The dismal state of UK economic policy in the 2020s

2025 Zeeman Lecture hosted by the Regulatory Policy Institute

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Introduction

It is a great pleasure and privilege to be invited to give this distinguished lecture in honour of Sir Christopher Zeeman, former Principal of Hertford College, Oxford. As well as commenting on current economic policy issues, this is an opportunity for me to look back at some of the themes which have underpinned my career as an economist after more than 50 years of involvement with a subject which is sometimes known as the "dismal science". I started studying economics in 1974 when I entered the Sixth Form at Eltham College in South-East London, and one of the things that attracted me to the subject was its relevance to the policy and political debates which were raging at that time. In 1974 we had two General Elections in which Harold Wilson's Labour Party won the largest number of seats, deposing Ted Heath as Conservative Prime Minister in February and in October winning a majority by the narrowest of margins – 3 seats.

The rivalry between Wilson and Heath as opposing party leaders lasted ten years and they fought each other in four General Elections – 1966 and 1970 as well as the two in 1974. The final score ended up 3-1 to Wilson. We have not seen such a longstanding personal political rivalry in British politics since then and Heath and Wilson have been immortalised in popular culture by being featured in The Beatles song "Taxman" written by George Harrison!

I will have more to say about the 1974-79 Labour Government later in this lecture. There are some uncanny parallels between the fiscal policies Denis Healey pursued as Labour Chancellor from 1974 until the 1976 IMF Crisis and the policies Rachel Reeves is now pursuing fifty years later. It is not surprising therefore that a number of economists and City pundits – including me - are starting to ring alarm bells about where our current Chancellor's policies may lead.

The structure of my argument in this lecture is as follows. In the first section, I will set out my reasoning for describing the 2020s as a dismal decade for the UK economy and our economic policy. Generally, successful economic policies will lead to a satisfactory rate of economic growth, low inflation and well-managed public finances. That is the opposite of the situation facing the UK so far this decade and the prospect is for more bad news to come in the years ahead for all three of these key indicators – growth, inflation and the state of public finances.

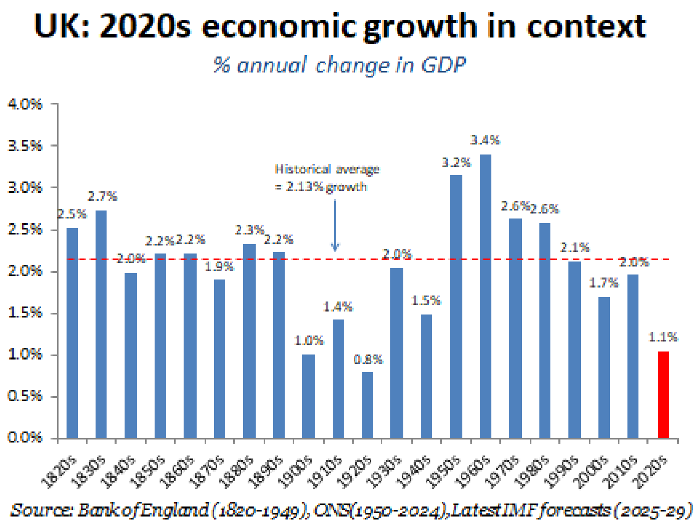
In the second section of my lecture, I will cast my eyes back to that turbulent period of the mid to late 1970s, and the decades which followed. The economic turbulence of the 1970s in the UK brought the Conservatives back to power in 1979 and they held office under Margaret Thatcher and John Major for 18 years. The economic policies in that period emphasised the use of monetary and fiscal policy to control inflation and promote sound public finances, with supply-side policies used to support economic growth. With some modifications, similar policies were pursued after 1997 under the Labour governments led by Tony Blair and Gordon Brown, and also by the Conservatives under David Cameron and Theresa May.

But the cracks in the economic policy regime started to emerge in the late 2010s and continued to widen into the 2020s. A series of external events and mishaps disrupted UK economic policy from the 2016 Brexit vote onwards and the consequences are now being seen in the poor economic performance I described at the start of my lecture. That is the subject of the third section of my speech – what has gone wrong to create the dismal decade I am now describing.

