

The subsidy/tax merry go round

The western economies that have prospered from vibrant free enterprise sectors with competition driving change, quality and value are being subjugated by large scale interventions from government. The US, the UK and the EU are moving towards more managed models, with the state introducing price controls, windfall taxes, subsidies and regulations to have more say over what is bought and sold, where and how things are made and over what people are allowed to buy. State spending and taxes rise as the state takes money from people and companies to give back to people and companies. The energy sector has been particularly prone to this during the energy crisis, with widescale adoption of income support, price controls and company subsidies alongside windfall taxes, redirection of energy purchases and a major drive to change the way energy is generated or provided.

Energy is not alone, however. The price of money was taken way down by state and Central Bank action, only to be priced up again when the predictable inflation broke out. Housing is more and more regulated with more controls over landlords and higher taxes, leading to a contraction in supply and more upwards pressure on rents. The state is deciding to ban products like diesel and petrol cars and certain types of heating. Governments are using sanctions, origin rules and other methods to change the patterns of trade.

Each of these individual actions is introduced to tackle a problem or to pursue a general policy goal, but taken together they can put people off going into business and can deter companies from making the large investments they need to make to provide sufficient capacity. UK gas and oil stays under the sea as policy prefers to import. The electrical revolution requires a massive expansion of grid capacity but so far this has not been forthcoming. This leads to windfarms with no ability to sell their power and companies looking for the power they need to expand their activities.

The subsidy/windfall tax balloon raises state spending and may also raise state borrowing. Governments are underwriting more risks that should reside in the private sector. Businesses ask governments now for grants and loan guarantees before committing to battery plants, EV plants and new energy provision. Governments need to rein in some of their excesses in these areas. They are likely to cut supply and make it more difficult to find the homes, the power and the transport they need.