

My article on inflation and growth in the Independent

So the Bank of England has done it again. Just like last autumn, they have let it be known they might want to sell more bonds at big losses, whilst they plough on with a large sales and repayment programme for government bonds they own. Last autumn it was their statement of intent to sell £80bn of bonds a year coupled with their wish to raise interest rates that started the big bond sell off. Last week it was musings about a bigger sales programme and market expectations of more rate rises to come on the back of poor inflation figures that triggered a similar sell off. As bonds fall so longer term interest rates rise. This matters, as it directly leads to dearer mortgages, threatening those who need to renew their loans with a further unwanted cost of living squeeze. Dearer and scarcer mortgages also means fewer new homes will be built, exacerbating our homes shortage. It's the last thing we need now. Stop the bond sales at these low prices. Let the bond portfolio roll off as the bonds fall due for repayment.

The Bank needs to own up to the big mistakes it made in 2021, keeping rates too low and paying crazy prices for far too many bonds. Now all it wants to do is to sell too many bonds at much lower prices and big losses. This erratically destructive policy if pursued too far will lurch us from too much inflation into recession. The Bank needs to revisit its models for forecasting inflation and output. In 2021 it was forecasting 2% inflation for today, yet it came in five times that as 2023 began. The Monetary Policy Committee declines to report and comment on the amounts of money in circulation, the state of credit and other issues which you would have thought a Committee with Monetary in its title might be interested in. They should ask themselves why price inflation stayed low in Switzerland, Japan and China, all big food and energy importers and look at their different targets and analysis to steer their economies.

UK inflation results from too much cash and credit chasing too few goods and services. The Bank needs to get amounts of money in better order, and not lurch to too little. The government could help with the too few goods. The UK is chronically short of capacity of many kinds. We need to grow more of our own food, produce more of our own electricity and gas, make more of our own steel, cars, ceramics and the rest. Price controls, windfall taxes and higher business taxes make that less likely and will make inflation worse. Bring on the food growing grants to replace the wilding grants. Bring on the end of windfall taxes now the windfall surge in global oil and gas prices is over. Set corporation tax competitively. This will bring in more investment, encourage home based expansion, and start to correct the capacity shortages that damage us today. The current model is subsidy driven with government needing to offer large sums to get a single new car or battery

factory over the line.

More potholes and worse potholes

This weekend when I did one of my regular visits around the constituency I found trying to steer round the bigger potholes was getting more difficult than usual. There are too many new holes, and the lack of work to deal with the smaller ones is leading to more large ones which hurt tyres and shake up suspension if you hit them.

I have taken the matter up again with Conservative Councillors who are pressing to get more work done to rescue our roads. The Lib Dem led Council likes spending money on closing and narrowing roads and making the lives of motorists more difficult but does not do enough to stop worrying deterioration.

How you could get a green revolution

I say to all those who write to me wanting to make faster progress to net zero two things. This needs to a world wide movement, as the main producers of CO₂ currently are China, the USA and EU, and the main growth comes from China and India. It can only succeed if it is a popular revolution, as for success it requires everyone in the world with a gas or coal heating system, with an ICE vehicle, with a meat diet, with a wish to travel by plane to change the way we live our lives.

Popular revolutions have been common in my lifetime to date. There was the revolution in advanced country living standards based on the arrival of the phone, the car, the washing machine and the fridge as the commonplace of each household rather than the privileges of the few in the later decades of the last century. This century has seen the digital revolution rush to success on a wave of popular buying and support. So many people have afforded a mobile phone or a home computer or pad, because they wanted the on line services these gadgets can bring. It took no government subsidy, no bans on rival products, no endless exhortation by Ministers to power the revolution. Mighty corporations, mainly American arose and vowed the public, with Amazon's all conquering on line shopping, Alphabet's far reaching searches and information, Microsoft's near universal software, Apple's dominance in equipment and Facebook/Meta's ways of people talking to each other by

internet.

So the Green revolution will succeed when it has the products and services that fly off the shelves because they serve us better and are affordable. Instead of governments taxing, regulating and lecturing us on what we have to do to get CO₂ down, they should be creating the conditions where companies can emerge that wow us with the new ideas. I would like a heat pump heating system for my London flat but am told there isn't one that I can buy as I cannot place a box outside my window on the side of the building. If there is a supplier out there that can help me let me know. I have just bought a modern replacement gas boiler for my home because the heat pumps were far too dear to install and to run and would not necessarily heat to the same standard as gas. Where are the electric heating systems that are better and no dearer than the gas ones most of us use? What is the point of a heat pump if you operate it on a cold day when most of our electricity is generated from fossil fuels as it uses a lot of electricity?