At that stage in the lecture, you have a right to be totally depressed and miserable. If the markets were not now closed, you might be considering rushing out of the door to sell all your sterling financial assets and property as quickly as possible! So I feel duty bound to inject some hope and positivity at the end of the lecture. The final section of the lecture will deal with what can be done to turn the tide. It may be that some of the policies I describe may seem unlikely under the current government. But as Harold Wilson famously said – and Angela Rayner and Peter Mandelson have recently discovered – a week is a long time in politics. The political situation can change rapidly, as Denis Healey discovered back in November 1976. Economic policies turned around after the turmoil of the 1970s – and they can do so again.

If I could have just one economic chart to illustrate my lecture today, it would be this one – shown in Chart 1, overleaf. Very helpfully, the Bank of England has worked with economic historians to compile a dataset which enables us to look further back than the 1940s and 1950s when most of our regular economic statistics were first compiled. The chart looks back over the past 200 years, going back to the 1820s, just after the end of the Napoleonic wars. There followed nearly a hundred years of relatively peaceful times with steadily rising prosperity, as the UK economy reaped the benefits of the Industrial Revolution and developed its trade links with the rest of the world.

Chart 1



The first half of the 20th Century was dominated by the two World Wars – and economic growth was badly disrupted as a result. The UK economy also suffered severe recessions between the wars, as did many other countries. In no decade of the first half of the 20th Century did economic growth exceed its long-term average of just over 2 percent and the two worst decdes shown in this chart were the 1900s and the 1920s. After the end of World War 2, growth was boosted by a post-war economic boom which persisted until the 1970s when more turbulent economic conditions returned. Even so, the economic growth rate for each decade averaged 2 percent or above until the 2000s, when growth was dented by the Global Financial Crisis in 2008 and 2009. Even after that, the UK economy grew by 2 percent on average in the 2010s, only slightly below its historic average.

The 2020s are looking very different, however. Based on the growth we have seen so far, and current economic forecasts from the IMF for 2025 and the remaining years of this decade, we will see 1.1 percent economic growth this decade in the UK. That is about half the long-term average growth rate. It is also the worst decade for economic growth in the UK for a hundred years, just ahead of the 1900s and 1920s, and the third lowest in 200 years.

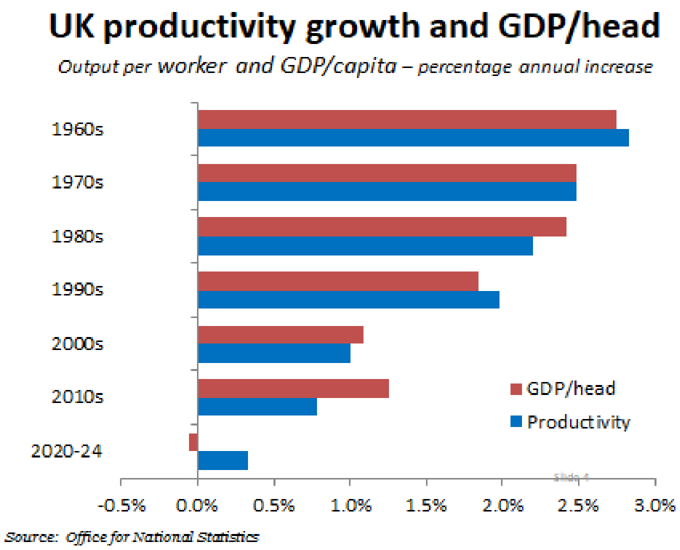
Just in case anyone thinks I have chosen a particularly pessimistic set of forecasts from the IMF, alternative forecasts available show a similar picture. If I had used the Office for Budget Responsibility forecasts, growth for this decade would have been projected at 1.2 percent and the Treasury's latest survey of forecasts would have produced a figure of 1.0 percent. So the IMF forecasts are in the middle of the pack.

This raises two questions. First, why is UK growth so low; and, second, have other countries been affected to the same degree as the UK? The next few charts aim to address these issues.

Economic growth can be looked at as the product of two main factors. The first is the change of number of people in an economy, who are available to contribute to economic activity, mainly by being employed, but also by consuming goods and services. The second is the productivity of those working, or the level of GDP/head, which is often used as a measure of living standards.

Chart 2 – below - shows UK growth measured on a “per person” basis – GDP per head or GDP per capita – and productivity, which is a closely related concept. The easiest way to measure productivity is economic output per person employed – which is shown on this chart – but some economists prefer a measure looking at hours worked rather than numbers employed as the denominator for measuring productivity. In my view, the simplest measure works best!

