Pay for it on credit. Want a new crowd-pleasing cut in taxes? Fund it with debt. ***If the UK had been a business or an individual, we'd have been declared bankrupt by now. We'd have been forced to sell our business premises or our home and would have been housed in a run-down flat long ago.*** We are broke. We have been for a long time. But very soon, it will really hit home.

The most powerful world trend of the next 20 years Why can't the government just keep giving us MORE – and take on more debt to pay for it. Why won't that work now? The answer to that is simple. The explosion of government spending and government debt has mostly come in the past 30 years. And during that time, it's been **easy and cheap for the government to borrow money because**, interest rates on the government's debt have been steadily falling for thirty years.



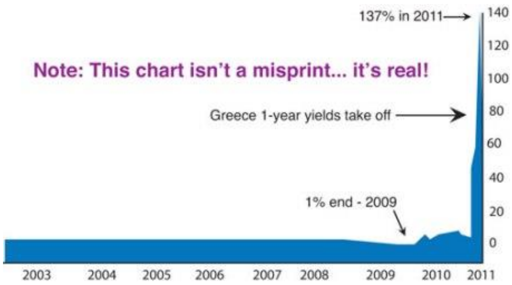
In 1982 Thatcher's gov had to pay 15% to borrow money for three years. This came in the form of a bond (a gilt). Anyone with money – be it a rich country or a pension fund – could invest in the bonds, and receive 15% interest in return. But government's borrowing costs have fallen*. **Now, the government only has to pay 2% to borrow money over the same period.*** That's seven times cheaper than in 1982. Low interest rates make it easier to borrow money. But these 'good times' are about to come to an abrupt end.

The simple truth is, if interest rates were at their normal rate of 5% - instead of the extremely low 2% they're at right now – there's absolutely no way Britain could ever repay its debts. In fact, at normal rates of interest we're already bust. Not just 'in over our heads' but six feet under. It's simple maths. If interest rates moved back towards the normal 5% level, our cost of borrowing would triple and the government would have to take drastic action – like abolishing the state pension. Or privatising the NHS. Or pushing tax rates back up to 90%, as they were in the 1960s. In short, Britain would change radically.

And that's just if interest rates move back to "normal" levels.

The fact is, when you're in a lot of debt, interest rates are either your lifeline… or your death sentence. So long as rates stay low, you can just about keep things on track. You can service your debts… keep borrowing… and keep the wolves from your door. When rates move higher… you get squeezed… and eventually, you're finished. All of a sudden, you have to find more and more money to cover the interest on your debt.

They say a picture tells a thousand words. So we'll save a few words and show you this:



GREECE
This is an extreme example of what happens when interest rates take off. As you can see, in 2009, the Greek government could borrow money at just 1%. Then in the wake of the financial crisis, the Greek economy hit the rocks, fell into recession and the markets realised what a complete mess the country was in. Interest rates shot up vertically. And Greece imploded. Not just financially, but socially and politically too...

As you've seen on the news, there have been riots, suicide, overnight poverty, snap elections and crushing general strikes. People couldn't get their money out of banks fast enough, businesses collapsed. In that environment, just keeping your family safe is a big challenge. That's the danger of rocketing interest rates to a country with huge debts.

As Douglas Carswell, MP, said recently: "**Greece might be the first Western country to discover that you cannot keep running up debts to pay for a lifestyle you did not earn. She will not be the last. The laws of mathematics are universal."**

In Britain, interest rates on government borrowing now stand at record lows. If we're not at rock bottom, then we're incredibly close. **That means the most important trend of the next twenty years is almost certainly <u>rising interest rates.</u> Debt has been getting cheaper for thirty years. Now it's about to start getting much more expensive.**

We're now facing an unprecedented crisis. As interest rates rise, our record debts will become impossible to bear.

No one can say how quickly things will escalate. Interest rates could rise overnight. Or they could slowly and inevitably push higher, taking years to slowly strangle the economy, the housing market, the stock market… stripping us all of our wealth one day at a time. What we can say with certainty is that sooner or later

interest rates WILL rise. We're approaching the day when foreign investors realise the scale of our problems, and demand higher interest rates… **or stop lending to us altogether.**

When that day arrives, we are certain things will get nasty. **How Britain collapses from within**

What happens when interest rates rise? What shape will the crisis take? The first "flashpoint" will be **the banking system**. Banks hold huge amounts of government debt. When interest rates rise, the value of government debt (bonds) falls. Even a small jump in interest rates would wipe billions of capital off banks' balance sheets. It's impossible to say exactly which high street banks – if any – could withstand that kind of hit. Imagine being unable to withdraw your savings.(Image © Bloomberg)

As news of the banks' problems hits the press, and rumours of a new round of bailouts spread, the public will catch on to what's happening. We are likely to see a run on the banks. Picture the scenes we saw at Northern Rock, as people rushed to get their savings back, but ten times worse. That's because **this time round, the government simply won't have the money to bail the banks out again.**

A tiny increase in the interest rates could force tens of thousands of people to miss payments and default on their mortgages so the next domino to fall will be the housing market. As interest rates shoot upwards, millions of people will be pushed "underwater" by a combination of falling housing values and rising mortgage payments.

