

## IMF forecasts

The IMF thinks all the western advanced economies will slow down a lot this year. Of course they will, because the Federal Reserve Board in the USA, the European Central Bank and the Bank of England have shifted from very inflationary policies to very tight policies. They have hiked interest rates, stopped buying up bonds and encouraged a credit squeeze. On top of this the UK has had a tax raising budget to add to the squeeze, whilst the Bank of England has gone for an ultra austere policy of selling bonds it owns at losses to drive up mortgages and other interest rates. The IMF as a result puts the UK towards the bottom of the pack for the year ahead after a great 2022. It may be too optimistic about some of the others, given the need for the Euro area to take more action to get inflation down.

These lurches of policy by advanced countries are unhelpful and unnecessary. Switzerland, China and Japan avoided the high inflation figures of the USA and Europe/UK by not buying up so many bonds and running such a loose policy. Only the UK has added a large rise in business tax and substantial fiscal drag on personal income taxes by not raising allowances in line with inflation. These tax changes will ensure slower growth. The business tax rises when added to the windfall taxes hitting the energy sector will ensure weak investment flows in the year ahead adding to the downturn. The Bank of England should reduce the severity of its bond sales, allowing its balance sheet to shrink as bonds fall due for repayment. The Treasury should abandon its tax rises and understand that it will collect more revenue if it allows more growth.

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## The IMF queries Bank of England policy

In an interesting recent IMF blog three senior officials advise Central Banks on how to balance counter inflation policy with the need to avoid problems with banks and non bank financial institutions.

They look at how UK pension funds and liability driven investment strategies revealed “the perilous interplay of leverage, liquidity risk and inter connectedness”. They query how a Central Bank injecting liquidity to ease such a situation could complicate the fight against inflation. They propose three types of permitted intervention. Discretionary market wide intervention targeted to segments at risk. Lender of last resort loans. Standing loan facilities for non bank financial institutions in need.

They go on to stress “Clear communication is critical, so that liquidity support is not perceived to be working at cross purposes with monetary policy. For example, purchasing assets to restore stability while continuing with quantitative tightening to bring inflation back to target may cloud

intent and complicate communication. “ Yet this is what the Bank of England tried over LDI.

This is what the Bank of England did. They deliberately drove bond prices down by announcing and commencing a large bond sale programme. This led to big losses in pension funds, and more calls for cash on the geared positions in government bonds LDI funds were running. LDI funds then also sold bonds to meet calls making their positions worse and increasing the losses. The Bank then bought up some bonds to reverse some of the price falls it had helped create.

The truth is the Fed and the Bank of England printed too much money and kept rates too low in 2021. In the last year they rushed to tighten, causing tremors in UK pension funds and some US regional banks. When financial instability appeared they both eased by supplying money to markets offsetting the severe Quantitative tightening they were still executing. They should both take money and credit growth more seriously and stop lurching from too easy to too tight.

It is strange the leading western Central banks all thought they could create money and buy bonds at ever higher prices to ease conditions without it causing inflation. They were wrong. Now they think they can sell bonds at ever lower prices, tightening money and drying up liquidity without it causing any problems amongst banks, pension funds and other large holders of bonds. Why?

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## [My Telegraph piece on Nigel Lawson \(with addition\)](#)

The sad news of Nigel Lawson's death gives us the opportunity to remember his great contribution to the success of our country. We mourn with his family but celebrate a life well lived. It was a life which made a big addition to the debate about how to promote prosperity for the many and how to fuel faster growth with better economic performance. The arguments he deployed are relevant today as we consider how to carry on the great task of promoting greater prosperity for more people.

Nigel Lawson proved that lower tax rates can bring more revenue and higher living standards. Faced with a Treasury that did not want to believe you can increase the income by reducing the tax rate, he made big reductions in the company tax rate and the rates of Income Tax. This helped propel the economy to faster growth. Rich people came or returned to the UK to invest, to create jobs and make their homes. Large international companies took a more positive view on the attractions of the UK as a place to put their car plant or their consumer product factory.

The Conservatives took over after a poor decade. Half the car industry output had been lost in the first ten years of European membership. With no tariff protection the UK industry lost out to continental competition. In the 1980s with new policies that were friendlier to business the industry was rebuilt by attracting in new overseas investors including the leading Japanese car makers.

He worked closely with Margaret Thatcher in the early years as Chancellor to liberate the self employed and small businesses, as well as to foster more large company business. I remember being able to draft for a speech of Margaret's the news that the Income tax rate cuts meant the rich paid more income tax in cash, paid more income tax in real terms, and paid a higher proportion of the total income tax take. The depressing socialist case against tax cuts for the rich seemed absurd. The way to tax the rich more is to set tax rates at levels they will stay to pay. Nigel was out to reverse the brain drain of the Labour years when successful UK people from pop stars to entrepreneurs left the country in search of lower tax rates. The government welcomed aspiration and recognised the importance of spreading wealth widely, not confiscating it for a jealous state to spend.

