

## **Boosting supply to curb inflation**

As the electricity regulator reviews the resilience of the UK grid and generating system it needs to consider how it can encourage more investment in additional capacity. The government and big business tell us we are living through an electrical revolution when more people and businesses will switch from gas heating and petrol and diesel transport to electric versions. Meanwhile the grid operator has had to go back on the idea of closing all the coal power stations in order to keep the lights on when the wind doesn't blow, showing we can be close to the margins even on a summer day. The case seems overwhelming to put in more capacity.

It is true there is considerable further investment underway in wind farms. To solve our problems these need to be linked to battery or hydrogen based storage of output when there is a surplus to handle the shortages when the wind does not blow. It is going to take time to build enough nuclear to give us reliable baseload capacity. Indeed this decade sees the closure of most of our nuclear, making the problems of adequate supply more difficult. We will need sufficient conventional power stations to plug the gaps pending the technological and commercial breakthroughs needed in renewable power delivery. The grid managers need to keep all the capacity we still have and make sure it is available. We also need some more reliable capacity before we can store the wind energy.

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## **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 CO<sub>2</sub> need to accept that if we substitute domestic gas supplied by pipe from a UK field we will greatly reduce the CO<sub>2</sub> 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.

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## [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.

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## 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%

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# 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.