

The magic money tree died

Inflation usually kills magic money trees. Responsible advanced countries normally tell us there is no magic money tree, knowing as they do that their growth is soon killed off by inflation.

The magic money tree has been renamed Modern Monetary Theory. The idea is the Central Bank creates money in its accounts as only it can do, and buys up government debt with the money. The government can then issue more debt as there is a willing buyer at a low rate of interest. The government can afford more debt because the rate is so low, and because it owns the Central Bank who buys up lots of their debts anyway. The state ends up owing lots of money to itself.

Using the Central Bank and government debt is just a complex way of disguising it. They could as well simply instruct the Central Bank to print the extra money and give it to them to pay the government bills. Indeed both the Fed and the Bank of England had powers to do this during the pandemic.

If you carry on doing this when the economy is near full capacity it is very inflationary. Government gives itself money to buy goods that others are trying to buy and to hire Labour working for others. Only by bidding up prices and wages does the state grab these resources. Others who still want them either go without or bid higher again. An inflationary spiral sets in.

Now the U.K. economy is back to pre pandemic levels with low unemployment there is no scope for magic money trees and considerable inflation risk. Inflation is too much money chasing too few goods. Government has to incentivise more production to help bring the price rises down. It needs to change its pro imports policies for energy, high energy using industrial products and food.

The Bank of England plunges us into inflation

The Establishment tells us the Bank of England is independent. They remind us that the Bank is charged by law to control the creation of money and the rate of interest in order to keep inflation at around 2%. Inflation is currently at 5.4% and is widely forecast to rise above 6% by April, more than 3 times the target. Inflation as measured by the old RPI index is already at 7.5%.

It is curious that the defenders of the idea of an independent Bank do not criticise it for such a failure, nor offer explanations of why this has

happened. Most are happy for the government to take the blame , forgetting they could not tell the Bank to print less money or to raise the interest rate.

I supported the massive creation of cash in 2020 and the ultra low rates. The anti covid measures were a huge hit to output and incomes so there did need to be a large offset. When the recovery gathered pace in 2021 I advised the ending of money printing or QE by the Bank. It was obvious inflation would take off if the Bank kept boosting the amount of money.

The government got away with the massive money printing when the economy was in covid measures depression. They could allow the Bank to print and they could spend it routed to them as near zero interest loans which the state then bought up. These are not state debts we now have to pay off as the state owns the debt as well as owes it. Once the economy showed strong recovery then printing, borrowing and spending returned to being inflationary as Latin America and Zimbabwe can tell you.

The Bank was right at the end of last year to at last end QE or money printing. The Fed has carried on printing and has presided over a worse inflation than we have. It should stop immediately. The Bank of England should now be careful not to overdo further tightening as they and the Treasury are now slowing the economy too much. It would be quite wrong for the Bank to tighten when the Treasury is about to increase taxes far too much.

[The battles over gas](#)

Russia plans to play China and Europe off together over the supply of gas. They are in discussion over selling more of their gas to China via a new pipe still to be built at the same time as they are seeking to close the deal on further supply of gas to Germany via the new Nord Stream 2 pipe now completed. Hungary has signed up to fifteen more years of Russian gas with supply via a southern pipeline that avoids Ukraine, the source of transit capacity under the prior agreement.

Now the EU has confirmed the important role of gas today and going forward in the EU energy mix this strengthens Russia's bargaining position as a big supplier of a crucial source of energy for much of the continent. Hydrogen is some way off as an alternative gas to meet emissions targets next decade and beyond. The USA can only complain that her European allies have weakened the western position. The current US/Russia disagreements about Ukraine are complicated by the gas route to western Europe across that country, with Russia clearly keen to cut off Ukraine's revenues from this source.

The UK currently is not reliant on Russian gas. We depend on Norway and Qatar primarily. It makes producing more of our own gas even more important to our

national security and reliability of supply. We should reduce our import dependence on the continent for both electricity and gas, as the two are interlinked with gas still an important fuel for power generation as well as for the direct heating of factories and homes. With Germany closing all her nuclear power stations and pledging to run down her large coal generation sector, and with Poland also under pressure to cut out the coal, the continent will have an even tougher energy position to negotiate. That is why the UK needs to concentrate on self sufficiency, and on ensuring a margin of capacity over demand even when the wind does not blow. The EU has ambitions over Ukraine which are no longer partly our responsibility.

Those who want to fell the Prime Minister

The conventional media, the Labour opposition and a handful of Conservative MPs are out to topple the Prime Minister. The method is well known, as it was used extensively against Mrs May and took a long time to get rid of her. That was animated by a major battle over policy, where those who wished to see her replaced were shocked by her close working with the civil service establishment and opposition parties to dilute or thwart Brexit. We felt this was against the clear wish of the public in the referendum and against the spirit of the Conservative Manifesto. The way the civil service negotiated, surrendering our position with the approval of the PM, was in conflict with the strategy the Brexit Secretary was trying to pursue and was unacceptable.

The current rebels do not seem to be united in fundamental criticism of policy or in defence of the Manifesto. They are trying to get to 54 Conservative MPs who want a vote of No Confidence based on the strong feeling shared by many that senior officials in Downing Street who devised elaborate rules for the rest of should have led by example. The PM has apologised and claims most of this happened without his presence or initiation. The facts and gloss placed on this by Sue Gray who is investigating will shape how many more Conservative MPs seek a change at the top as a result.

It is difficult to buy into the idea that whips could credibly threaten to remove grants from constituencies of MPs who were disloyal. Money is distributed on the decision of Ministers, not whips. Ministers are guided and supervised by officials when allocating money to ensure the law and budget rules are followed. A Minister cannot make a decision based on favouritism or spite.

The rebels need to recall that they need 180 Conservative MPs to get rid of the PM. They have to win the confidence vote as well as securing it. They may be holding back some letters pending the Gray Report or because they judge

they are a long way off having a majority. They may simply have failed to persuade more than a handful that now is a good time to change Prime Ministers.

For me what matters most is how the PM now develops a post lockdown agenda. There needs to be an early move to take control of GB/ NI trade. There needs to be a change of energy policy. We need tax cuts. If the PM can complete Brexit and tackle the cost of living crisis he can ride out party gate. If he does not use the majority to help people be better off then partygate and the poor organisation of Downing Street will weigh ever more heavily on the minds of MPs already cross about recent news coverage.

[My intervention in New Clause 20 of Building Safety Bill debate](#)

Sir John Redwood MP (Wokingham) (Con): Is there any right of redress to the regulatory authorities in local government, such as building inspectors and others, who were responsible for signing off on these schemes?

Christopher Pincher (Minister of State) (Department for Levelling Up, Housing and Communities): We certainly want to ensure through the Bill, that the building control mechanism and the industry are improved. I think that a suite of measures, including the introduction of better building control measures, the retrospection of the Defective Premises Act and further work that we may choose to do, working across parties, will help ensure that a very complicated and detailed set of challenges, which have emerged recently but have been developing over many years, are properly addressed.