

The UK economy has been let down by the Bank of England, not by Brexit

Mr Carney blames Brexit for the current high inflation. This is the same Mr Carney that predicted on Brexit house prices would fall when they rose, that unemployment would rise but it fell, and GDP would decline when it went up. Funny he now just blames it for inflation when the EU has the same high rate as us, and the USA is not far behind. The pound did fall against the dollar in recent years, but so did the yen and the Euro, so it is even difficult to blame that on Brexit.

Truth is the EU, the UK and the USA have this in common. All three have Central Banks which kept interest rates close to zero and printed huge quantities of euros, pounds and dollars. They used the extra cash to buy government bonds at ever crazier prices to keep longer term as well as managed short rates very low. No wonder we have inflations. Most of the Central Banks now blame Putin's war for the inflation and its impact on energy prices. The Fed sees blaming Brexit would look silly. The trouble with blaming energy prices is Japan, China and Switzerland also import plenty of energy at world prices but they have inflation at 3%, not 10%. Could that be because they did not bloat their money supplies as the UK, US and Euro area did?

Now the Bank of England repents and threatens to overdo its tightening after being far too loose for too long, the Treasury needs to offset undue severity by the Bank. Far from putting up taxes it should selectively be cutting them to make the UK more competitive and attractive to capital. Some lower rates produce more revenue. Nor should it be slashing productive capital investment, as we need the public private partnerships and the new infrastructure to power growth. The Chancellor and PM need to resist a remorse or revenge budget strategy by authorities who got 2021 comprehensively wrong and have created an inflation as a result. Inflation was almost three times target before Russia sent troops into Ukraine.

Why make the downturn worse?

I accept the apparent Bank of England view that longer dated interest rates around 4% are quite high enough. I urge them to stop selling bonds at big losses, as this implies they want these longer rates higher and bond prices even lower, which is wrong.

I think Base rate should be higher. The Bank says it will go higher over the next meetings but leaves us guessing by how much. They should have hiked to 3.75% or 4% if they think that necessary and said they would then let the new

higher rates bring inflation down, as they will do. Why wait? Why did they make the mistake of keeping rates far too low for too long?

Which brings us to the Treasury. Given such a major tightening of money and credit it would be wrong to raise taxes and cut spending on top. The Kwarteng tax and spend package did go too far, especially the energy support which was costed at more than twice the tax cuts. This new government is right to review the energy package after April to make it cheaper. I think they should limit the subsidised energy by volume so a typical family gets it all at lower prices but those with heated swimming pools, fancy garden lighting and very large houses pay full price on the extra energy they use. They also need to reduce poor value and inessential spending. I have set out billions of savings in previous blogs.

They should not impose new taxes, but promote faster growth and more enterprise. They could postpone social care reform which was designed to boost inheritances. They need to recruit and deploy more nurses, doctors, and care workers.

The budget should launch an affordable growth plan, striving to abate or offset the recession the Bank is now forecasting. Austerity 2 is the last thing we need as the Bank brakes the economy sharply to try to correct its big inflationary mistake.

[The Bank is responsible for the inflation mess](#)

According to the government and all the political parties the Bank is independent and responsible for keeping inflation to 2%. Inflation is currently at 10%.

The constitution of course makes the Governor of the Bank report to both the Chancellor and to Parliament. Chancellors have private review meetings with the Bank and Parliament summons the Governor to be questioned by the Treasury Committee. Presumably these contacts are designed to influence and criticise the Bank, otherwise they are a waste of time.

The structure recognised the Bank might follow bad policies which could lead to too much inflation. If that happens the Bank has to send a public letter to the Chancellor and Parliament explaining why and setting out how they will handle the problem. The Chancellor then sends back a public letter commenting on the Bank's approach. The exchange of public letters allows for private exchanges to agree a common line. The Treasury Committee Chair could institute a review of the Bank failure.

On September 22 2021 the Governor wrote the first of a long series of

letters reporting faster inflation. He reported inflation above 3%, forecast a further rise to 4%, said it would be temporary and proposed doing nothing about it. The Chancellor, Mr Sunak wrote back agreeing to inaction. Neither letter writer referred to the excessive money printing and ultra low rates that some of us thought likely to trigger inflation. They preferred to blame companies and markets for the price rises.

The Bank was clearly wrong and did not listen to those of us who said don't carry on printing money and buying bonds. The Chancellor could have insisted on a change of policy in private or sent a more critical and tougher letter in public. The Treasury Committee could have woken up and led a public enquiry into the Bank's policy failure. Is 10% inflation the nearest an independent Bank can get to a 2% target?

[Letter to the Environment Agency about water](#)

Dear Julia

I was disappointed to read your latest fatalistic email asking me to tell the public how bad things are with possibilities of both droughts and floods. The immediate necessity is for you and the water companies to replenish the reservoirs quickly now there is plenty of rain and rivers are often running full. The authorities and companies need to ensure full capacity and plenty of supplies in case there is another dry summer. What action are you taking to put in more reservoir capacity? We cannot keep on accepting more people into the country and building more homes without putting in more water supply.

I also would like an up to date report on the work underway in the Thames basin to contain excess water at times of high rainfall and potential flood. The main burden of flood prevention should rest with the authorities, not with individual householders. Whenever a Council is considering granting planning permission on flood plain I expect your Agency to write in as a Statutory consultee to strongly advise against such construction or to insist on flood control works as part of the development. Older properties were usually built above any autumn flood line.

Yours sincerely

Rishi will need some populism

To become a President or the leader of a majority party modern democrats need to assimilate enough populism to win. The elite establishment view is based around the iron discipline of accelerated progress to net zero, whilst including political correctness and the boom/bust lurches of their economic advice. The elite currently favour recession to tame the inflation their damaging over extended experiment in money printing brought us. This is not a winning ticket.

Populists of the so called right have been adopting some socialist policy features, favouring price controls on basics, subsidies and even windfall taxes. Their more unique and positive remedy of lower taxes is a good selling point, as is their opposition to government lecturing and regulating so many aspects of our lives. They see use of a car as part of our freedoms, and resent culture war thought controls.

Populists of the left want to tax the rich more. Their selling point is the offer of more free money to more people, as they work away at proposals to shorten working weeks, offer minimum incomes and promise ever more “free” public services on a universal basis. They are happy with taxing and regulating cars off the road and with making it more and more difficult to run a free enterprise business. They recruit plenty of thought police.

An incoming leader like Rishi Sunak has difficult judgements to make. He sits at the top of an establishment official and quango ridden government which will wish to expunge populist traits from his policy mix. If he lets them do this he will not rescue the opinion polls. If he insists on too much populism the elite will seek its revenge.