‘Taking back control’ has gone down as one of the most effective political slogans of all time. But turning that slogan into reality has proven to be much more difficult. The UK left the EU but doing so hasn’t brought the kind of sovereignty advantages Brexiteers had envisaged. Outside the EU, the UK’s destiny is still very much tied to forces beyond Westminster. What has become very clear in recent months is that the fate of countries like the UK is closely tied to the markets and that the markets will reward or punish you in equal measure depending on how you behave.

We saw this following the EU referendum, when financial markets gave sterling a slap in the face and the pound has never recovered. We also saw it in the past whenever the markets effectively kicked out the Chancellor Norman Lamont whenever the UK was forced out of the Exchange Rate Mechanism. And there was also the Eurozone debt crisis, initially with Greece when a series of Greek governments discovered that international investors would only fund the country if it radically restructured its public finances, bringing in austerity and unpopular policies to restore order. The cost of borrowing for the Greek government therefore rocketed as investors demanded a huge premium to account for the risk involved in lending. And it wasn't just Greece, the crisis spread to other, high debt economies such as Portugal, Ireland, Italy, and Spain, who along with Greece became known as the PIIGS. Eventually, all these economies had to bow to the wishes of IMF doctrine.

Relative to these Eurozone economies, the UK at the time of the Eurozone crisis was seen as a safe haven, despite its own massive issues associated with the banking crisis, because the Chancellor of the time understood the markets and acted accordingly in terms of communication and approach. This included austerity measures and Quantitative Easing which helped keep the price of bonds high and the cost of borrowing low. With QE, Central Banks became the biggest buyers of government debt, reducing the impact of other players in the market.

People in the UK were fed up with the Chancellor talking about getting the deficit down, but this was music to the markets' ears. It's no surprise that this is the kind of language also being adopted by the new Chancellor Jeremy Hunt as he seeks to regain the confidence of the markets after the turmoil of recent weeks. It is clear that he is acutely aware of the importance of keeping the markets onside and is in tune with their desires, unlike his predecessor Kwasi Kwarteng. Kwarteng didn't seem to understand that the financial market mood music had changed relative to the pandemic when markets were quite happy for economies to rack up record amounts of debt to deal with the crisis. What had radically changed was inflation and by extension the interest rate environment. Kwarteng didn't have the flexibility to be generous that his predecessor Rishi Sunak did. What he ended up doing was throwing more petrol onto the inflationary fire. He got burned by the markets as a result.

Mark Carney, the former Governor of the Bank of England had warned (again) in July that the UK was dangerously reliant on the kindness of strangers, i.e. international investors needed to fund its current account deficit. This was a timely intervention given what has unfolded in the months that followed. But it was nothing new in that people had been warning about ‘bond vigilantes’ since the early 1980s. This was a term coined by investment strategist and author Ed Yardeni who warned the Reagan administration that if the US fiscal and monitory authorities (i.e. the Treasury and Fed) didn’t regulate the economy, the markets would react by refusing to buy US government debt, effectively becoming the regulators and inevitably getting what they want. History has shown that these Bond Vigilantes can always be relied on to come knocking at the door, be it Number 11 Downing Street, Merrion Square in Dublin or downtown Athens. This power is what led James Carville one of President Bill Clinton’s advisers to say that if reincarnated he wouldn’t want to be a sports star, President, King or Pope. Rather he would want to come back as the all-powerful bond market.

Carney’s comments on the UK could apply even more to Northern Ireland. We have always been reliant on the kindness of strangers in the form of a subvention funded primarily of tax receipts from wealthy parts of England such as London and South East. It’s not unusual for regions to be dependent on subsidies from more wealthy parts of the country but in the case of NI, the subsidy is extreme. And this is not a good place to be, as the kindness of strangers appears to be wearing thin. This is because the subvention has always come with no strings attached. The implicit strategy in NI for some time has been maximising the kindness of strangers rather than maximising the economic potential from those funds. With hindsight, if there had been more strings attached, this money would perhaps have been put to better use.

Whilst markets baulked at the mini-budget’s unfunded tax cuts, Northern Ireland’s public finances have also raised eyebrows due to unfunded spending. The NI Executive’s £661million overspend would equate to £30billion for the UK as a whole. These are figures that would cause consternation amongst hardnosed financial types. This huge sum will be lopped off next year’s NI budget unless the kindness of strangers dictates otherwise. But the strangers are under pressure as the bond vigilantes twist their arms.

What happens in UK economics and politics over the weeks and months ahead won't just be driven by the electorate, MPs or even the Cabinet. It will be dictated by the markets and the Chancellor's acute awareness of the need to behave in the way that the markets expect. And whilst Northern Ireland politicians don't have the same imperative to behave in a way that will please the markets, Northern Ireland's economic fate also lies to a large extent in their hands. That's because the markets will dictate UK government policy that will in turn impact on what politicians and civil servants here do. If Westminster tightens the purse strings and increases taxation, Northern Ireland will be significantly affected too.

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