

An economic background to the Leadership election

1. Controlling inflation

We have a fast inflation now thanks to a reckless monetary policy 2020-21. The Chancellor was wrong to authorise the last £150bn of money printing in 2021 on top of the £300 bn he had authorised during the covid lockdowns. The Bank used this extra money to keep interest rates down, and some of the money found its way through the banking system into driving up general prices as well as the obvious inflation in the price of bonds and other financial assets which they were directly buying. The Chancellor was wrong to sign a complete indemnity for the Bank against all their likely losses on the bonds they bought, which are now falling in value as rates rise.

The good news is the Chancellor did end his money printing at the end of 2021. Inflation will fall away rapidly next year as the impact of the higher interest rates and the slower rate of money growth now filter through. Running a bit larger deficit will not boost inflation as long as it is financed by longer term borrowing at market rates without artificial creations of new money. What the state spends will then be saved by the private sector lending the money to the government.

2. Getting the deficit down

Last year the deficit, the gap between tax revenue and state spending, came in £90 lower than the stupid Treasury/OBR forecasts. They completely misjudged again the impact of faster growth on borrowing, As the economy grew faster so much more revenue came in from all the extra transactions and incomes earned by growth, whilst state spending on unemployment related costs fell. Stamp duties surged on more transactions spurred by the rate reductions. This year there is the reverse danger that they will end up borrowing more as they are slowing the economy too much. If they bring on a recession then revenues will fall short and the costs of unemployment will go up. It is best to get the deficit down by going for growth. Getting value for money from spending also matters and cutting back the excessive public sector overhead would help.

3. Taxing to death

The biggest Treasury mistake of the last two years has been the decision to go for a high tax economy. There is the social care tax, the National Insurance hike, the on line tax, the excess profits levy, the failure to increase income tax thresholds in line with inflation, the drift of many more people into higher tax bands, the extra VAT on sky high fuel bills and the threatened 31% increase in Corporation tax bills.

The economy is being slowed quite enough to flush out inflation by the big tightening of money policy and mortgage rate rises and by the big hit to people's real incomes from the surge in energy and food prices. It does not need a third hit from taxes which no other advanced country is trying. The problem will soon be a shortage of demand and a dip to recession, not a continuing fast inflation. It is a pity our peak inflation is delayed by the energy price controls meaning it will likely come in October with the next big hike in bills.

4. Going for growth

The government needs a growth strategy. That requires a bit more demand and lower taxes. Take the VAT off domestic fuel all the time gas prices remain high. Halve the rate of VAT on petrol and diesel. Remove the extra national Insurance. Back investment in UK energy and food capacity at a time of shortages. More oil and gas from the UK will replace expensive and high CO2 imports and will generate a lot of extra tax revenue

The going of Prime Ministers

Most Prime Ministers are removed directly or indirectly by General elections and referendums. In the post war Conservative party only two Prime Ministers have been removed by the party despite being big election winners, Margaret Thatcher and Boris Johnson

Edward Heath was a one term PM. He used a lot of political capital forcing the U.K. into the EEC against the wishes of a substantial portion of his party. He imposed a ludicrous range of controls on the economy to try to control inflation and picked a fight with the miners he was unlikely to win. Electors despatched him.

Mrs Thatcher won three great victories in a row. The experience of government and the evolving EU power grab changed her from Europhile to Eurosceptic. She was brought down by MPs in her own party led by Europhiles.

John Major won an election in 1992 and ploughed on with the deeply damaging European Exchange Rate mechanism policy which duly wrecked the economy. The party foolishly kept him and he went down to a predictable defeat. So comprehensively had he trashed the Conservative reputation for economic competence that he suffered the biggest post war defeat of any Conservative leader in 1997. It was only when Labour did worse by the economy 10 years later that the Conservatives had a chance to win again in 2010.

David Cameron won a good victory in 2015. Misunderstanding the importance of the EU referendum to the win, he backed the wrong side in the popular vote he had granted on the EU and lost. He accepted his defeat and resigned.

Mrs May fought and lost an election in 2017 and then persisted in backing a Brexit sell out to the EU. When she stubbornly insisted on her poor deal for a third time and lost the Commons vote she had to go.

Boris Johnson won a great victory in 2019 by backing Brexit fully. He was then brought down by a range of different MP groups for a range of different reasons.

The common thread seems to be the Eurosceptic PMs were more successful in elections with the public but more vulnerable to party dissent. The more popular PMs faced a much more vitriolic barrage of criticism from Opposition parties, the BBC and the rest of the Establishment. Two of the Europhile PMs, Theresa May and David Cameron were brought down directly by the EU issue, and John Major indirectly as it was his support for the European economic policy that did the damage. The party ratings fell when we were evicted from the Exchange Rate Mechanism and could see the damage, and never rose again in the following 4 years.

[Visit to Biointeractions in Shinfield](#)

I visited Biointeractions at their request. It is a successful company making products to control infection for surgical implants and in other medical uses. They showed me their laboratories, with research, production of their coatings and testing all in the same building at Collegiate Square.

They have grown the business over the years and now have 20 staff. They are developing new products which they think will help infection control in hospitals. It is good news that local talent is working away on one of the crucial issues for the NHS as well as overseas medical services. There is always room to improve infection control to reduce the numbers of people who develop a condition after surgery and treatment.

[My intervention in the Prime Minister's Statement on CHOGM, G7 and NATO summits](#)

Rt Hon Sir John Redwood MP (Wokingham) (Con): Western purchases of Russian energy are paying for Putin's war. Will my right hon. Friend redouble his efforts to ensure that we invest in more production and output of oil, gas

and electricity here, to make our contribution to reducing western dependence?

Boris Johnson, Prime Minister: Yes. I think the UK can be very proud of the way we have moved beyond hydrocarbons in so many areas, but we must recognise the limits and the pace of what we have achieved, and be less neuralgic about using our domestic hydrocarbons, particularly when the alternative is just to import them from abroad.

What should the government do now?

It is difficult to know if the interim government will feel it can do things. Constitutionally of course it can, as it is still formed from the same Conservative majority from the General election of 2019. It still has the same Prime Minister who won that election. Yet some around the table may think they should mark time pending a new decision about direction to be made in the forthcoming leadership election. What is clearly true is there will not be the same uniformity of view and collective responsibility as usual, as several in the Cabinet will be campaigning to be Leader and will wish to differentiate their views from the current line.

I would urge them to be liberated generally. They should try to get agreement to necessary courses of action that cannot easily wait until October and the formation of new government. Here are some of priorities they should press on with or adopt:

1. Intensify the campaign to get more people into work all the time there are so many jobs on offer, as there are still too many people on benefits who could improve their finances by taking work.
2. Put in place all that is necessary to cut the government overhead under the plans identified but not yet implemented fully by Jacob Rees Mogg.
3. Press on rapidly with the Northern Ireland protocol Bill. We need to be free to set our own VAT rates for the whole UK as soon as possible, and to restore GB/Ni trade.
4. Produce a better package to tackle the cost of living crisis. Suspend VAT on domestic fuel, and halve VAT on petrol and diesel immediately. Remove the National Insurance rise. Lift the threat of higher business taxes next year, to show the world the UK is open for business and welcomes more investment.
5. Strengthen legislation to take full control of our borders.
6. Amend the Levelling Up Bill to allow local communities to set the amount of new housing in their local plan.