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We had a Labour economic government for 14 years – called the Bank of England

Introduction

'In my incurable earnestness I long to find a serious centre to the mayhem of these years' (Magnus Pym narrating in John Le Carré, *A Perfect Spy,* p. 182 of the Modern Penguin Classics edition).

I require a narrative, for my own peace of mind and to prepare for the next five years, of the fourteen years of the Tory party in government, its legacy, and what Labour will now do. They will attempt to blame the Tories at every turn. Our narrative must hold water, and not attempt to gloss over, deny or misrepresent mistakes the Tories made. It should, if it does hold water, put a perimeter around what the Tories can be held responsible for, and thereby mark out the space within which Labour will be responsible for what they do. The narrative concentrates on economic and financial matters, as that is always the main election battleground: will electors be better or worse off?

Where the Tories under Sunak left us

It is not a defensible position to say that Sunak and Hunt left a strong economy. The general economy is fragile and the public finances are on the edge. The slightly better GDP growth in the second quarter of 2024 was too little, too late. Performance had been hamstrung by tax increases and too much public spending, which were not forced on Sunak and Hunt but which issued from their adherence to the orthodoxies of HM Treasury, the Bank of England (the 'Bank') and the Office for Budget Responsibility (the 'OBR').

The general economy

Notwithstanding that the UK had better GDP growth than other G-7 countries in the first half of 2024, the general economy is fragile due to low wealth creation and profit margins - eroded by inflation, the cost of debt, the cost of compliance with existing regulations, business rates, taxes and so on.

Sectors like retail and hospitality are hanging on the edge, not least because there is a high incidence of excessive borrowing: enterprises were acquired and then loaded up with debt, debt that is now costing 7-8% per annum to service rather than 3-4%.

It would not take much of a general downturn for these enterprises to become unable to meet their liabilities as they fall due, the trigger for the directors either to trade insolvently or to go into administration.

The same outcome could ensue for individual enterprises if costs increase, such as a higher Minimum/Living Wage and/or higher Employer National Insurance Contributions, or costs for complying with new regulations or to accommodate strengthened workers' rights, rights which put enterprises in a weaker bargaining position having to provide more wages/benefits, shorter hours, 4-day week, automatic right to work from home, etc..

If these cost increases send enough enterprises under, then they have precipitated a general downturn.

Linkage between the general economy and the public finances

The public finances draw all their money from the general economy that they do not borrow.

Labour appear to have come into power with an assumption that the general economy is capable of absorbing significant extra costs, without that resulting in insolvencies, workers being laid off, new workers not being hired, investments being delayed or cancelled.

Apparently the exploitation of the North Sea can be halted without any impact on the tax revenues from North Sea oil and gas, and without workers employed in that sector being laid off – which would lead to higher benefit claims.

Apparently public sector workers can be awarded above-inflation pay rises without any impact on inflation itself and on the funding requirements of central and local government, requirements that can only be met by extra borrowing or by higher taxes on people and businesses.

Apparently the relief on Business Rates for Small Businesses can be eliminated without sending such businesses under and without any negative impact on the high street or on communities.

Higher taxes on people and businesses reduce feel-good factors, divert spending and investment from other purposes, and dampen economic growth, even if they do not precipitate insolvencies. That creates a downward trend in the amount of tax collected, as the numerator for the calculation of a tax falls even if the denominator remains the same.

Labour seem to be preparing to raise the denominator for several taxes in the hope of collecting more under each one. However, the emerging general scenario will be negative, not least for the prices of the assets that should be eligible for Capital Gains Tax and Inheritance Tax. The takings from both of those taxes reduce under current rates if the numerator falls, and may not increase even under higher denominators.

What the public finances look like now

The revenue side of the public budget is particularly fragile: in our view even a slight economic downturn could see tax revenues drop back sharply. Widening the scope of taxes and/or increasing their rates is unlikely to yield sustained higher revenues: it could even reduce revenues under the Laffer Curve effect. An economic downturn is all but guaranteed if extra costs are imposed on enterprises as outlined earlier.

Meanwhile the expenditure side of the public budget roars ahead, and will be boosted by above-inflation public sector wage awards.

It is perfectly possible for the wrong decisions by government on spending and taxation to conspire to manufacture an economic downturn, and a downturn will be exacerbated if these wrong decisions are implemented onto an already weak situation, which I believe the UK to be in – markedly worse than Sunak and Hunt represented during the General Election campaign.

Reeves' positioning vis a vis the legacy she inherited

Reeves' claim is that the Tories left the public finances in a weak condition and that is true. The medicine that Reeves appears ready to apply, though, threatens to make the condition worse, and could in due course crash the general economy.

Reeves blames Liz Truss for crashing the economy, and creating a weak legacy. The evidence that the economy crashed in late 2022 is sketchy. What did happen is that the cost for the government to issue new debt went up sharply in September 2022, noting that interest rates as a whole had already risen significantly by that stage to control inflation – and setting interest rates is the remit of the Bank, not the government.

The Reeves narrative overlooks the global economic effects of the Pandemic and Russia's invasion of the Ukraine, for which the Tories were not responsible, and fails to mention the data errors – to which the Bank has admitted – that stopped the Bank from raising interest rates earlier and more steeply to control inflation, which the Bank said would be of shorter duration and less severe than it turned out to be.

The interest rate rises to control inflation – which cannot be laid at the door of Truss/Kwarteng - began in December 2021 when the Bank Rate was increased from 0.1% to 0.25%. The Bank Rate had reached 1.75% by the end of August and on 21st September 2022 it was raised by a further 0.5% to 2.25%. It topped out at 5.25%, meaning that 2.15% of the total rise of 5.15% preceded the Mini-Budget, and 3% came after it.

Responsibility for the 3% rise in the Bank Rate

In a real sense the debate is about apportioning responsibility for the 3% rise in the Bank Rate that occurred in seven increments after 23rd September 2022, starting with a rise of 0.75% on 2nd November 2022 and finishing with a rise of 0.25% on 2nd August 2023. As stated, the Bank Rate rise of 0.5% on 21st September 2022 was a decision of the Bank. On the day of the Mini-Budget the Bank Rate was 2.25%.

If the need to raise interest rates by 3% was the fault of the Mini-Budget, then the Bank had the option of raising the Bank Rate to 5.25% at its meeting on 2nd November 2022, or of holding an emergency meeting during the six weeks in between. The fact that the Bank saw no need to alter the Bank Rate in the immediate aftermath of the Mini-Budget undermines the contention that the rise of 0.75% on 2nd November and the six further rises spread over the subsequent nine months can be laid at the door of the Mini-Budget.

