Cutting CO 2

Governments and all the UK parties in Parliament want to cut UK CO 2 output. I have been arguing against some the damaging self defeating policies they propose to do this. Stopping UK gas and oil extraction in order to import oil and gas increases world CO 2 as well as cutting our jobs and tax revenues. So does stopping food growing here so we import more. Blocking roads and deliberately creating traffic congestion boosts CO 2 from delayed vehicles. Today I will give my top picks on popular policies Ministers could follow to cut UK CO 2.

1. Reduce legal and illegal migration. Every extra person has a carbon footprint, and needs a home and public service provision that also generate CO 2

2. Tell the public sector to substitute on line meetings for foreign travel to international meetings in most cases.

3. Install solar panels on most public sector roofs

4. Replace public sector gas central heating systems with heat pumps to create a market for them, which should then drive down prices and improve effectiveness of these unpopular products.

5. Step up bypass and better junction construction on roads to improve average fuel economy on journeys and remove more traffic from congested urban areas

6 Cancel work beyond current firm commitments on HS2. It is very carbon intensive.

7.

What is a windfall?

Windfall taxes make the things taxed dearer. They reduce investment and output in the items taxed, cutting supply.

We were told that the very high prices of gas and oil that resulted from Putin's invasion of Ukraine and from the West's decision to stop buying Russian energy were generating windfall profits, both by the fossil fuel companies and by the renewable generators whose prices of electricity reflected the gas price. Gas remains the largest fuel source used in UK generation.

It is true there were such windfall profits as the gas price soared. Today the wholesale gas price is 85% lower than the peak it reached at the worst point after the outbreak of war. The oil price is also down by a third from Ukraine highs. If you impose a windfall tax based on a one off shift in prices that gives companies a bonus, shouldn't you remove the tax when that price change disappears? It was a weakness of the windfall tax that it did not describe the nature of the windfall or seek to fairly reflect its size and duration going forward.

Few will be sympathetic to large energy companies who have recently been making large profits. However, if the UK perseveres with a level of taxation that is materially higher than elsewhere for energy, and demonstrates an unwillingness to remove windfall taxes after the windfall has gone, we will find it more difficult to attract the investment and jobs we need to produce more domestic energy. Customers end up paying the higher taxes and business will migrate to lower taxed countries.

Carbon capture and storage

The government is pressing ahead with carbon capture and storage projects. When I asked on Thursday who was paying I think the answer was taxpayers, though the Minister delphically said they will "socialise" the costs.

Normally when a business makes an investment customers pay for the output from the facility being installed. In this case the output is storing a lot of $CO2$, where the customer seems to be the state. It raises the question whose $CO2$ is it storing? Is that a cost of whatever caused the extra CO 2 in the first place? Some of it will indeed be CO 2 generated by the state itself, with all those heating systems in public sector offices and all that travel of public officials.

Overall the UK government needs to review just how much extra cost it is imposing through windfall taxes, carbon taxes and now these carbon capture schemes. It needs to get off the import best model. Current carbon accounting based on national boundaries still seems to encourage Ministers and officials to close down or drive out carbon dioxide generating activities in the UK, only to import the goods needed from abroad who can then account for the CO 2 in their national figures. This makes no sense for controlling world CO 2 and is damaging to the UK economy and business.

The present international carbon accounting could have been designed for April 1st.

Money and the Bank

It is strange that the Bank of England has a Monetary Policy Committee yet declines to set targets for money and credit expansion. It does not normally comment on money and credit growth in its Reports, preferring to concentrate on past figures for GDP, inflation, estimated capacity utilisation and unemployment. Its forecasting record has been poor in recent years. It confidently expected inflation to stay down around 2% following its big monetary expansion and bond buying policy of 2020-21. It has only recently accepted inflation has greatly overshot its target and forecasts, waiting for the overshoot before admitting it. It now forecasts inflation to fall well below target in a couple of year's time, yet still hiked interest rates higher as if it did not believe its own forecast.

Whilst it is true that any given monetary measure may become distorted if it is a target or prime interest of a Central Bank, it is also true that if we look at any of the great inflations they have been accompanied or caused by excessive money and credit creation in their early stages. Given the Bank's wish to interfere in the bond markets and to manage interest rates for various periods of borrowing from overnight to 50 years, you would have thought it would take an interest in how much money and credit is in circulation and in how far that might expand given its actions. If inflation is agreed by the Bank to be too much money chasing too few goods, they should not only study the too few goods (capacity) but also the too much money. Traditionally Central Banks have tried to control money and credit by moving interest rates, expecting commercial banks to lend less when rates are higher and lend more when rates are lower. More recently Central Banks have directly boosted money supply by creating bank reserves to buy up bonds. Much of this money initially found its way into asset prices, creating inflation in bonds, shares and property. More recently the inflation has spread into goods and services, as the money freed from the bonds has been spent.

The Bank should introduce some paragraphs in its commentary on rates of money and credit growth. They should explain why they think fast growth in these aggregates will not on that occasion produce inflation. Today they need to comment on whether there is enough money and credit around, given the slowdown and the dramatic change in money policy they have put the economy through.

The prime task of Central banks is to support commercial banks

Keeping inflation to 2% is a crucial role of the Bank of England, ECB and

Fed. As events in the USA have just shown, it is however less important that avoiding banking collapse. Since Silicon Valley Bank got into trouble the Fed has made a huge change to its money policy, flipping from ultra tight with plenty of money withdrawal by selling bonds, to a large easing with $300 bn of loans to commercial banks. It had to make the switch as it is the first duty of a Central Bank to provide cash to commercial banks so they can honour their deposits if a lot of people all want to withdraw at the same time.

The decision to shift to a much easier money policy in the short term was screened by still continuing with a 25 bp or 0.25% interest rate hike. The Fed wished to reassure some that it is still battling inflation, whilst reassuring others that their deposits are safe. Silicon Valley Bank had got into trouble because the Fed has raised rates so much, losing SVB money on the bonds it held. It is a reminder that shifting money policy to too tough brings different kinds of problems.

All the Central banks need to review where they are in money tightening and in bringing down inflation. There are always lags – it takes time to get inflation down by raising rates and throttling credit. It is important not to overdo the tightening as that can undermine banks as it hits the affordability of credit and the value of bank investment holdings in bonds. They will all need to make sure plenty of cash is available to any bank that comes under unwelcome pressure to repay deposits, as that is the way to make sure there is no such run.