Boosting supply to ease the squeeze and lower inflation

The UK is short of oil and gas from domestic sources. In recent years we have come to rely more and more on imports of gas and oil, despite having more reserves available at home. During this next decade when we still need plenty of gas for home heating and industrial processes, and plenty of oil for transport and petro chemical activity there is a good case to extract more of our own oil and gas. The understandable wish of the west to remove Russian oil and gas from supply chains adds more impetus to the need to reduce our use of imports.

Those who are most concerned about the output of CO2 need to accept that if we substitute domestic gas supplied by pipe from a UK field we will greatly reduce the CO2 output compared to importing LNG gas which requires energy to compress, transport and decompress it. The Treasury would be delighted as home produced gas means a big tax bonanza for UK state instead of passing huge sums of money over to foreign governments and companies for the imports. Anyone keen to promote more better paid jobs would also welcome it, as the oil industry does usually pay well and we would have more of these skilled ,jobs in the UK benefitting our citizens and tax collectors.

Ministers have announced that they do wish to see more UK gas produced as a transition fuel here at home. Today I ask will the Regulators and officials press on with a greater sense of urgency? Where are we with the potential of Cambo, Rosebank, Bentley, Finlaggan. Jackdaw, Lancaster fields and the others that could be speeded up? What scope is there to accelerate production from fields that are up and running already? Where have we got to on the possible reopening of the Rough storage facility?

At a time when the EU is facing rationing and a difficult future without Russian gas the UK could assist by producing and investing in more production in its own oil and gas fields.

Too many people draw lessons from the 1970s without studying its history

It is strange to read and hear unquestioning assertions that the high inflation of the mid 1970s was the result of Chancellor Barber’s tax cuts. If you study the history you would conclude that the Barber period did indeed see an inflationary price bubble especially for property and financial assets, brought on by a change of money policy.
The Bank and Treasury in 1971 gave up on a complex system of quantitative

controls on bank lending, substituting Competition and credit control as a policy. The deregulation would have been a good idea if the Bank had then used its retained powers to fix short term rates in a way which limited overall credit and money creation. Instead they went for a credit and money boom which powered the property and secondary banking bubble. In 1973 with clear overheating they abruptly changed policy just in time for the blow of the oil price OPEC surge to widen the inflation and add to the downturn their money policy lurch generated.

There are some similarities with today. Today the Bank has lurched from far too much money creation and low rates to money destruction and higher rates, just as in the 1970 s the Bank and Treasury lurched from far too much private lending and low rates to too little. Then as now the asset inflation broadened out into a general inflation pushed hard by an external energy price shock. These external shocks pushed up the inflation rate but also took demand growth out of the domestic economy leading to recession in the 1970s. Today we will have a recession if we persevere with higher taxes and a severe monetary tightening at the same time as the real income hit from energy.

[The Bank tries various sets of forecasts]()

After the collapse of its famous 2% inflation forecast for this year the Bank has gone over to providing a range of forecasts. These at least accept the uncertainties of the world and the difficulties of accurate spot forecasts. On one of their scenarios inflation tumbles well below target over the next two years and on their base case after inflation yet again higher for longer than past estimates, it too subsides to target in two years. On all of the scenarios there is a big hit to real incomes and GDP from the fourth quarter of this year.

The Bank makes it more difficult for itself in forecasting by assuming no fiscal policy changes and assuming no new shocks in either direction. The Bank's mandate is primarily to keep inflation around the 2% CPI target, but it also is required to take growth and employment into account. The Bank's rationale for tightening money policy so much that a recession is likely is that they need to stamp hard on the inflation now to stop it running away with them. They are right to want to arrest any wage/price spiral. If they look at the data there is no sign of that happening, with wages lagging prices by a wide margin leaving many more people worse off. This is likely to be followed by falls in inflation as a result. The inflation in the UK has been delayed and extended by the energy price controls which mean there is more bad news to come this autumn when the price cap is lifted again.

Markets expect the Bank to carry on increasing rates this year all the time there is still plenty of inflation around, but expect them to have to cut again next year as recession sets in. It is a depressing boom/bust policy all over again. The Bank fails to forecast big issues ahead, follows the wrong path, then corrects retrospectively. It should instead be looking ahead more. The main problem is shifting from inflation to recession at the very moment the Bank wakes up fully to the inflation.