Role of the Mini-Budget compared to other factors

One can accept that the Mini-Budget of 23rd September 2022 – basically the sole economic/financial action of Truss/Kwarteng – contributed to a sharp rise in the cost for the government to issue new debt. One can moot that the Bank Rate might have topped out at less than 5.25% without the Mini-Budget, although that line of argument would be easier to sustain if the Mini-Budget were the only factor affecting the market in UK government debt ('gilts') at the time. A sentiment already existed that the Bank had failed to move quickly or decisively enough when indicators of inflation began to emerge, a sentiment underpinned by the Bank continuing to make purchases into its Asset Purchase Facility (the 'APF'), thereby increasing the money supply (specifically 'Quantitative Easing'), when many economists were urging the opposite.

The size of the APF appears on the Bank's Weekly Reports as 'Loan to Asset Purchase Facility', the loan equating to the purchase prices of the bonds in the APF, not their then-current market value. Here are the amounts from April 2021 until June 2023, shown monthly except for the period around the Mini-Budget, which is all of September and October 2022, when the amount is shown weekly:

Date	Amount	Change	Date	Amount	Change
7/4/21	£797.1 billion	N/A	7/9/22	£856.8 billion	-£6.2 billion
5/5/21	£814.9 billion	+£17.8 billion	14/9/22	£856.8 billion	--
2/6/21	£829.3 billion	+£14.4 billion	21/9/22	£856.8 billion	--
7/7/21	£840.8 billion	+£11.5 billion	28/9/22	£856.8 billion	--
4/8/21	£847.6 billion	+£6.8 billion	5/10/22	£856.8 billion	--
1/9/21	£857.6 billion	+£10.0 billion	12/10/22	£856.8 billion	--
6/10/21	£869.1 billion	+£11.5 billion	19/10/22	£856.8 billion	--
3/11/21	£877.1 billion	+£8.0 billion	26/10/22	£856.4 billion	-£0.4 billion
1/12/21	£886.9 billion	+£9.8 billion	2/11/22	£856.4 billion	--
5/1/22	£894.9 billion	+£8.0 billion	9/11/22	£856.4 billion	--
2/2/22	£894.9 billion	--	7/12/22	£856.4 billion	--
2/3/22	£894.9 billion	--	4/1/23	£856.4 billion	--
6/4/22	£866.7 billion	-£28.2 billion	1/2/23	£843.7 billion	-£12.7 billion
4/5/22	£866.6 billion	-£0.1 billion	1/3/23	£843.7 billion	--
1/6/22	£866.5 billion	-£0.1 billion	5/4/23	£843.7 billion	--
6/7/22	£866.5 billion	--	3/5/23	£823.8 billion	-£19.9 billion
3/8/22	£863.0 billion	-£2.5 billion	7/6/23	£823.8 billion	--

It is notable that monetary policy was loosened with a £9.8 billion increase in the APF in the month to 1st December 2021. Monetary policy then swiftly shifted round to being tightened on 15th December 2021 when the Bank Rate was increased by 0.15%. This was incoherent: the Bank had the options of stopping APF purchases sooner, and/or raising the Bank Rate sooner and/or by more than 0.15%. It chose – and was able to make the choice thanks to its independence – to do none of these things. These choices by the Bank formed part of the backdrop to the Mini-Budget.

It is notable that the Bank added £97.8 billion to the APF in the first 9 months of the period shown, meaning additions of nearly £11 billion per month. The reductions were of £71.1 billion over a period of 16 months, meaning at an average of £4.4 billion per month. This pattern – of aggressive loosening of monetary policy and then slow tightening – conveys a certain impression: that the Bank's preference was to continue to run a loose monetary policy, that the Bank was reluctant to tighten, that the Bank continued to believe that inflation would be less severe and of shorter duration than the 'hawks' believed, the 'hawks' being those whose view was that the Bank had reacted too slowly and too meekly to signs of oncoming inflation.

This data bears out a common criticism of the Bank: it always believes it knows best and it uses its independence to insulate itself from divergent views.

Sequence of events in the week of 19th September 2022

The Mini-Budget was delivered at the end of the same week as the Bank raised its interest rates by a lesser amount than the Federal Reserve did later on the same day (21st September 2022), which markets took as reinforcement of its sentiment that the Bank was not taking the battle to quell inflation seriously enough. The profile of the APF has been described above; the profile of adjustments to the Bank Rate followed a similar pattern: slow and small steps to tightening monetary policy, conveying an impression of reluctance.

This contrasts with the 0.25% decrease of the Bank Rate on 31st July, just after Labour came into power: the decrease was not motivated by the UK's general economic status, still less by the amount of government borrowing. It conveys the impression that the Bank's default position is to loosen monetary policy whenever it has an option to do so, rather than its being impartial.

Interestingly, since 21st September 2022, the Bank's meetings at which the Bank Rate is set have always followed those of the Federal Reserve, so that the Bank is not blind-sided again.

In parallel a crash in the value of 'Liability-Driven Investments' or LDIs owned by pension funds was occurring. It is a matter of dispute when this crash began, and how much of it should have been visible to the government, the Bank and other financial authorities by 19th September 2022. At any rate the crash spiralled during that week.

What LDIs are and what they are for

The purpose of LDIs was to assure the future ability of pension funds to meet their liabilities to members in the face of the environment of very low interest rates constructed by central banks after the Global Financial Crisis of 2008-10. A Bank Rate of 0.1% and an APF nearly £900 billion were the UK's contribution to this environment. In this sense the LDI crisis was a product of the Bank's policies, because without the interest rate environment created by the Bank, there would have been no need for LDIs to exist.

LDIs were derivative contracts for which gilts were the reference asset, and the contracts were for high amounts, and were collateralized by the pension funds with cash. The contracts would fall in value if gilts also fell in value (that is what is meant by LDIs using gilts as their reference asset). Gilts and LDIs would fall in value if interest rates rose. That market movement would simultaneously reduce the value of the gilts the pension fund owned and the value of its LDI contracts, and increase the cash collateral it had to place against its LDIs: a 'triple whammy'. The pension fund had effectively entered into leveraged contracts, which magnified the adverse impact when interest rates did rise, and caused it to have to sell other assets and quickly to furnish the increased cash collateral.

Supposed 'risk reduction' in derivatives contracts after the Global Financial Crisis – thanks in part to the Bank

Prior to the Global Financial Crisis, derivatives contracts were collateralized only if they were traded on a financial exchange, like the Chicago Board of Trade or the London International Financial Futures Exchange. So-called 'over the counter' or OTC contracts were not collateralized: they only required a credit limit at a bank, known as a 'Fractional Exposure Limit', on the basis that the risk-of-loss for the bank was only a fraction of the contract's face value.

The lack of collateral was agreed after the Global Financial Crisis to be a major source of risk for the global financial system. A solution was designed through the offices of the Bank for International Settlements based in Basel, in which the Bank is a shareholder and in whose machinations the Bank is a prime mover.