Chart 2



This chart shows that the main driver behind the fall in UK GDP growth in the 2020s is a reduction in productivity growth, and this is mirrored in an equally dramatic drop in the growth of GDP/head. This chart does not include any forecasts so only covers the first half of the 2020s, but in the case of GDP/head – where we do have forecasts available to the end of the decade from the IMF – that drops from 1.3% in the 2010s to a projected 0.4% for the 2020s as a whole.

Chart 3

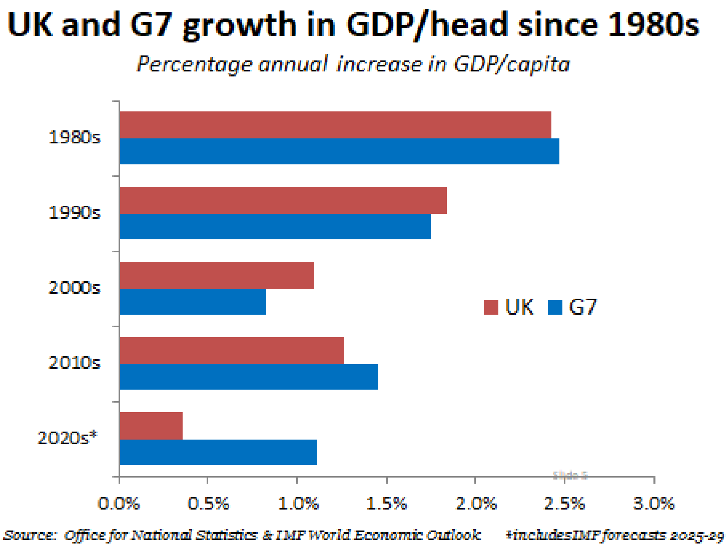


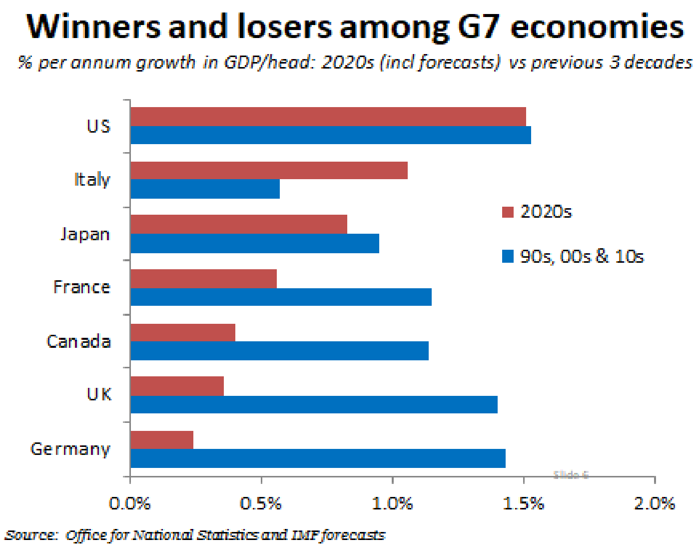
Chart 3 makes this clear, and also highlights the fact that the UK is an outlier among its peer group of economies in the G7 in experiencing such a big drop in GDP per head. In comparing growth rates across countries, GDP per capita or per head is a much more reliable metric as countries can have very different growth rates driven by higher or lower population growth. We are seeing this currently as some G7 countries – like Japan and Italy – start to experience a declining population total.

Chart 3 shows that the G7 countries as a group have not experienced the same drop in the growth of GDP/head as the UK in the 2020s. In the four preceding decades, the UK has been close to the G7 average in terms of growth in output per head. The G7 average growth rate over the 1980s to 2010s has been 1.62%, while the UK it has been 1.65%. In the 2020s we have fallen badly behind, as the chart shows, with the UK's decade growth rate projected at about a third of the G7 average.

Before moving on to discuss other economic indicators which are part of the current dismal economic decade, it is worth looking at how the UK's experience compares to individual G7 economies. As Chart 4 above shows, the two largest economies in the G7 – US and Japan – have not experienced a significant drop in their growth rates. It is the leading continental European economies, Germany and France, as well as Canada, which have had a similar experience to the UK, though not as severe on average.

