

Boom and bust from the Treasury and Bank

History shows us that Treasury and Bank advice for the last fifty years has been poor, or in some cases Treasury advisers failed to prevent Chancellors making bad mistakes.

1970-73 The Bank allowed a massive explosion of credit, creating a secondary banking and property crisis. Inflation took off, and the Bank posted higher rates to contain it. A collapse was inevitable

1973-4 An oil crisis brought on by OPEC hike oil prices and cutting supply added to the inflation. Higher interest rates and the net income hit from higher prices took the economy into recession and brought the property and banking system into trouble.

The Conservative government followed pay and price policies which did not work and failed to control the boom/bust policy of the Bank of England over credit and property valuations.

JR view – too inexperienced to have a view of the policy errors.

1974-6 A Labour government came in thanks to economic failure by outgoing Conservatives. It decided to spend and borrow too much. Inflation continued and the government was forced into a visit to the IMF to borrow money to shore up the falling pound.

1976-9 Inflation and low growth stalked the UK economy , allied to a winter of strikes.

JR view I disagreed with the big uplifts in public spending and borrowing , especially through nationalised industries and saw them as inflationary and negative for growth

The Labour government followed a disastrous economic policy unconstrained by Bank or Treasury advice or maybe with their agreement.

1990-92 The UK joins the European Exchange Rate Mechanism. Economy enters a period of too much money and credit expansion, bringing on inflation, to be followed by a weak pound, excessive monetary tightening and a big recession.

JR view I wrote a pamphlet explaining how the ERM would be destabilising and argued the case against joining and against staying in.

The Conservative government was to blame for accepting strongly held Bank and Treasury advice to join and sticking with it after it was clear it was a disaster. Conservatives were evicted from government for 13 years for economic incompetence.

2004-7 Treasury, Bank and Gordon Brown allowed a big increase in credit and

expansion of commercial bank balance sheets, claiming this would not be inflationary. Balance sheets of banks and borrowers become very overextended and inflation rose. Bank, Treasury and government then reined in credit too abruptly, raised rates and forced write offs of debt leading to the great financial crash and recession of 2008-9

JR view I opposed with my party the big build up in debt, and I also opposed correcting the imbalances so abruptly in a way designed to bring on bank collapses.

The Labour government lost office, so far for 12 years, based on its economic incompetence.

During all this time of boom/bust and defeats of governments I do not recall much comment on senior Bank of England or Treasury officials offering bad advice. Some of these events were brought on by following official advice. There has been no proper enquiry into bad advice and wrong forecasts.

[My Conservative Home article](#)

Some Conservatives are taking heart from the fact that in Wakefield and Honiton Conservatives stayed away rather than switching to Labour. It should after all be easier to persuade abstainers back than to tell switchers they have got it wrong. In Wakefield there was also an unusually high percentage voting for some of the many fringe parties and candidates that seek some attention on a by election hustings. Independent candidates normally get less than 1% of the vote each. One of the Independents got 7.6% of the vote, the Yorkshire party polled 4.3% and Reform and Britain First together got 3%, more than the Lib Dems scored. Many of these voters could be attracted to a stronger Conservative offer.

Understanding why Conservative voters abstained or voted for candidates other than the three main parties is crucial for the government to do the right thing from here. The idea of a Red Wall is unhelpful. Voters in former Labour seats voted Conservative in 2019 because they wanted something different to the Labour offer of a bigger public sector, a preoccupation with political correctness and higher taxes, not because they wanted a Conservative version of the same.

They wanted more than Brexit in name only. They wanted a proud UK to use her newly won freedoms to promote prosperity for the many and to place the UK back on the global stage without instruction or limitation from Brussels. They had concluded that sending more money to the local Council, spending

more on new public buildings and looking for the civil service to make everyone better off was not going to work. They disliked the EU model of closing down much productive capacity in the UK to import from the continent. They wanted a more enterprising freer UK where government helped people get on in the world. They wanted home ownership for the many, more opportunity to work for yourself, to set up a small business, to gain shares and bonuses by working for a good private sector firm, to receive the education and training needed to get promoted. Labour's collective and state organised ideas often stifled individuals and families making a success of their own plans for ownership, self improvement and better paid employment.

They expected Conservatives to lower taxes on work and enterprise, to promote more employment and to back business. They assumed that whilst there would be more money for schools and hospitals Conservative Ministers would be careful to control overall spending and would not allow an unwieldy bureaucracy to grow and grow without restraint. They did not want more quangos lecturing us on what we were allowed to say ,on how we should lead our lives and why we must buy a heat pump. They looked forward to ending the large payments to the EU and wanted overseas aid removed from countries with nuclear weapons or space programmes. Many people refused a free smart meter and opposed more surveillance as examples of creeping government control.

