The coming income crunch

It is strange watching a government advance towards a predictable crisis without it taking any of the obvious actions to avert the worst and tackle the underlying problems.

Yesterday a think tank put a figure on the hit to average incomes from tax rises and energy bills next spring. They said it would be £1200 per household. The government did not deny or correct the figure. They said they were spending £4bn on helping people with the cost of living.

Both these disputants might be right. The problem with the government's response is it does not tell the person on average earnings facing the £1200 hit how much of the £4bn they will receive, nor whether this will be additional money or money they are already collectively receiving. It is not an effective counter to any individual complaint to say that the government is spending extra billions on the problem. People want the problem resolved and want to to know how it affects them. Taxpayers do not welcome the knowledge that spending has gone up a lot if there is no evidence that the spending is doing good and stopping the problems.

I have been urging the government to take this cost of living crisis more seriously. Much of it can be tackled by government actions. The Treasury needs to cancel its tax rises which will be damaging. Ironically if they help slow the economy too much they might even end up raising less money for the Treasury than not putting the rates up. The sooner they confess their error the better.

The Business department should heed advice on the need to expand domestic gas and electricity supply urgently. It needs to cancel plans to close the remaining coal power stations until we have reliable replacements. It needs to give permission for Jackdaw, Cambo and other oil and gas deposits in the UK . It needs to speed up the small nuclear reactor proposals and consider commissioning new gas capacity for this decade and next. More subsidies and shuffling around who pays the bills for dear imported energy does not solve the problem.

Does the Business Secretary think markets work?

Many commentators tell us the Business Secretary is a free marketeer who thinks the private sector and free enterprise is often the best answer to supplying things like energy.

There is absolutely no evidence of this at all.The Department he presides over the opposite policy. Price controls bankrupt supplying companies. Then the replacement suppliers put the prices up anyway when the cap lifts. They stop investment in new gas and oil supply in the U.K. that companies would like to carry out. They end up nationalising a large energy supplier that price controls bankrupted.

They tells us the answer to our chronic energy shortage is more wind power.This year the problem has been a lack of wind to blow the windmills, leaving us in need of more gas and coal to replace it.

The Business Secretary tells us a bewildering myriad of price controls, taxes, regulatory interventions, bans on fossil fuels, carbon prices, nationalisations and subsidies are the answer. They are not. They lead directly to shortages, power cuts and big price rises. Ironically they also lead via more imports and more stand by power to more CO 2 emissions as well.

[Time to cut through the energy subsidies, taxes and controls to keep the lights on]

Yesterday the Business Secretary met the wrong people to solve the energy crisis. He met the companies caught up in a nightmare of controls which threaten their solvency but lead inexorably to large consumer price rises after a delay.

He needs to meet the primary energy producers, the companies that produce gas and generate electricity in the U.K. The basic problem we face is we produce too little energy for our needs. This makes us dependent on very expensive imports, on the goodwill of Mr Putin and the ability of an energy short Western Europe to help us.

Many of the taxes, subsidies and controls on energy production have been imposed in pursuit of net zero. The policy is an abject failure in its own terms, because it forces us to import plenty of gas from abroad adding transport CO_2 to the total, and to import electricity that makes the continent burn more coal for power to meet their overall needs.

The government needs to cut its interventions and to licence more U.K. base energy delivery. More electricity needs to be generated here with cost and availability having more of a role in allowing its use.Proper costing of wind needs to allow for the costs of back up or in due course the costs of storage in batteries or through green hydrogen.

In the short term the government’s only options are to transfer some of the extra energy cost from consumers to taxpayers by yet more subsidy to companies, or to beef up benefits to people on lower incomes so they can afford the surge in bills. Every day’s delay in producing and investing more in domestic energy is another increase in bills and in total costs to consumers/ taxpayers. A general subsidy to companies would be yet another undesirable increase in public spending to dodge sorting out the underlying problem.

The Norwegian and Swiss approach to economic management

When we left the EU our per capita GDP was $41,124 , a useful one fifth higher than the EU average and 8% above the Eurozone average.

We were well behind the cluster of smaller non EU countries of western Europe who have adopted different economic models that served them well.

Switzerland at $86,601 and Norway at $67,389 are the largest and well above our levels and higher than the USA at $63,413. The Channel Islands, Greenland, Iceland and the Isle of Man are also well above.

Luxembourg and the Republic of Ireland have managed high gdp per capita within the EU by defying its dislike of lower taxes and setting themselves up as corporate tax havens. This has attracted substantial investment by large foreign companies, and head offices to book business legally through a low tax jurisdiction.

The Norway model rests heavily on large exports of oil and gas, with the country investing tax on this activity in a sovereign wealth fund. This fund now owns an impressive $1.4 trillion of assets on behalf of the Norwegian people. Norway has attracted substantial investment in reliable renewable power in the form of hydro for most of its own energy neds. Hydro power produces 95% of it electricity and 63% of its total energy. It has allowed the country to establish a large investment in heavy energy using industry, including aluminium production.

The Swiss model has rested on building commercial success in pharmaceuticals and chemicals, watch and jewellery design and fabrication and banking. Switzerland produces most of its electricity from hydro and nuclear, but imports a lot of oil and gas for other energy needs.

These countries demonstrate the huge opportunities for a smaller nimble country outside the EU bloc. Lower tax rates are central to most of the success stories, though Norway has done well by exploiting her advantages in energy. The UK should copy parts of both these strategies to get incomes per head closer to these achievements.

[The energy shortage and cost of living squeeze]

Dear Ministers

When you return from the holly and the Christmas pudding please attend urgently to the energy shortages. The gas price has shot up to very high levels and electricity is expensive. The price caps will be moved upwards sharply in April hitting people's heating and living costs badly.

It should come as no surprise. The price cap policy has bankrupted a large number of electricity suppliers. The policy of closing coal power stations, blocking more production of UK gas, failing to put in extra generating capacity other than wind and solar and relying more and more on imports was bound to lead to shortages and very high prices as some of us warned.

When thinking about how to abate the cost of living squeeze from dearer energy it is wise to remember the most basic lesson of economics. Supply and demand is balanced by market price. If something is in short supply its price rises in a free market until enough extra is produced. If something is in over supply the price falls until the surplus has been absorbed and production cut back.

If government sets a lower price than the market needs to balance supply and demand then there will be too little supply and a shortage. The government has to allow market prices to rise to bring forward additional energy. If it refuses to allow the suppliers to pass on the extra cost of the underlying energy then they will go bust unless the government subsidises them from taxes. Prices also of course hit or boost demand. On current policy energy will be worryingly dear for anyone on a lower income so government will need to boost their income somehow to make it more affordable. Taking VAT off fuel would be a welcome start.

The only reliable way to get the UK gas price down is to allow more domestic gas to boost supply. Much of this could then be offered as long term contract gas with sensible prices and price adjustments in the contract, to avoid more buying of very dear gas on an inflated spot market at times of shortage. The only reliable way to keep the lights on is to retain fossil fuel power stations as back up for when the wind does not blow and the sun does not shine, and to add more low or zero carbon generation from reliable sources that work in all weathers for the future.

There is also a crucial national security issue. Trying to rely more on gas and electricity imports from Europe gravely weakens our country. The EU is energy short and dependent on Putin’s Russia. Energy will increasingly be used as a diplomatic weapon against countries that cannot be bothered to generate their own power and extract their own energy.