The solution was:

1. For the parties to relatively simple OTC contracts to have them novated to a financial exchange, and then be managed as if they had been traded on a financial exchange to begin with. The two original parties ceased to have a contract with one another but each had a separate one with the financial exchange. That contract would be subject to an initial valuation of the risk involved in it – the contract's Value-at-Risk or VaR. The contract party would have to place collateral at the financial exchange for the VaR. The financial exchange would continuously re-value the contract and update the VaR: if the VaR rose, the contract party would have to place more collateral, whereas if the VaR fell, collateral could be released to the contract party. Different financial exchanges would publish their lists of acceptable collateral;
2. More complex OTC contracts – like LDIs – could not be novated to a financial exchange: they would remain as bilateral contracts. Nevertheless the same process of VaR calculation and re-valuation should be gone through, and collateralization.

Pitfalls in the collateralization of OTC derivatives contracts and LDIs specifically

The 'solution' for complex OTC contracts presented several problems:

a. It was applied even to highly creditworthy parties that were unlikely to default: pension funds have no debts to third parties, only to their members who are, in effect, their shareholders. Banks would have had little problem in obtaining internal approval for an uncollateralized credit line for derivatives business with a pension fund (a 'Fractional Exposure Limit');
b. The new rules were concerned with avoiding losses at banks. In a transaction where one of the two parties was a bank but the other was not, the bank would require collateral but would refuse to offer it. The counterparty – a corporate, a pension fund, an insurance company – would have the same risk as before the Global Financial Crisis. This is dysfunctional when the counterparty is more creditworthy than the bank;
c. It turned out that banks were less flexible than financial exchanges in their range of acceptable collateral. In many case banks would accept collateral only in the form of cash;
d. The Fractional Exposure Limit was calculated as being the most that a bank could lose on the contract during its life, the assumption being that the counterparty would go under at the exact point when the loss for the bank would be the highest. The bank would be replacing the contract with another counterparty on terms that would cause it to incur the maximum possible loss. That meant that the Fractional Exposure Limit was calculated over the full term of the contract, and was a considerable amount. The time horizon of a VaR, by contrast, is until the next point when the collateral can be replenished. The worst-case scenario occurs when the counterparty is asked for more collateral because its contracts have declined in value and the VaR has risen, and then the counterparty fails to deliver the extra collateral. The bank liquidates the contract, replacing it under the prevailing market conditions. The bank may make a loss – but it can only be a limited loss, limited by how far the value of the contract can have moved since the last time it was revalued and re-collateralized. That could be a matter of hours. The VaR and the cash collateral amounts would come out as far smaller than the Fractional Exposure Limit, leading to an impression that (i) the risk had been reduced and (ii) the risk was covered with collateral;
e. However, it also meant that a far higher nominal amount of contracts could be entered into, and/or contracts with greater volatility and duration. It is akin to the analogy of how big a loan a borrower can take on if they have £1,000 per month at their disposal: if interest rates are 1%, they can borrow a far higher amount than if interest rates are 5%, and in the UK they have done;

f. In the case of OTC derivatives, the measures to supposedly reduce risk in them has resulted in parties entering into portfolios of contracts that are a mixture of higher amounts, longer duration and greater volatility;
g. The initial VaR and the initial cash collateral are both small, because the contract by definition starts its life 'on the money': it is struck at the rates prevailing at the time;
h. However, the VaR/collateral are small because the time horizon is hours rather than the full maturity, and not because of the contract's characteristics: long-dated and volatile. These cause the so-called 'variation margin' – the amount by which the initial VaR/collateral can alter – to be highly volatile. An 'initial margin' of 1.5% of the contract's face value could expand by a large portion of that under adverse market movements: 1.5% could be supplemented with a 'variation margin' of 3%, raising the total VaR/collateral to 4.5%. That is an increase of 3% of the face value but 200% of the 'initial margin'. This is the kind of increase that would send pension fund staff scrambling around to sell other assets quickly in order to furnish a major amount of cash;
i. The amount of extra cash to be placed becomes a crisis when a big 'variation margin' is called for on contracts that are for a high nominal amount to begin with;
j. Pension funds enjoyed no mitigation of the impact on them that might have occurred from having offsetting derivatives contracts and netting. Major financial actors might have millions of contracts with the Chicago Board of Trade, subjected to the netting of the VaR of each one, positive against negative, and to the collateralization of the net VaR. A pension fund might only have LDIs, and those LDIs are all 'in the same direction': they all go up, or they all go down. No netting possibility exists. It is the gross VaR that must be collateralized.

The result for a pension fund with LDIs was that, under the adverse market movements in the week of 19th September 2022, they were subjected to calls for extra collateral that were very large compared to the initial collateral they had been asked to place. There were no offsetting contracts whose VaR rose as LDIs fell, the effect of which would have been to mitigate the size of the call for extra cash.

These calls came at short notice, and were followed by further calls. As only cash was acceptable as collateral, pension funds had to sell gilts and other assets into a falling market to raise it. These sales, especially those of gilts, pushed down gilt prices, which raised the VaRs on their LDI contracts, and precipitated a call for yet more collateral.

Computer programmes managed this process, revaluing the contracts again and again as gilt prices fell, churning out ever greater demands for cash collateral, and causing more gilts sales that depressed their price further. These programmes in effect took over the gilts market and exacerbated the downward spiral.

Summary of non-solution to systemic risk from complex OTC derivatives – and a further twist

What occurred was a perfectly plausible outcome of the solution of the world's central banks to the systemic risk presented by uncollateralized derivatives. The Bank was in the vanguard in the design of this solution. LDIs cannot be novated to a financial exchange, and they are subject to unilateral collateralization: the bank gets collateral, the counterparty does not, there is no netting, cash is the only acceptable collateral, and the counterparty has to deliver whatever cash amount the bank dictates and at short notice.

There is a further twist. The rules issued for bank lending by the same Bank for International Settlements state that the collateral for a loan should not contain 'correlation' to the loan itself. For example, a loan to a company should not be secured on the company's own shares.

These rules do not seem to have been intelligently applied to derivatives. Credit Suisse suffered a major loss on its derivatives with a fund called Archegos, because the security that Credit Suisse took against the VaR of the derivatives was a portfolio of the same shares that were the reference assets for the derivatives.

In the case of LDIs, while cash collateral is not correlated to the derivatives' reference asset – gilts – a likely major source of any extra cash collateral would be the sale of gilts, which are correlated.

Central banks were focussed on the risks for the bank counterparty, and did not consider the risks for the non-bank counterparty, or the risks for the financial system as a whole that might emanate from reducing or eliminating the risks for the bank counterparty.

The VaRs of the LDI contracts should have been either secured with uncorrelated, liquid and marketable collateral (shares, bonds) or, if the only acceptable collateral was cash, the pension funds should have been asked to segregate a portfolio of shares and bonds which could be sold to generate the extra cash required.