When a financial system ceases to function, the social fabric begins to fray. We are not simply talking about shares falling or house prices dropping, which is devastating enough. ***We are talking about the breakdown of social order.*** **The important thing to realise is that Britain is going to change – very significantly. Things might never be the same again.**

It seems insane now, but social order quickly breaks down when the money stops flowing. Britain's coming debt implosion could plunge us back to the darkest days of the 1970s. The general strike meant dead bodies went unburied as gravediggers joined the picket line… Stinking piles of rubbish rotted on the streets, towering inside Leicester Square… Those lucky enough to have jobs had to swallow huge wage-cuts during the infamous 'three-day-week'. Shoppers scoured supermarket shelves by torchlight during blackouts.

"We used to think you could spend your way out of recession and increase employment by boosting government spending… I tell you that option no longer exists. And so far as it ever did exist, it only worked on each occasion… by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step." Jim Callaghan.

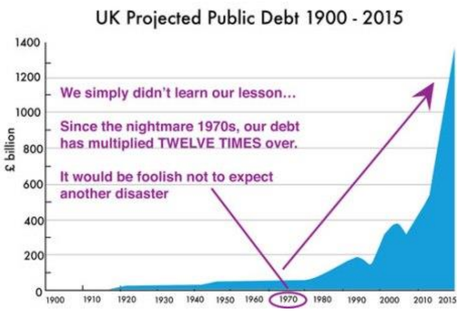
These words are amongst the most important ever uttered in the history of modern British politics. Unfortunately, almost everyone has forgotten them. For millions of people trying to keep their hard-earned money secure, it was a nightmare.

As the top rate of income tax peaked at 83% in 1974, foreign investment steered away from Britain as if it were an island colony of lepers. We were the 'sick man of Europe'. Property and banking crises meant that, people's lives changed dramatically for the worse: jobs were lost, family businesses closed, people had to dig deep into their savings just to make ends meet. The country was brought to its knees.

So when we're talking about financial emergencies, don't be under any illusions. It can happen here in Britain just as it can happen anywhere – given the right conditions.

In 1976, humiliated, the UK government had to be rescued by the International Monetary Fund, with Jim

Callaghan going cap-in-hand to beg for a huge bailout. Humbled, he delivered what was meant to be a wake-up call for the British financial and political system:



In the 1970s the spend-borrow-spend experiment should have ended. It should have been our wake-up call. But we just kept on spending. So long as interest rates kept going down, there was always a way to put off the pain… a reason to borrow more… a justification for not balancing the books.

But the day of reckoning is approaching. When?

Well, we can't say exactly. ***It might be a long, slow drawn-out process that drains your wealth over the next decade. Or this time next year, the financial system could be breaking apart. It's impossible to say.***

But we think that savers and investors who are not aware of the full risks – and who fail to protect themselves – will suffer the most. The vast majority of people here in Britain will have no idea what action to take as they watch their wealth and financial security drain away, out of reach, perhaps forever.

In recorded economic history, <u>every single country</u> with debts as big as ours – *every single one* – has suffered a devastating economic collapse. There are <u>NO</u> exceptions.

PS This condensed version is an accurate rendition of the original which is much longer and includes - which I have left out - an account of the financial collapse of Argentina and some fearsome speculations about what government might do here in the event of a similar collapse.

As it stands it is clearly written from a "non-political" point of view – ie how to help private investors and get them to subscribe to Money Week. This is done without reference to those who are not "investors" and might need the NHS for themselves and schools for their children.

That aside it seems to me that the case made in this article that we are heading for economic breakdown is one that I find very hard to contradict. The continuing chaos in Argentina and in Greece, Italy, Spain and Portugal and Robert Peston's musing on the BBC about China make it hard to see a sustainable and secure way ahead.

Please someone tell me why this article has got it wrong!

To read the original go to

http://info.moneyweek.com/urgent-bulletins/the-end-of-britain-3/?utm_expid=40940913-15.Npam9a8iRUSgdlVUzklU6g.2&utm_referrer=http%3A%2F%2Fwww.bing.com%2Fsearch%3Fq%3DThe%2BEnd%2Bof%2BBritain%26FORM%3DR5FD4