

Trying to get some understanding of the slowdown

Last year economic policy was expansion minded. The Bank of England carried on printing lots of money and kept interest rates around zero. The Treasury decided they could live with a large deficit and allow more spending. No big tax rises were allowed. As expected the economy recovered quickly from the lockdowns. Inflation leapt up as the monetary stimulus was too big.

Some including the Treasury blame world energy prices for the inflation. This does not explain why Japan still has practically no inflation despite depending on imports of oil and gas. Nor does it explain high importing China's low inflation. The U.K. has almost as much inflation as the USA and Euro area who printed even more money and kept rates lower for longer.

This year the Treasury has hiked taxes and the Bank has hiked interest rates whilst ending money printing. They have chosen to do this as energy and food led inflation is taking a huge lump out of people's spending power, acting like a bumper tax rise. This means the economy will slow sharply. The Treasury and Bank have gone from being too lax to being too tough.

Taxing jobs through National Insurance rises is wrong. Hiking the company tax rate next year will deter investment. These policies will cripple growth and lead to a bigger budget deficit. You need growth to get the borrowing down. The government also needs better spending discipline .