The Bank of England writes another letter

The establishment states that the Bank of England is independent and is responsible for keeping inflation around 2%. The authors of this relationship did foresee the possibility that the Bank would fail to achieve its single objective. Their remedy was to make the Bank write a letter to the Chancellor, who in turn was empowered to write back. We have just seen another example of the letter writing arts of the two parties. The constitutional position has in fact been that the key decisions of how much money to create and how many bonds to buy, the main drivers of Bank policy in the last 13 years, have been joint ones requiring Treasury sign off.

When you get to letter writing stage it is clear the Chancellor becomes part of the decision process, with the formal opportunity given by way of public letter to criticise, influence, support or reprimand. So far these letter exchanges usually show the Bank offering some excuses for failure to keep inflation down and saying something vague about how they might remedy it going forward. The Chancellor often agrees whilst placing more accent on the excuses or more emphasis on the need for future action depending on what he wants next. No-one can read these exchanges and seriously say the Bank is completely independent. They must accept the ability of the Chancellor to write a public letter invites him or her to influence analysis and policy at a time when the Bank has clearly failed to carry out its single task. If some other Governor in the future had wantonly failed to curb inflation the letter could be the last straw presumably leading to replacement of the poor performing Governor. The government after all owns the Central Bank and appoints its boss.

So what should we make of the latest round of letters? I was disappointed but not surprised that neither side mentioned the fact that they had jointly agreed to create so much money and to go on buying up bonds for so long. That might have affected inflation. Neither side mentioned the rapid rate of money growth during the intense Quantitative easing period or thought that might matter. Neither side made any forecast of what might happen to credit and lending from here or what role the large savings balances of the better off part of the population might play going forward.No-one asked why Bank and OBR forecasts of inflation have been so hopeless.

Both accepted that the obvious large price rises in energy and food played a part more recently following the Russian invasion of Ukraine. Neither asked why China and Japan, large importers of fossil fuels themselves, still have inflation around 2%.

The inflation was mainly fuelled by last year’s policies. This year policy is much tighter, and the Bank itself expects inflation to come down next year. If in the next few weeks inflation does not embed and inflation expectations do not climb, the economic policymakers will need to address a shift from too hot an economy to potentially too much of a slowdown.

[My Question to the Chancellor about the difference in taxes taken in 2022 compared with the last Budget forecasts](#)

Treasury has provided the following answer to your written parliamentary question (11536):

Question:
To ask the Chancellor of the Exchequer, what recent estimate he has made of the difference in tax taken from (a) VAT on fuel, (b) North Sea oil production and profits taxes and (c) all taxes on petrol and diesel sales in 2022 compared with the last Budget forecasts. (11536)

Tabled on: 01 June 2022

Answer:
Helen Whately:

Forecasts for Government tax revenues are provided by the Office for Budget Responsibility (OBR).

Their most recent published forecast, provided for Spring Statement 2022 on 23 March, is available on the OBR website at the following link https://obr.uk/efo/economic-and-fiscal-outlook-march-2022/.

For the financial year 2022-23, Value Added Tax is forecast to be £154.2bn; UK oil and gas revenues are forecast to be £7.8bn; and fuel duty revenues are forecast to be £26.2bn. An updated forecast will be published by the OBR at the next Fiscal Event.

HM Revenue and Customs publishes monthly tax receipts statistics, including for UK oil and gas production, VAT, and fuel duties, on a cash receipts basis, at GOV.UK at the following link https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk.

The answer was submitted on 13 Jun 2022 at 13:40.

JR Reply VAT on domestic fuel must be delivering considerably more VAT now the typical bill has gone up by 50%. VAT on petrol and diesel must also be substantially up on forecast now pump prices are in the 180s and 190s.

[My Question to the Chancellor about the potential effects of a windfall tax and a planned increased corporation tax]

Treasury has provided the following answer to your written parliamentary question (11537):

Question:
To ask the Chancellor of the Exchequer, what assessment he has made of the potential effect of the (a) windfall tax on oil and gas producer profits and (b) planned increase in corporation tax on the UK's position in global league tables of the best places to do business. (11537)

Tabled on: 01 June 2022

Answer:
Helen Whately:

The UK's oil and gas ring fence tax regime balances attracting investment with ensuring a fair return for the nation.

The Energy Profits Levy is an additional, temporary tax which reflects the extraordinary global context. It will raise around £5 billion over the next year. The OBR will take account of this policy in their next forecast.

The UK's rate of Corporation Tax is currently 19%.

To balance the need to raise revenue with having an internationally competitive tax system, the Chancellor announced at Spring Budget 2021 that the rate of Corporation Tax would increase to 25% from April 2023, after the point at which the economy is expected to recover to its pre-pandemic level. 25% is the lowest rate of tax in the G7.

The answer was submitted on 13 Jun 2022 at 13:47.

JR Response   The Minister does not tell us what impact a 31% increase in the corporate tax rate will have, and omits the possibility that the windfall tax on oil and gas will run for three years, not just one. These changes must have an adverse impact on investment.

My intervention to the Home Office Minister about the total cost of setting up every economic migrant upon arrival to the UK

Rt Hon Sir John Redwood MP (Wokingham) (Con): We all wish to end abusive people trafficking and the dreadful journeys across the channel. As the Opposition's only idea to tackle it is to let in every economic migrant who wants to come, will the Minister tell us how much it costs taxpayers in Britain to set up every economic migrant in decent circumstances when they arrive?

Tom Pursglove, Parliamentary Under-Secretary of State: It is fair to say that the costs associated with this illegal migration to our country are considerable and unsustainable. That is why we have the new plan for immigration in place to get it under control and ensure that those who follow the rules and seek to come here through safe and legal means are not disadvantaged by those attempting dangerous and unnecessary crossings as we have seen. For example, we are spending nearly £5 million a day on hotel accommodation in the asylum system. That cannot carry on, and that is why we must act as we are proposing.

My intervention to the Treasury Minister about the Government's big increase in tax burden

Rt Hon Sir John Redwood MP (Wokingham) (Con): Why are the UK Government the only Government of an advanced country making a big increase in the tax burden this year and next, at exactly the same time as we are seeing very necessary monetary tightening to control inflation and a huge hit to net incomes from that inflation itself? Is that big tax rise not bound to make things worse and slow the economy too much?

John Glen, Minister of State (Treasury): We always listen carefully to my right hon. Friend. As he will know, we cut taxes earlier this year for hundreds of thousands of businesses though an increase in the employment allowance. We have also slashed fuel duty and halved business rates for eligible high street firms. We will continue to support growth through tax incentives, including the annual investment allowance and the super deduction—the biggest two-year business cuts in modern British history.

As I said in my response to Mr McFadden a few moments ago, we look forward to working closely with him and Back Benchers to construct the right agenda going into the future.