Bank of England explanation

Three failings can be laid at the door of the Bank regarding LDIs: (i) pursuing monetary policies that gave rise to the demand for LDIs; (ii) co-designing the new regime after the Global Financial Crisis for reducing the risk to the global financial system from over-the-counter derivatives, a regime which manufactured a risk to the UK financial system; and (iii) failing to ensure the mitigation of correlation risk in OTC derivatives.

The Bank's own analysis points elsewhere. It has characterised the computer programmes at work in managing portfolios of LDIs as 'LASH', 'LASH' standing for 'Liquidity After Solvency Hedging'. The term 'LASH' was coined by the Bank in a staff working paper No. 1,073 of May 2024 entitled 'LASH risk and interest rates'. In a way the paper is a statement of the obvious – computers play a large role in derivatives markets and are programmed to initiate transactions if certain triggers are met, like a call for supplementary cash collateral being made.

Coining a new term obscures that the trading was to do with LDIs, the purpose of LDIs being to maintain the solvency of a pension fund (i.e. meeting the fund's liabilities as they fall due) when interest rates are very low and inflation is higher than interest rates (i.e. the conditions created by the Bank's loose monetary policy). The paper infers that LDIs were a success, and that pension funds were more solvent after the gilts market meltdown than before. This is contradicts the example of the John Lewis Partnership/Waitrose pension fund. It made a huge loss on LDIs and sold all its shares and bonds to meet the calls for extra collateral. The shelves literally had to be stripped to produce the required cash.

The JLP/Waitrose fund was left with some real estate, its LDIs (including the gilts that acted as the reference asset for the derivatives contracts), a series of other illiquid, unquoted 'Alternative assets', and some cash. Here is the fund balance sheet as per p. 153 of the JLP/Waitrose annual report of January 2023:

	2023				2022			
	Quoted £m	Unquoted £m	Total £m	Total	Quoted £m	Unquoted £m	Total £m	Total
Equities								
UK	-	-	-	-	10.5	10.8	21.3	0.3%
Rest of the world	-	-	-	-	368.1	520.7	888.8	12.3%
Bonds								
Government – Rest of the world	-	-	-	-	197.0	10.6	207.6	2.9%
Corporates – UK	-	-	-	-	23.8	0.5	24.3	0.3%
Corporates – Rest of the world	-	-	-	-	380.8	247.9	628.7	8.7%
Property								
UK	-	594.0	594.0	13.5%	-	554.1	554.1	7.7%
Alternative assets								
Liability driven investments	-	1,630.8	1,630.8	37.2%	-	3,020.6	3,020.6	41.8%
Hedge funds	-	254.2	254.2	5.8%	-	374.4	374.4	5.2%
Private equity	-	477.0	477.0	10.9%	-	519.3	519.3	7.2%
Other alternative assets	-	601.4	601.4	13.7%	-	810.7	810.7	11.2%
Cash and other	830.4	-	830.4	18.9%	175.7	-	175.7	2.4%
Total market value of assets	830.4	3,557.4	4,387.8	100.0%	1,155.9	6,069.6	7,225.5	100.0%

The shelves are bare of liquid and quoted assets, except for whatever gilts the fund still owns that are tied up with its LDIs.

Accounting issues and the amount of cash collateral now placed

The fund's gilts being tied up with LDIs is the reason there is no line for 'Bonds/Government UK'. The gilts are not shown separately as would represent transparent accounting practice.

Equities of £910.1 million and bonds of £860.6 million were liquidated during the year, a total of £1,770.7 million, leaving no such investments in the fund.

It is not made clear whether the cash collateral for the LDIs is within the figure for 'Cash and other' of £830.4 million or is contained within the figure for LDIs of £1.6 billion. Transparent accounting practice would break out the free cash from the cash that had been hypothecated to an LDI counterparty if they are both contained within the £830.4 million. Alternatively, if the cash collateral sits within the £1.6 billion figure of LDIs, it would make a suitable note as to what amount of cash – as well as what amount of gilts – sits within that figure.

The cash amount rose by £654.7 million from £175.7 million to £830.4 million. Knowing that the fund had LDIs for 100% of the fund's value, or £7,225.5 million, let us work out an example based on the 'initial margin' for the LDIs being the 1.5% mooted above. That would have been £108.4 million out of the £175.7 million.

If, then, the entire extra amount of cash of £654.7 million was attributable to the 'variation margin' on the LDIs, the amount of cash collateral would have risen to £763.1 million, or 10.6% of the LDI contracts' face value.

That seems perfectly plausible, that the long maturity and volatility of these contracts, under the pressure of the adverse market movement in gilt prices, caused the VaR of contracts – and therefore the cash collateral – to escalate by 9.1% of the contracts' face value or – more alarmingly – by 706% of the initial margin.

The solvency of the JLP/Waitrose pension fund

The fund lost £2.8 billion in the year February 2022 to January 2023, or 39.3% of its value.

Its LDIs lost £1.4 billion, or 46% of their value. LDIs are now 37% of the whole fund.

The fund had a surplus at the start of February 2022 of £492.8 million (£7,225.5 million less its 'IAS19 pension liabilities' to members of £6,732.7 million). This had altered to deficit at the end of January 2023 of £88.1 million (liabilities of £4,475.9 million less assets of £4,387.8 million). That was a negative change of £580.9 million.

The deficit was only as small as this because the rise in interest rates – to blame for the LDIs disaster - had enabled the fund to discount its future liabilities to members at an elevated discount rate of 4.65%. That is what is meant by 'IAS 19 pension liabilities', that the future liabilities to members can be expressed as a present value. £88.1 million is not a disastrous deficit and the fund was not insolvent, as long as the valuations set against the 'Alternative assets' and UK property – all illiquid and unquoted – were believed in, but the fund certainly was not more solvent, as the Bank's LASH paper inferred it was.

Accounting and reporting on this pension fund and on other similar ones

The members of the JLP/Waitrose fund will surely be wanting to know that the fund will be able to meet its liabilities to them, after the huge loss of asset value in 2022/3. They would want the figure for LDIs to be unwrapped, and to show the face value of the derivative contracts, their characteristics, their term, the nominal and market value of the gilts that are tied up with them, any borrowing within them, and the amount of cash with which they are collateralized.

Cash and gilts should appear as assets on the balance sheet, with suitable notes to say whether and how they are tied up with LDIs. Borrowings should appear as liabilities on the balance sheet, with suitable notes to say whether and how they are tied up with LDIs. LDIs should appear off the balance sheet as contingent liabilities with their face value and current market value, with suitable notes as to their characteristics.