In May 2021 the Bank forecast 2.3% inflation for Q2 2022 and 2.0% for Q2 2022 with rates at 0.1% then 0.3%

In August 2021 the Bank forecast 3.3% inflation for Q3 2022 and 2.1% for Q3 2023 with rates at 0.2% and then 0.4%

Memo to an incoming PM Changing the Downing Street organisation

Under Boris Johnson the size of the Downing Street and Cabinet offices expanded. Each time Boris was persuaded that the centre was not working as it should nor serving him well he would add additional people. It became increasingly difficult to know who under the PM was in charge, who was responsible for any given policy or problem, who might write the brief for the PM or who might follow up any PM decision and get action from Whitehall once decided.

The simple structure under Margaret Thatcher rested on three senior officials, the Principal Private Secretary, the Head of Policy and the Chief Spokesman. Each of us knew the PM's mind on things we were handling and each of us made sure in our spheres of action that any wish or decision by the PM was put through the proper Cabinet and Cabinet Committee procedures or referred to the responsible department for decision and action. As Head of Policy I made sure the PM had personal briefing on the major issues coming before her from Cabinet and from inter departmental correspondence analysing problems from a Head of government viewpoint to see if they were in line with strategy and made sense in the light of the government's other objectives.

Number 10 today has a Chief of Staff, a Permanent Secretary, a Principal Private Secretary, three Deputy Chiefs of Staff, a political Head of Policy and an official Head of policy, a Cabinet Office Minister of State and various other senior officials. The Cabinet Office has expanded its roles with a Permanent Secretary as well as the Cabinet Secretary who used to run it. Clearly many of these individuals cannot always be in the room when the PM considers or decides something. There is no clear structure of who should brief the PM on an issue, attend the meeting and organise the follow up.

The incoming PM would be well advised to slim the structure down and appoint a handful of senior people they trust, with a working plan to ensure that every meeting matters, every meeting with an outcome is properly recorded, and every issue the PM wishes to pursue is properly followed up. The PM also needs to take more control of the diary. Time is the most precious PM commodity. How it is allocated will help determine what gets done and what is important to the government.Slimming Downing Street would be visible proof of the wish to run a leaner and more effective government machine more generally.

Independent Regulators need scrutiny

The public regard Ministers as responsible for many things, including areas where independent bodies have been given wide ranging powers. The independent Bank of England is responsible for keeping inflation to 2% but the public blame the government if inflation takes off and nothing appears to be done about it. The recent failure of U.K. monetary policy to keep inflation around 2% was entirely predictable and was the result of policy error, allied to a bad economic model of the economy and very optimistic inflation forecasts from the Bank and Treasury. I have commented often on the troubles of too much money creation. Today my case is errors by other Regulators are all too common. The government will be blamed for what they do wrong. All of them are creatures of Parliament, with management appointed by government and their costs underwritten by taxpayers.

Let ‘s take the case of the Water Regulator. Ofwat controls profits, prices and investment programmes. There has been recent justified criticism of too many dirty water discharges into rivers. You can blame the companies, but they would argue financial controls limit the amount of investment in additional capacity they can put in.The solution to dirty discharges is large spending on bigger pipes to handle growing volumes, which requires regulatory approval of the additional money needed to pay for it and of the physical works.

The water Regulator also helps limit the amount of additional capacity there is to treat and store clean water. Despite high levels of inward migration which argues for substantial extra capacity there has been a reliance on the stretch from old reservoirs. As a result whenever we have a dry season the industry has to dust down rationing plans . Water is the ultimate renewable resource, passing from rivers to sea and recirculating through rain. The U.K. Water Regulator has not served us well over quantity of water supply and over cleanliness of water returned to rivers.

The Electricity Regulator and grid led system keeps us very short of domestic generating capacity. It means we are stupidly dependent on an energy short EU to bail us out in times of high demand and or poor supply. The Regulator has also presided over the bankruptcy of too many electricity supply companies, landing taxpayers with a big bill for the largest that went under. Doesn't this warrant a review? We could do with more private investment in providing reliable power from domestic sources, and reassurance that there will not be future large bail out bills.

The Regulator of Offshore oil and gas has interpreted their brief as rapid rundown of the U.K. North Sea in pursuit of net zero targets. Unfortunately this just means we import more gas from abroad which costs us far more and entails the production of more CO_2 than burning our own. There are now indications of a welcome change of approach. Gas is a crucial transition fuel this decade. We need to do far more to produce our own at a time of gas shortage and the use of gas as a weapon by Russia. A good new policy will bring more U.K. private investment and more better paid jobs.