So why do so many of them now feel they have not got what they asked for? They did not expect a Conservative Chancellor to authorise huge extra quantities of money printing last year in a way that was bound to lead to more inflation. They did not ask him to underwrite with their money another £150bn of bond buying by the Bank of England, paying very high prices for the bonds. They certainly did not vote for a hike in National Insurance, a tax rise expressly ruled out in the Conservative Manifesto. They did not want IR35 strengthened further to put off people working for themselves. They hoped that VAT would come down or be taken off things like domestic heating once we were free of the EU and able to set our own tax rates. When the Ukraine war added a further nasty twist to the inflationary spiral they expected the Chancellor to cut the VAT rates on electricity, gas, diesel and petrol, not to use it as an opportunity to tax us more on these necessities.

So what should the government do now to prove it has understood the message of the voters in recent elections? The main changes have to come from the Treasury. It is bad economic policy that is doing the damage. The hit to real incomes is too hard, taxes are too high, and current policy threatens us with a recession. The government needs a convincing growth strategy. That requires immediate action to cut VAT on fuels to ease the squeeze and cut the prices. It means binning the planned 31% increase in the rate of Corporation tax on businesses and stopping the attack on home produced energy through the supplementary profits or windfall tax they are planning. The Chancellor rightly wants an investment led recovery with more capacity being put into

the UK. He will not get that if he serves up higher business taxes and a recession.

The government should go all out to create the best environment for business investment and growth in the advanced world. Strong businesses will bring more jobs, better paid jobs and more capacity. The UK as a result of years in the single market depends far too much on imports for everything from temperate food to energy, from steel to cars which it can produce for itself. If we matched the Irish corporation tax rate we could add to our capacity much more quickly and collect more in total business tax revenue. If the Treasury beefed up the freedoms in the Freeports that could help us grow new industries.

There are some signs that the Business department does want us to produce more of our own gas at a time of global shortage. The new oil and gas fields including Jackdaw, Cambo and Rosebank should be brought into use. That will cut our CO2 compared to importing LNG, create more better paid jobs and give the Treasury another tax windfall. There is some work now on a domestic food strategy. We could grow so much more for ourselves at a time of Russian induced shortage. Instead of EU grants to pull the trees out of our orchards we need UK help to replant. The UK with access to more gas could rebuild some of its lost chemicals and fertilizer industry.

This cannot await a late autumn budget. Every day we send out a high tax anti business message more investment will be delayed or diverted. All the time we continue with current policy a sharp slowdown or a complete stop to growth is inevitable. The UK deserves better and can do better. Now is the time to set out a bold strategy for freedom and growth. If we do this the voters will return. We need a new Conservative way forward.

[Stop interfering in industry](#)

The government is running up huge bills on industrial interventions that fail to deliver good results. Its ill judged price control on domestic fuel led to the bankruptcy of a large number of suppliers without preventing a subsequent huge surge in the prices consumers have to pay. taxpayers are now going to be sent a big bill to make good the losses at Bulb, now under state ownership.

Many industries which need to burn a lot of gas and or use a lot electricity have faced 20% VAT, carbon taxes and the Emissions trading scheme. this has

made energy a lot dearer to U.K. industry than in many foreign competitor countries. this has led to the need for some offsetting* energy subsidy to U.K. industry. this is normally less than is needed to allow the U.K. to be properly competitive but an effective reduction is some of the penal taxation.

I read that the government is now concerned about U.K. steel's lack of competitive prices. Why doesn't it simply remove the special taxes on manufacture? It is a nonsense to impose carbon taxes here to price us out of the market, only to import energy intensive products from elsewhere with added CO2 from all the transport.

Wokingham Conservative AGM

At the Earley AGMs on Thursday 14th June and at the Wokingham Conservative AGM on Friday 25th June I spoke about the work I have been doing in a number of important areas.

1. Housing numbers and a new local Plan
2. The need for an economic policy to fight recession
3. Measures to be taken to ease the cost of living squeeze, including some incorporated in the recent government package
4. A new energy policy for the UK to reduce import dependence
5. Home grown food and the countryside
6. Social care needs
7. Tackling health waiting lists

Recent posts on the main website give more the background to my remarks for those interested.

More productivity, higher pay

Most governments want higher productivity, or say they do. most grasp that if you get people to produce more goods or services in a working week you collect more revenue and can share that with employees.

Seeing that is not the same as selling it to those who need to deliver. Understanding it does not mean you can do it. Selling it requires explaining to people that the country can only afford more real pay if it produces more for people to buy with it. If you pay more money but there is no increase in goods you get inflation.

You then need to reassure people that you not saying they have to work harder or longer hours to raise their output. You want to help them work smarter. They may need training to add more value, or need more automation to speed their tasks.

Government Ministers can urge this but they need to show they can do it in those parts of the public sector they directly manage. The truth is the public sector has been particularly disappointing for productivity growth. Ministers now tell us they can slim the civil service. They should have a comprehensive ban on external recruitment to allow natural waste age to cut numbers. This gives employees more promotion opportunities. ministers could authorise external appointment where there was no suitably skilled person in the current civil service.