The face value of the LDIs was apparently the same as the fund, then 75% of the fund, then 100% of the fund again. It was 100% on 31st January 2022 when the fund's value was £7,225.5 million. The entry on the fund's balance sheet for LDIs on that date was £3,020.6 million, though. How is a fund member to make sense of that, and to gain confidence that the fund will be capable of paying out their pension?

The fund's ability to pay out appears shaky, with all depending upon how the LDIs perform and whether the 'Alternative assets' and UK property deliver value. The shakiness has so far been disguised by the elevated discount rate applied to the fund's liabilities: that rate is only valid if the assets grow at 4.65% per annum compounded such that they pay out the amounts of the liabilities as they become due.

The sentiment in the pension industry is that the LDIs issue has been mastered, and that sentiment is supported by the contention in the Bank of England's LASH paper that funds are more solvent now than they were before. That is not true in the case of the JLP/Waitrose fund. The LDIs issue has been concealed by the high discount rates applied by the industry to funds' liabilities. There must remain a major question against whether the remaining assets of these funds are good enough to meet their liabilities, but it appears that this question is not being asked, possibly for fear of the wrong answer being forthcoming.

Involvement of insurance companies in LASH

The Bank refers to both pension funds and insurance companies as being involved in LASH: they should make clear the extent to which insurance companies are involved other than where they have bought out the assets and liabilities of a pension fund from the enterprise that originally sponsored it. Our understanding is that insurance companies (amongst which Rothesay appears to be prominent) are involved in LASH to achieve exactly, in relation to the pension funds they are now responsible for, what JLP/Waitrose were trying to achieve through LASH for its own pension fund. If this is the case, then the Bank's mentioning of insurance companies is an obfuscation, and the Bank should explain whether and how insurance companies are involved in LASH beyond meeting the pension fund liabilities for which they have become responsible i.e. beyond managing portfolios of LDIs that they have taken over.

Understanding is better fostered by the following formulation: LASH is the means by which pension funds (whether administered by their sponsoring enterprise or by an insurance company) have the valuation and collateralization of their portfolios of LDIs managed. During September 2022 the LASH computer programmes unleashed a market meltdown by ordering sales of assets whose prices dipped as a result, causing a further devaluation and need for asset sales, whose prices dipped as a result, causing…and round and round.

The Bank's paper has the effect of putting a smokescreen in front of the key role played by LDIs, diverting attention onto the technicalities of how portfolios of LDIs are managed – and it is by computers.

The Bank's issuance of a paper also conveys the impression that LASH was a market development which occurred at arm's-length to itself, whereas the reality is that LASH – computerized management of the value and collateralization of complex over-the-counter derivatives – is the product of the regime for dealing with the risks of such derivatives, in the design of which the Bank was intimately involved.

Synthesis regarding September 2022 gilts market meltdown

There were several contributory factors to the gilts market meltdown. No-one can claim to be able to apportion the correct share of the blame to each one.

The Bank made its contributory mistakes first, though: creating the distorted monetary environment to which LDIs were a response, participating in the regime for the collateralization of complex over-the-counter derivatives like LDIs, failure to raise interest rates fast and far enough to forestall severe inflation, deluding itself that inflation would not be so severe or long-lasting as it turned out to be, continuing its purchases into the APF until just weeks before it turned round and raised the Bank Rate, building-down the APF much more slowly than it had built it up, and undershooting the rate rise of the Fed on 21st September.

This added up to the Bank thinking it knew better than the markets and economic commentators. Instead it spread a sentiment into the financial markets that the Bank had made a considerable misjudgement.

The Bank, the Pensions Regulator, the Financial Reporting Council and the Financial Conduct Authority failed to identify and act to limit the problems bubbling up in LDIs, problems that the actions of LASH magnified and brought to a head.

Truss/Kwarteng's Mini-Budget was firstly poorly advised – they did not receive an adequate briefing about LDIs, how they were collateralized, and the state of the gilts market from HM Treasury or the Bank – and secondly ill-advised as regards its timing, particularly in not drawing consequences from the Bank's rate increase undershooting that of the Fed two days earlier.

The Mini-Budget did not crash the economy, though, and its contents now appear well-advised compared to the legacy bequeathed by the actions of Sunak/Hunt (under advice from HM Treasury, the Bank of England and the Office for Budget Responsibility), and compared to the policies emerging from Starmer/Reeves, who are an intensified continuity version of Sunak/Hunt.

How the incremental 3% increase in the Bank Rate might have been avoided

One can speculate that the 3% increase in the Bank Rate after the Mini-Budget might have been avoided in whole or in part if…

- The Bank had not pursued a low-interest monetary policy for 12+ years, comprising a low Bank Rate and its APF;
- The Bank had reacted more quickly and more decisively to reduce the money supply and choke off inflation, in raising the Bank Rate, in stopping purchases into the APF, in making smaller purchases into the APF in the run-up to stopping them, making larger reductions in the APF once it had started to tighten monetary policy..;
- LDIs had not emerged as a financial strategy to combat the impact of the Bank's low-interest monetary policy on pension funds;
- LDIs had not gone under the radar of the several financial authorities who ought to have been aware of them and their latent and then emerging problems;
- The Bank and its fellow central banks had not devised a regime for the collateralization of complex over-the-counter derivatives that might cause one of the parties to them to have repeated, large and time-dependent calls for extra cash made on them by the other;
- The Bank and its fellow central banks had ensured that their regime avoided 'correlation risk', where a party's ability to provide extra cash to collateralize a derivative is strongly dependent upon their sale of the same asset that is the reference asset of the derivative.

Given all these other factors in play it cannot be contended that the Mini-Budget was solely and completely responsible for the 3% rise in the Bank Rate which followed it, and led to higher interest rates payable by borrowers, albeit that it now appears to have both brought inflation under control and remunerated savers better on their money, reversing the impact on savers of the Bank's monetary policy of 12+ years' duration: savers lost purchasing power by saving, as compared to spending all their money and then borrowing. Rather the Bank's monetary policy made borrowing the default option, the option supported by the Bank's stance – when the Bank ought to have considered the needs of savers and borrowers impartially.

Rather than being the direct and sole cause of 3% increase, the Mini-Budget was a catalyst that brought many problems to the surface at the same time, not least the misjudgements of the Bank. The Bank, aided by Sunak, Hunt and the OBR, has been at pains to make sure its misjudgements receded below the surface again.

Now they have an unequivocal supporter at the helm – their alumna Rachel Reeves, an economist at the Bank until her election in 2010 to the House of Commons.

Likely outcome of Starmer/Reeves' intensified continuity

With Starmer/Reeves in charge the economy is likely to crash for real, and the impact will be there for all to see. Those impacts are likely, in some manner or form, to carry the imprint of the Bank's misjudgements over a long period, which have receded below the surface but not gone away.

