

Too much inflation

Prices rise when too much money chases too few goods and services. As economists would say, when potential demand outstrips supply, prices rise.

The Bank of England has presided over a big expansion of the amount of money and credit available from March 2020 to 2022. There have been supply shortages of energy, food and much else, with a rush to import. We import LNG gas instead of producing more of our own, losing tax revenue and causing more CO₂ worldwide as a result. We import too much food, giving grants to farmers not to grow more instead of boosting our home output. We make it difficult to produce steel, make ceramics and stay in other high energy using businesses, only to import the products we need with more CO₂ produced by the foreign factories as a result.

The government needs to take action to get inflation down. Short term measures include taking VAT off fuel, and raising the VAT threshold for small business to allow them to expand more quickly. Longer term measures must entail regulatory and tax changes to make and grow more at home, and to produce more domestic energy. Lifting the IR 35 tax on the self employed could regain some of the lost 700,000 self employed of recent years. They will serve us well and generate more taxes of other kinds as a result.

The UK has too few producers. Now is a good time to flex rules and lower tax rates to free the makers and service providers to do more. Government must help get prices down. The Bank must be careful not to lurch from far too much money and credit to too little.