A comprehensive explanation of the growth problems affecting these other economies lies outside the scope of this lecture. But in the UK, a few other pieces of evidence point to policy failures – relatively high inflation, problems with public finances, and the poor conduct of economic policy since the mid-2010s, to which I now turn.

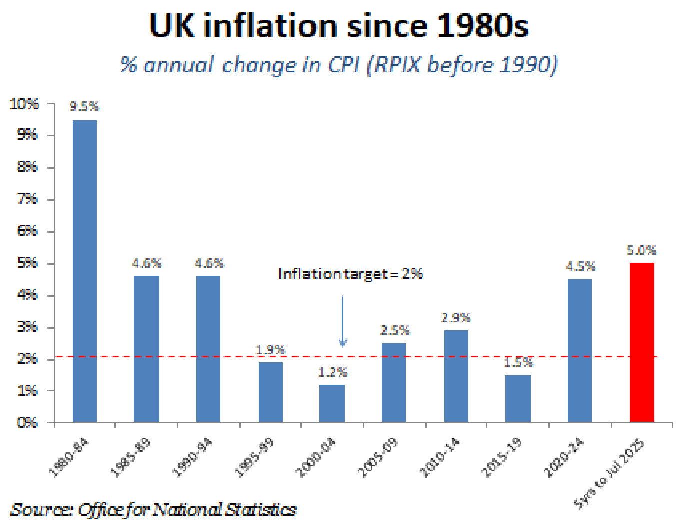
Chart 4



Inflation has been a bugbear of the British economy for much of my life and career as a professional economist. As I mentioned earlier, my involvement with economics started in the mid-1970s, and UK inflation – as then measured by the Retail Prices Index (RPI) – peaked at 26.9 percent in August 1975. Such a thing seems inconceivable nowadays, but somehow we coped. 1975 was a very hot summer and as a teenager, I was discovering the music of Yes and Pink Floyd. I also had a Saturday job in Boots the Chemists, Southwark Park Road, Bermondsey and my main job on a Saturday was to reprice goods on the shelves to keep up with inflation! Those were the days before barcodes and getting the right price sticker on goods was an important issue.

Inflation has a habit of coming back, and in the UK we have found ourselves more inflation-prone than most economies. The Conservatives under Margaret Thatcher brought inflation down to around 5 percent in the mid-1980s and the RPI measure hit a low-point of 2.4 percent in the summer of 1986, just before I joined the CBI as a Senior Economist responsible for economic policy, Despite talk of “the death of inflation” on various occasions since then, it keeps coming back. We have never seen a period of serious deflation in any major western economy in the period since the Second World War, despite many scares about its disastrous effects.

Chart 5



We had a spike in inflation in the late 80s and early 1990s, which the government sought to combat with a combination of high interest rates and by joining the Exchange Rate Mechanism of the European Monetary System in 1990. Though we left the ERM two years later, tight monetary policies very effectively brought down inflation. The target inflation variable for macroeconomic purposes was then RPIX - the Retail Prices Index excluding mortgage interest, which dropped below 3 percent in 1993 and averaged 2-3 percent annually from 1994 to 2004 when it was replaced as the target variable by the Consumer Prices Index with a target of 2 percent.

In 1997, the incoming Labour government sought to reinforce the UK's track record for low inflation by handing over the responsibility for setting interest rates to the Bank of England under a newly-formed Monetary Policy Committee (MPC). The MPC comprised 5 senior Bank officials and 4 external appointees, of whom I was one, serving on the Committee from 2006 to 2011. As the chart shows, the MPC did a reasonable job of keeping inflation close to the target until the 2020s.

Then things went very badly wrong with the rate of CPI inflation rising through 2021 and 2022 to hit a peak of 11.1 percent in October 2022. While this was widely blamed at the time on higher energy prices, CPI inflation excluding the direct impact of energy prices (domestic fuel bills and the cost of petrol and diesel) hit a peak of 8.6 percent in May 2023 – showing that the rise in inflation after the Global Pandemic was much more broad-based than just the cost of energy. As the chart shows, the average inflation rate in the years

2020 to 2024 matched the late 1980s and early 1990s and it is not clear that the surge in UK inflation is yet over.