Nigel Lawson had been Energy Secretary and recognised from his experiences that introducing private capital and competition into major national monopolies could help transform the country. The privatisation of gas, electricity and telecommunications unleashed a feast of new investment. It transformed an out of date electro mechanical phone system with electronic technology and extra capacity. It drove down electricity prices whilst shifting from dirty coal to cleaner gas, making it a great environmental as well as business policy. It became possible to get a phone line quickly without having to share it with the neighbours. The UK got cheaper energy to help business compete. Nigel and the Treasury resisted opening the monopolies up to maximum competition, though over time it was still possible to move policy in that direction. I always argued introducing competition would improve outcomes more than just changing ownership, though both were helpful.

Nigel Lawson was an innovative Financial Secretary to the Treasury setting out a new control system for the UK economy which worked well, combining controlling budget deficits with curbing money supply growth. After years of boom inflation and poor output the UK economy started to perform much better. It was a pity that later as Chancellor he lost faith in his own economic policy framework, accepting official advice to seek to join the European Exchange Rate Mechanism. This introduced an unwelcome lack of discipline into money and credit, created a fast inflation and then led to a traditional boom/ bust cycle as the authorities battled with their own past mistakes. It also led to tensions with the Prime Minister who believed the advice she was given that the Exchange Rate Mechanism would be destabilising.

Nigel Lawson achieved a great deal for our country. He showed that a country needs to earn its living, and can only do that when it backs the entrepreneurs and investors and allows lower tax rates to work their magic.

Just as Ireland today shows how a low corporation tax rate gives them a giant advantage in attracting big business, jobs and investment, so Nigel Lawson reminds us just how much we need such bravery again to grow faster and

offer better pay and wider ownership to the many. The Opposition parties in Parliament seem to think you can keep upping the tax rates on the enterprising and successful, apparently unaware of the history. Tax too much and the enterprising will leave. Tax too much and the new factories go elsewhere. Tax too much and you will raise less revenue for public services not more. Thanks to Nigel we know what works better.

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## Blocking the roads

Each time I use my car to get to work or to visit places in my constituency to keep in touch I encounter some new obstacle to getting around. Each journey poses its own mixture of traffic jams, temporary lights, closed roads, restricted carriageways, narrowed lanes, reduced lanes and new speed restrictions.

Some of the disruption is the result of the UK madness of putting most cables, pipes and wires under tarmac roads then digging them up every time you need access for repair and improvement. The utilities and Ministers I have talked to over the years about why not place new or replacement cables and pipes in accessible conduits, preferably under pavements to avoid digging up main roads have always agreed but failed to implement. Management of road closures to allow access to existing pipes and cables is often poor with much wasted time with the road closed but no work underway.

Some of it is Councils wanting to force people out of their cars and vans. Councils who claim to have no cash to pay for decent social services or to maintain a good refuse service have bundles of banknotes to change kerbs, pavements, install more traffic lights, paint roads and festoon them with new signs and surveillance cameras. Many Councils take a sadistic delight in making the lives of the motorist, the van driver and goods delivery driver almost impossible.

Some of it is pressure of traffic on the diminishing number of roads that survive. We invite in hundreds of thousands additional people each year but fail to put in extra roadspace for theirs cars. In fast growing areas like Wokingham the Conservative Council did put in some important new roads and by passes, but the Lib Dem led Council is now busy narrowing or closing roads to make life difficult.

This is a major impediment to productivity and business success. Those running businesses to help us at home book fewer appointments to allow for the delays on the roads. They need to add to the charges the costs of Congestion and low emissions zones, car parking charges and the extra fuel used in traffic jams. The London Mayor's widened ULEZ zone is very unpopular, seeking to stop people with older vehicles and lower incomes from using their cars.

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## Wokingham surveys

I have been reading through the survey returns we have been getting from local residents. I have been particularly interested in the question about what change people would most like to see to improve our area.

The winner was to build fewer new homes. I agree and have been pressing the Council to produce a new local plan with lower development rates, and have worked with other MPs to persuade the government to allow greater local determination of building rates going forward if there is a new local plan in place.

In second place was the wish to see more police on the streets. This was coupled with some who wanted a police station in central Wokingham again. The government has supported Thames Valley Police in recruiting and training more officers, which we want to see reflected in Wokingham patrols.

In third place was unhappiness about what were seen as dangerous electric scooters and bicycles. There was considerable opposition to cycle lanes and some wish to see electric scooters banned altogether. If you added the comments on cycles and bikes to the comments on the wish to see better roads and fewer potholes that became a most important issue.

Several opposed the ending of weekly waste collection, wanted more surgery capacity to cope with more homes and people, and some wanted free parking for shoppers. No-one wrote in for higher parking charges, a worse refuse service or restrictions on getting to the town centre and parking. The Council should take note of these views.