The question is whether Starmer/Reeves can disguise that it was their decisions that precipitated the crash, and made it deeper and longer than it might otherwise have been. No-one can be completely sure that no crash would have occurred if the Tories had been re-elected, or how deep and long-lasting it would have been, but the fact remains that there was no perceptible crash when they were in power.

The failure to control the Bank was one of the Tories' major errors, and the Bank remains biased towards a loose monetary policy, favouring borrowers over savers, with a desire to prove that they and the other central banks were right all along. That loose monetary policy has had serious, profound and long-lasting effects, not least leading to high house prices.

Aberrations caused by the Bank's loose monetary policy

Rising house prices has led to aberrations including:

- Remortgaging, whereby a standard-of-living and expenditure are maintained by annual increases in a person's mortgage. An expenditure of £50,000 per annum can be sustained on a post-tax income of £30,000, if the person lives in a property whose value rises in the same year by £23,529. The person's mortgage is raised each year to 85% of its current value, such that this year's value increase of £23,529 enables a new borrowing of 85% of that: £20,000. The mortgage balance never reduces. The mortgage may be on an interest-only basis: then there is no repayment mechanism. This type of borrower will be hard-hit by rising interest rates. According to market sources, remortgaging amounts to £60 billion per annum (2½% of GDP) and many borrowers remortgaging in 2024 and 2025 will only now experience the impact of the rise in the Bank rate from 0.1% to 5%. Every extra 1% interest that these homeowners have to pay decreases their collective spending power by about £½ billion per annum;
- Buy-to-let, a commercial version of the remortgaging example, except that the landlord extracts the value increase and uses that as their deposit on the next property, which is in turn mortgaged up to 85%. The entire empire of properties is mortgaged up to the maximum.

Mortgage lending was one of the epicentres of the Global Financial Crisis as, in the UK, former building societies in Labour areas went under: Northern Rock, Halifax-Bank of Scotland, Alliance & Leicester, Bradford & Bingley, to name just the largest.

The ministrations of Reeves, coming on top of the cost-of-living crisis and mortgage rates which, for some borrowers, are only just feeding through into higher monthly payments, could cause the UK housing market to once again be the epicentre of a financial crisis. Property prices around the world are under pressure: Chinese residential and commercial, German residential, US residential and commercial, UK commercial. It would not take much for 'UK residential' to be added to that list.

Banks' low capital held against property lending, the result of another misjudgement in which the Bank has played a role

The capitalization of banks against their mortgage lending has been subject to another of the ministrations of the Bank for International Settlements, and once again the Bank has been a prime mover. The revised 'Basel' rules allow banks to risk-weight their loans. This is the same as shrinking their value when they are input into the computers that calculate how much capital the bank ought to hold in order to give the bank an adequate cushion to absorb the loss they may sustain in the making of the loan.

Because mortgage loans, and indeed commercial property loans, are secured, they are considered to be low-risk and requiring only a thin cushion to absorb losses. As a result their risk-weighting is low, under the permitted Advanced Internal Ratings Based methodology, or 'AIRB', designed through the offices of the Bank for International Settlements.

Each loan secured on property is converted through AIRB into a Risk-Weighted Asset or 'RWA'. Banks' capitalization is measured primarily through the relationship of the bank's Common Equity Tier 1 ('CET1') to their total of Risk-Weighted Assets: the 'CET1 Ratio'.

The minimum threshold for this 'CET1 Ratio' is 7% and banks now boast ratios of 10-14%, thereby claiming to have surplus capital. Property lending is customarily shrunk by 80% from its face value to its Risk-Weighted Asset through the AIRB process: a loan of £100,000 face value is shrunk to a risk-weighted one of £20,000. Even if the bank holds CET1 of 14% of this Risk-Weighted Asset, the actual CET1 is £2,800 - 2.8% of the loan's face value, and no better than before the Global Financial Crisis.

AIRB has fuelled rather than controlled mortgage lending. An allocation of £30 billion of CET1 to a bank's Mortgage Lending Division would be enough to support a loan portfolio of £1.1 trillion (£30bn divided by 2.8%). With such a low amount of capital required compared to the face value of the loans, any interest margin earned on the entire loan has a magnifying effect on the 'Return on Equity': an interest margin of 0.40% per annum on the face value translates, when only 2.8% of the face value needs to be set aside as CET1, into a 'Return on Equity' or 'Return on CET1' of 14.29%. This incentivizes banks to aggressively increase their mortgage lending, and they have done, which in turn has further fuelled the increase in house prices.

Tories had long since surrendered ideologically

It can be seen that, throughout the Tories' fourteen years in power, the Bank was both operating a loose monetary policy, making significant misjudgements, and working with its international peers to devise 'solutions' to the Global Financial Crisis that have been either damaging or producing new risks.

The Tories-in-power went along with these policies, venerating the Bank's independence and failing to impose the alternative economic doctrines implied by what voters decided upon in successive General Elections.

The Tories-in-power thus fell between the two stools, and have in the end acted like John the Baptist to the Anti-Christ Rachel Reeves. Many tax advantages to wealth creation were restricted, nullified and even reversed by Tory chancellors since 2010. I will argue later that several of these changes were aimed at counteracting the results of the Bank's policies. I can quote just a few of them from the point of view of someone who ran their own business and had a second home for family holidays:

- Income tax thresholds frozen
- The tax credit on dividends first removed, then reversed, leading to double taxation
- Frozen maximum tax-free lump sum out of a pension
- Frozen Capital Gains Tax Allowance, then step-by-step reduction
- Elimination of the tapering of a capital gain, based on length of ownership of the asset
- The council tax discount for second-home owners first being reduced, then abolished, and then turned round into a premium – annulling the logic for council tax in the first place, that it is for paying for local services, and replacing that with a social engineering function
- The increasing size of Anglian Water's facility to help those who supposedly cannot afford to pay for their water usage, a facility that is funded by the charges for everyone else being higher than they would otherwise be. In other words one's water charges contain an increasing wealth transfer

On these last two the Tories behaved like a Communist government: there is a potential within any economic transaction for social engineering and/or wealth transfer. The linkage is broken between who uses goods and services, and who pays for them. No piece of goods or unit of service performance has an absolute price: the price varies upon your ability to pay, or 'the broadest backs must bear the heaviest load'.