The refusal of around half of UK households to readily take up the offer of a "free " smart meter shows the revolution has a long way to go to be truly popular as the digital one is. Many people fear the new electricity system will mean dearer and less reliable power, and fear the smart meter will come to control or manipulate them in ways they do not want.

[The UK drive to net zero is too expensive and will not lower world CO₂.](#)

I have long been critical of some UK plans to take us on the road to net zero. They entail making it very dear to use energy here so we import high energy using products from abroad. They stop us getting out our own oil and gas so we import more from overseas. They run down our food production from home farms, only to bring in more from abroad.

All those who do think getting world CO₂ down is a crucial priority should attack these plans, as they mean more CO₂ produced in shipping all the things to us. If we bring in more LNG gas that produces far more CO₂ in its compression, shipping and conversion than our own gas down a pipe. If we import German or Chinese steel they may produce more CO₂ in its manufacture than we do, but they will certainly produce more CO₂ in its transport.

Today I want to concentrate on the damage these policies do to our state finances. They lose us lots of revenue, by substituting foreign for domestic production. All the super taxes paid on oil and gas output go to a foreign producer government not to the Treasury. All the taxes on wages and profits in making things go to overseas governments where the exporting factories

lie. There is a major drain on our balance of payments which means the country has to borrow more from overseas to pay the bills in foreign currencies, leading to a higher debt interest burden. This is economic self harm on a grand scale.

There is the excessive expenditure taxpayers are asked to pay for. We should immediately defer the £20bn spend on carbon capture and storage. Our competitors are not doing this and it is just another cost burden, only this time a charge on taxpayers rather than business using the energy. We should cut the government spend on hydrogen development and the proposed new tax to pay for some of it. Hydrogen technology may well represent a good way forward for heating and transport, but there is no reason why taxpayers should pay for experimentation when the world market will allocate capital to what it sees as the most likely winners. The government did not have to send taxpayers money to businesses to develop smartphones and computer pads. The market found them out and paid for them.

The government should reduce taxation on energy using businesses by removing the emissions trading carbon taxes, allowing it remove the subsidies it currently has to pay to offset the damage the taxes do! It should unwind much of the money go round in the energy sector. Today we have subsidies to some ways of delivering energy allied to windfall taxes which are not actually geared to windfall prices but are just another levy. There are too many subsidies and too many taxes today, putting more companies off investing in the UK owing to the complexity and uncertainty surrounding how much anyone will be allowed to profit by large capital commitments.

The government should end the scheme to get taxpayers to pay for smart meters for all homes. Half the country does not want them and they should not be paid for out of taxes. The government should not fund local anti road schemes designed to create more congestion and to ensure vehicles burn more fuel in traffic jams.

The government has to spend a large sum on trying to secure a Jaguar battery factory. Its motor industry policy wants to close all existing diesel and petrol vehicle building and components factories by the end of this decade and it desperately needs new factories to build entirely different electric vehicles instead. To do this it is going to throw huge sums of subsidy at trying to attract the battery and EV plants some companies wish to build somewhere in the world. The government should lift its ban on petrol and diesel vehicles so that it keeps more of the traditional industry for longer. It would then look less desperate to attract EV business and would not have to bid so much subsidy in an attempt to limit the overall loss of jobs and activity.

I share the government's aim to get the deficit down. Saving money on damaging green policies which do not even cut world CO₂ would be a great start to control spending.

The Bank and recession

A few days ago the government celebrated news the UK unlike Germany has escaped recession so far, and welcomed IMF forecasts showing no recession ahead. Now a clumsy Bank of England has driven bond prices down so mortgage rates up as it needlessly threatens more bond sales at depressed prices. There is talk of needing a recession to control inflation.

This is dreadful continuing mismanagement. Why did the Bank carry on with bond buying at very inflated prices for so long? Why was it forecasting 2% inflation for now just two years ago? Why does it not study and comment on huge changes in money and credit which must have a bearing on inflation and output?

The Bank told us it got inflation wrong because it did not foresee the Ukraine war and spike in energy. But why was UK inflation at 5.5% before the war? Why did non energy prices take off? Why did Japanese and Chinese inflation stay low despite energy rises?

The Bank needs to revise its models and try to bring them more in line with what is actually happening to inflation and output. It should not respond too much too late every time, making the cycle worse.