

# Cake in politics

The most infamous cake quote came on the eve of the French revolution from their Queen. "Let them eat cake" as a solution to the poverty of those who could not afford bread became a phrase to sum up just how out of touch governments and elites can become from the reality of the lives of many of those they govern. Marie may never have said it but it is all most people know of her.

More recently Boris Johnson's famous statement that he was in favour of having cake and of eating it was a welcome dose of common sense and optimism against those who favour austerity and bad choices. There is no point in having cake unless you are going to eat it. Leaving it to go mouldy is a bad plan all round. Selling it to someone else may be a good idea for a producer but for the rest of us the whole point of cake is to eat it. The aim of economic policy should be to allow all those who want it to earn enough to afford cake, and for there to be a good supply with plenty of choice for the cake eaters.

The latest intrusion of cake into our politics has come over whether a birthday cake appeared at a work gathering in Downing Street. If it did did it turn a meeting into a party? Was any cake eaten? Suddenly the pressure was on to show this was a time when cake if had was not eaten so no rules were broken.

Meanwhile Keir Starmer's keen wish to see all rules applied and all statements to be truthful does not seem to impose these important standards on himself. Drinking a beer with colleagues himself apparently does not constitute a party nor an offence against lockdown rules. Accusing the PM of something he never said about the BBC is apparently not worthy of a review by the Privileges Committee.

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## 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 .

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## Having a proper debate on the economy

Parliament has failed to have a proper debate on the economy for many years. The main reason is that it has fallen for the lie that the Bank of England is independent. Because many commentators and politicians think that they fail to debate the crucial reliance we have had on the Bank printing loads of money and keeping the government's borrowing costs very low. The Opposition keeps off all matters that the Bank is involved with and wishes to blame the government for any economic failing in a way which reveals a deep misunderstanding of how the modern Treasury and Bank work together.

Let me have another go at explaining. The Bank under the last Labour government at the end of its time in office, under the Coalition and under the more recent Conservative government has relied primarily on printing more money and buying bonds to keep rates low. There were times when this was the right policy, most notably in 2020 to offset some of the bad economic consequences of lockdown. There were times when this was a bad idea, as with continuing it throughout 2021 when it was bound to be inflationary. The crucial thing about this central economic policy is it is a combined responsibility of the Chancellor and the Bank. Indeed, the Chancellor not only has to give approval for the Bank's recommended money printing, but he has to underwrite the Bank against losses on the bonds it buys. So far the Bank in several bursts over the last thirteen years has created and bought up bonds to the value of £895bn.

Despite these enormous moves, Parliament has preferred to argue about the odd £10bn of spending or savings either way in a succession of budgets, or to laser in on individual spending programmes arguing over whether they are a few billion too light. The recent centre of the national debate has been £12bn of extra tax in a £2.2 trillion economy. The Treasury absurdly argued they needed exactly £12bn extra for social care and health, when they overestimated public borrowing for last year by a stonking £95bn. As they did not have much of a clue about how much revenue existing taxes would bring in

it was a particularly precise nonsense to say they needed £12bn. Then in the Spring statement they decided they did not need a third of that £12bn after all so they raised the threshold before you pay national Insurance!

Such a pity we did not debate the £895 bn and it's more recent inflationary impact. The Treasury says the Bank is independent and is responsible for controlling inflation. Now the Bank has visibly failed to control the inflation or to even predict it until recently maybe we are due a proper debate about economic policy.

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## Economic forecasts

The latest IMF forecasts show the UK economy going from being the fastest growing economy last year to be the slowest of the advanced countries next year. The IMF is more pessimistic than the OBR/Treasury for 2023 and is more likely to be right. The OBR/Treasury model usually underestimates the impact of permissive monetary and fiscal policies on the upside, as it did last year, and is too optimistic about the resilience of the economy to tight money and tax hikes on the downside. Last year I predicted a much lower deficit and higher tax revenues than the official estimates at the time of the budget and was pleased to see that happier outcome come to pass.

The IMF says the UK economy will be slowed from 7.5% in 2021 to just 1.2% in 2023. That should be no surprise to anyone watching policy developments. Last year the Bank went on printing extra money all year, long after it should have stopped. This year it will be printing none. It is in danger of hiking rates too high to contract things more. Last year the Treasury planned for a lax budget deficit. This year it is trying to get a lower one through large tax rises. This will sandbag growth which in turn reduces buoyancy of revenue. The OBR model still does not capture the full sensitivity of tax revenue to growth rates. Both these policy tightenings come on top of the large hit to real incomes being administered by energy and food price inflation. The high inflation is both the result of past laxity in money growth and the global supply hits to the world economy.

The collapse of the GFK Consumer confidence index to minus 38 should be a final warning to the Treasury. This takes it down to a level lower than it hit in 2020 over lockdown, lower than during the Exchange Rate Mechanism recession and almost as low as the great recession and banking crash of 2009.

One of my critics wants clarity about my forecasts. I am always clear about them. I do not have a model of the economy myself, but study the official models and offer adjustments to their results as they are flawed in ways I have described. Just as last year I forecast a lower deficit and more tax revenue, for 2023 I forecast a lower growth rate for GDP and a worse situation on revenues and deficit than the OBR figures. I urge the government to abate its large tax rises which are the main reason the IMF figures put

the UK in bottom place next year. The other main advanced economies have the same pressures from higher inflation as us, and the US, Canada and some others will have a substantial monetary tightening to contend with but do not have the big tax rises. The European countries need tighter money to curb their inflation and may get it later this year.

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## [Ask Councils about roads](#)

We all need roads. Many need to drive to work, drive to take children to school, drive for the weekly food shop and drive to leisure and social events. In most U.K. communities car use is required by the geography and the transport system. Only in large cities are there mass transit systems with frequent services.

Those who claim to be greener because they have found safe cycle routes for school or work, or do have good trains or are close enough to work and shops to walk there still need roads like the rest of us. They need the diesel lorries to restock the shops, they need the on line delivery driver, the plumber and the builder to get to their homes by van. They would need an emergency vehicle to arrive if bad fortune struck them. The environmentalists that go by bus need good bus sized roads to have their way.

All but our main motorways and trunk roads are local Council monopolies, provided free to all users on the back of national and local taxation, supplemented in some places by user and environmental levies. Local elections are a good time to engage with Councillors and candidates about what they are going to do to make the roads safer and easier to use, and to bust congestion and delay which disfigures many of them.

As I travel around the country I come across many Councils that are out to get the vehicles off their local roads. They spend all too much money on narrowing usable roadspace, worsening flows at junctions and crowding too many different instructions and restrictions into too little road. In future pieces I will look at how Councils could help make our journeys easier and safer, and how they could back more use of alternatives without worsening vehicle use of their roads.