Now that the Tories have failed to stand on any of those matters, nothing ideologically stands in the way of the following moves by the Anti-Christ:

- Income tax thresholds remain frozen until 2029
- Unearned income to be taxed first at a level equal to earned income and then higher, including on pension income
- Cancellation of any Capital Gains Tax Allowance
- Capital gains to be taxed first the same as earned income, and then higher, on a level with unearned income
- Reduction, then elimination, of the pension tax-free lump sum

- Elimination of tapering on lifetime gifts for the purpose of calculating Inheritance Tax
- Council tax for any property that is not one's Principal Private Residence escalates to 300% or more of the PPR amount
- Council tax loses any connection with the cost of the services it is meant to cover
- Council tax collected in one local authority area can then exceed the cost of the delivery of that council's services, in which case the excess is transferred and allocated to other local authority areas: a council's central government 'grant' can become negative

Ideological surrender to Modern Monetary Theory

The Tories surrendered ideologically to the Bank's loose monetary policy, and to its tendency towards Modern Monetary Theory, for example in paying heed to the contention that it was immoral of governments not to borrow up to the hilt during the period of low interest rates so as to spend more for the public good. This contention features in Reeves' 2024 Mais Lecture.

The alternative – proper Conservative – view would have been that it was immoral during the period of low interest rates not to use the country's payment capacity to pay down the principal amount of the national debt and to establish headroom to respond in times of real difficulty: a consistent payment when the interest rate is low pays down the principal amount of the debt much more quickly than when interest rates are high, like over-paying each month on your mortgage.

Instead, the national debt and the APF expanded consistently, and now the national debt is nearly 100% of GDP. In fact by the measure of 'General government gross debt' it is over 100% of GDP. In addition, reductions of the APF by means of selling bonds have caused the Bank to pass major losses to HM Treasury: as interest rates rose, the market price of the bonds in the APF fell, just like the prices of gilts fell that were held by pension funds and the value of their LDIs based on gilts fell.

Businesses and individuals embraced Modern Monetary Theory – by borrowing up to the hilt.

Tax changes aimed at aberrations caused by the Bank's monetary policy

There is another way of interpreting the tax changes made by consecutive Chancellors whose aim and effect were to dampen second-home ownership, buy-to-let and holiday rentals. Any tax advantages for buy-to-let have been eroded and eliminated. The attack on second-home ownership includes the Stamp Duty uplift, as well as what is mentioned above. The attack on holiday rentals is exemplified by the ending of the Furnished Holiday Letting scheme, by Jeremy Hunt.

These tax changes, which were within the remit of an elected government, were aimed at moderating or nullifying aberrations caused to the UK property market by the Bank's loose monetary policy and favouring of the interests of borrowers over savers.

The Bank is independent and cannot be dictated to by an elected government. All an elected government could do was to introduce measures to counteract the impacts of the prolonged and damaging policies pursued by the Bank.

In that respect the fourteen years of Tory rule have been ludicrous: a government elected to pursue a Conservative economic agenda being undermined by a shadow and independent entity with at least as much power over the economy as the government, and which pursued policies that were the opposite of the prudence and sound management of money that lie at the heart of Conservative principles.

Starmer and Reeves may be disingenuous – but we all knew what was coming

The Tories left the public finances in a fragile state: Cameron, May, Johnson and Sunak all contributed to this, alongside Osborne, Hammond and, again, Sunak. Misjudgements of the Bank were permitted to persist.

Interestingly the Starmer/Reeves verbals lay the greatest blame on Truss/Kwarteng, despite their very short tenure in office.

It is as if the Sunak/Hunt remedy was the correct one in adhering to the same orthodoxies Starmer/Reeves hold themselves. The inference is that the remedy applied by Sunak/Hunt in terms of tax rises was the correct one but did not go far enough. Reeves in particular has been sycophantic towards the Bank, eschewing mention of its misjudgements.

The Starmer/Reeves moves must happen quickly if it is to be plausible for them to be sold as antidotes to Tory mismanagement: it is no good them waiting until a year or two down the line.

The key debating point will be whether what Starmer/Reeves were planning anyway can be sold as remedies to Tory mismanagement. The alternative narrative will be that the economy and the public finances did not need their measures to repair them, and this narrative will be aided if they irrefutably crash the economy and the public finances themselves, through their own policies and decisions.

The problem with either narrative – essentially a bilateral argument – omits the role of the Bank. The argument is trilateral, albeit that now Starmer/Reeves appear to have committed themselves unconditionally in terms of endorsement for the Bank's independence and its policies. That positioning may work for now, but could come under pressure if the economy goes down but the Bank finds reasons not to cut interest rates as far or as quickly as Starmer/Reeves may wish.

Labour's PR may have been poor but we all knew what was coming if the vote of the Right was split, and Labour were gifted a massive majority. There was no swing to Labour so they were installed entirely and only by their backers, who would always vote Labour and would not trouble to read their manifesto. What the manifesto did and did not say is an irrelevance. Can anyone remember what the Tory manifesto said? Did any of us who voted Tory trouble to read it?

Labour's backers are the unions, the public sector, ethnic minorities and benefit claimants, constituencies that have many overlaps with one another.

The backers think it is pay-out time.

It is, and Labour are duly paying out, and, as usual, with other people's money.

Our reproaches cannot be directed at Labour and their backers, who voted in their own interests. Our reproaches must be directed at the politicians of the Right who landed us here, and at the Bank, who acted independently of voters – but not independently of its peer group of central banks. To that extent its independence is an illusion: it is independent of the elected representatives of those whom its decisions most affect, but it is not independent of the global network of central banks whose hub is the Bank for International Settlements.

Slightly better GDP growth should not allowed to beguile as to the UK's economic prospects

Slightly better economic growth in Q2 2024 does not help when:

- Overseas buyers of our goods and services are in a slump
- Public and private debt is high, inflationary public sector pay increases have been awarded, the country was spending – in May and June - £14.5 billion per month more than what was coming in, and the country could not even manage a break-even in July, one of the two 'On Account' tax payment months
- The Bank rewarded its new best buddies with a ¼% interest rate cut but, as happened to the European Central Bank when it cut its rates, inflation went right back up again
- There is a raft of public liabilities that have not been fully costed or factored into the OBR and Office for National Statistics numbers, and which Reeves the Anti-Christ could have plausibly projected as a Black Hole requiring of tax increases. Instead she opted to find her Black Hole in numbers that were already reasonably transparent (at any rate Reeves has so far failed to make a convincing case for how a Black Hole had been obscured within the numbers that were available for all to see)

Is there a Black Hole at all and, if so, what is its cause?

The Anti-Christ has already worsened the public finances but it was not as if there was not an existing Black Hole, if by that one means unrecognized and/or uncosted expenses.

Into that category would fit the Infected Blood compensation, Grenfell Towers, future losses when the Bank sells out more of its APF, just to name a few.

The future, excessive burden imposed by New Labour's Private Finance Initiative projects is a form of black hole for the NHS trusts, universities and local education authorities who continue to have to pay for many years, without getting value – but these are recognized and costed expenses that should already be in departmental and OBR/ONS numbers.

Firstly Reeves has alluded to the black hole as being connected to departments for 2024/5 having spent, up to the end of June (i.e. ¼ of the way through their financial year), in excess of 25% of their budgets, such that money will run out in February or March 2025.

Secondly Reeves has also intimated that there may be no money in the budget for costs that were known to be coming along during the financial year: no money at all or an amount below what should have been expected. Reeves concentrates under this heading on supposed failings in the quantification of existing and recognized sources of expenditure against which there are some numbers, but not the correct ones, which she believes will be higher.

Her dramatization of these two claims falls flat in front of anyone with familiarity with the expenditure of government departments:

- the actual expenses are always higher - recognized and (supposedly) costed expenses are both very high and then have persistently exceeded whatever forecast was made about them, even if the forecast was only made a month or two earlier;
- loading up the public liabilities to the maximum possible amount that they could reach and putting that into the figures as if they were certainties would:
  - paint a pessimistic figure;
  - preclude making spending decisions in other areas until it was certain that they were untrue;
  - risk creating the illusion of headroom for extra spending as and when they did not come true.

On the other hand the unrecognized and/or uncosted expenses are a dramatic story, which could have been characterized as a strategic deficit and requiring of a new framework – and higher taxes. Reeves has chosen not to mention this area.

All of these problems do exist though, to some degree or other. Reeves' problem is her PR – concentrating attention on the aspects that are both the most difficult to explain to the general public and the most elusive when it comes to claiming there was unusual mismanagement: budgetary incontinence has become endemic in the public sector and the authorities who are supposed to control it. There being some kind of Black Hole in the ordinary public budget is a statement of the obvious, and mismatches the verbals about a need for significant tax rises: the latter cannot be convincingly sold on the basis of the former.

However, denying that the Tories left any kind of problem is a narrative that cannot be sustained, and plays into Labour's hands.

We cannot, surely, believe in a 'soft landing'

A narrative that holds water is that the Tories – Sunak and Hunt, following on from Johnson and Sunak, following on from May and Hammond, following on from Cameron and Osborne – left the UK economy as a whole and the public finances in particular in a parlous and fragile state. They allowed the Bank to paddle its own canoe, in the opposite direction from the one which proper Conservative values should have signposted, independently of the elected government of their country but not of their global peer group.

The tax revenues side is particularly fragile, whereas the public expenditure side is robust and growing. It will only require a small downturn in tax revenues and/or a continuation of the increase in public expenditure to send us over the edge, to which end the Anti-Christ has further boosted the expenditure side with above-inflation pay rises for the public sector.

On top of that:

- Further tax increases and Net Zero policies will see off any chance of a genuine economic recovery
- Together with greater regulation, increased trades union powers, and more state direction of resources, how can we see growth of the non-state economy?
- The USA may be in recession already and cannot be relied on as a growth engine for the global economy
- Germany has its political and manufacturing problems
- France has its political, public expenditure and debt problems
- How can the EU be seen as an engine of growth for the UK if its two biggest members are both in a slump?
- Interest rates will be reduced if the economic situation turns out to be poor, and a poor economy is not good for the housing market, the general economy or tax revenues
- If, on the other hand, the economy is strong, then interest rates cannot be reduced, and that will not be good for the housing market, the general economy or tax revenues
- In other words, the direction-of-travel is downwards under both scenarios, and there is no salvation in export markets

This cannot plausibly end in a 'soft landing'.

In the real world the Tory constituency is preparing for a punitive Autumn budget

The deeds of the Anti-Christ have been trailed, and the targets are acting:

- Buy-to-let landlords and second-home owners trying to realise capital gains under the current regime
- Owners of other types of asset trying to do the same
- Emigration of major payers of tax

This puts downward pressure on asset prices, may cause an upwards in blip in tax takings in the short term, but will not deliver the overall increases in tax revenues targeted by the Anti-Christ:

- Asset prices fall, for the purposes of both Capital Gains Tax and Inheritance Tax, leading to lower ongoing receipts
- Fewer Capital Gains are realised, leading to lower ongoing receipts

Indeed it is possible that so many big-ticket taxpayers leave the UK that it makes a dent in overall tax revenues, given how 'progressive' the tax system already is.

Unbeknownst apparently to Reeves, the UK already reached, under Hunt, the inflection point on the Laffer Curve where further increases in tax rates and scope would have caused the tax take to start falling. Now the Anti-Christ will implement those sorts of increases, and tax revenues will start to fall, at the same time as public expenditure rises even further.

The sole issue is whether Reeves will be able to present her measures as an antidote to Tory failings, or whether it will be possible to pin the blame on her.

No cause for optimism

We are out of power until 2029.

The economic wheels are going to come off the UK and badly. That is a result of Tory weakness when in power, plus global economic circumstances, plus Reeves' and Labour's actions.

It is critical to a return to power in 2029 that the economic disaster can be laid at the door of Reeves, and of the Bank, and not the Tories'.

Whether this happens is subject to timing, and to a diminishing degree of credibility for Reeves and Labour to blame the Tories and the global economy but not themselves (some will never accept that Reeves/Labour were in any way responsible).

Let's consider the degree of credibility: it will already be starting to stretch credibility for Reeves to announce measures in October to fill a supposed Black Hole if the economy has not started to go down by then and the Black Hole remains invisible to the general public. Blaming her measures on the delinquency of the Tories may only be 50% credible by then.

Credibility will diminish by a further 10% for every month that passes after October in which the economy holds up and the Black Hole remains invisible to the general public. It never goes to zero: there will always be a 10% bedrock of Labour die-hards for whom all the world's ills are the Tories' fault.

By January 2025, on that calculation, Reeves' available credibility will have evaporated, and the country will not accept that there ever was a Black Hole left by the Tories.

So we must hope the UK economy holds up until 1st February 2025, with Labour having been in power for seven months and having inherited a degree of GDP growth: Labour will not then be able to blame the Tories for anything that goes wrong.

It will not be credible for Labour to blame the Bank either, as Labour has lionised the Bank consistently.

We must also hope – or do what we can to ensure – that a Tory leader emerges who does not try to sell a false narrative of how well the Tories governed between 2010 and 2024. That leader is then able to bring about a situation at the next general election whereby the vote of the Right is not split. However that is brought about, a candidate of the Right will receive in each constituency between 35-40% of the votes cast and take up a seat as an MP.

Then the Right are back in power in 2029.

So what do we do?

Level with the British people about the failings of the Tories in power, and the poor legacy bequeathed by the Tories. Sunak and Hunt and their predecessors since 2010 loosened the wheel nuts on the bus – leaving a vehicle quite unroadworthy for the reckless driving of the Anti-Christ.

Mount a publicity campaign about the Bank, its lack of genuine independence, the impact of its policies, how they ran in the opposite direction to voters' wishes, and the real and latent problems that the Bank has created. Once the Right is back in power the nature and degree of the Bank's independence must be reduced: that needs to be a pledge in the 2029 General Election manifesto.

BL/10.9.24