Chart 6

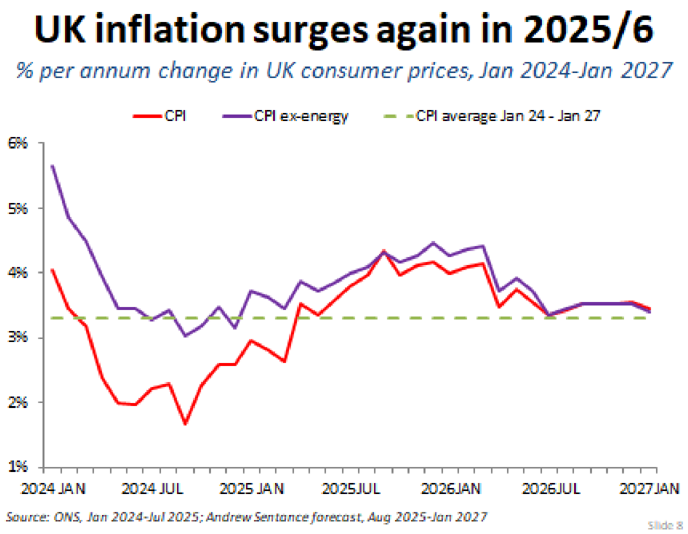


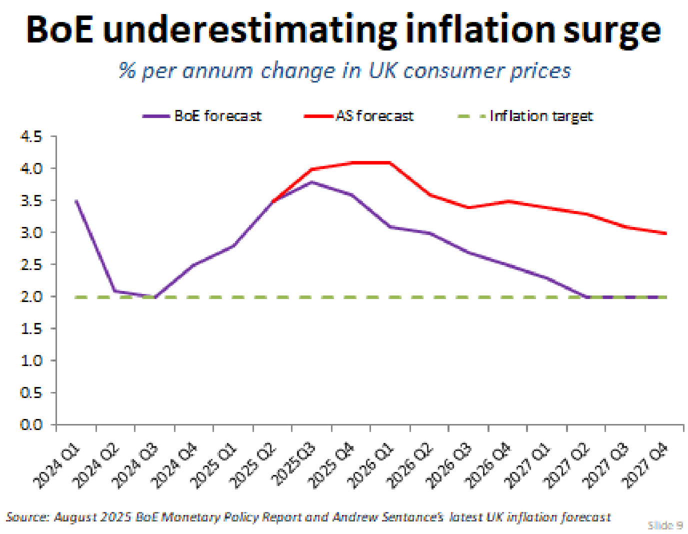
Chart 6 shows the recent history of UK inflation and a projection – based on my own modelling – for the next 18 months or so. The red line shows the headline CPI inflation rate, which the Bank of England is supposed to keep at or around 2 percent. In July, that headline inflation rate was 3.8 percent and the rate excluding energy costs was 4 percent. The stickiness of the CPI excluding energy measure - the blue line - is notable in this chart. CPI inflation excluding energy has averaged 3.8 percent since January 2024 and I expect it to average around the same rate until January 2007, though falling slightly after a peak this autumn and early next year.

The UK could not expect to be immune to the surge in inflation in 2021 and 2022 – which saw sharp price rises across the world economy. But the fact that inflation seems to be more deeply embedded in the UK than elsewhere in Europe and North America points to failures in monetary policy in the 2020s. First of all, the Bank of England conducted large scale Quantitative Easing (QE) injections in 2020 and 2021 while the government was also adding significantly to demand with a large expansion of the fiscal deficit. These QE injections were in addition to cutting the Bank Rate to a record low level of 0.1 percent after a period in the late 2010s when UK interest rates should have been pushed higher than the peak of 0.75 percent reached in late 2018 and 2019.

Second, the Monetary Policy Committee was slow to unwind these stimulatory policies from the pandemic in 2021 and 2022. The first interest rate rise did not come until December 2021 which meant the Bank was behind the curve as rates rose through 2022. Quantitative Easing did not start to be wound down until 2022, even though a decision was taken in August 2021 to do so.

More recently, the MPC has been cutting interest rates since August last year, despite evidence that inflationary pressures have been subsiding very slowly, if at all. Services inflation and wage increases – which have been on the MPC's worry list for some time – are still running at 5 percent. But the Committee has been happy to cut borrowing costs in the face of this evidence The Committee seems to have largely ignored the inflationary impact of government policy measures such as the rise in employers' National Insurance and a series of significant rises in minimum wages, including a 6.7 percent increase in the Living Wage just a few months ago in April.

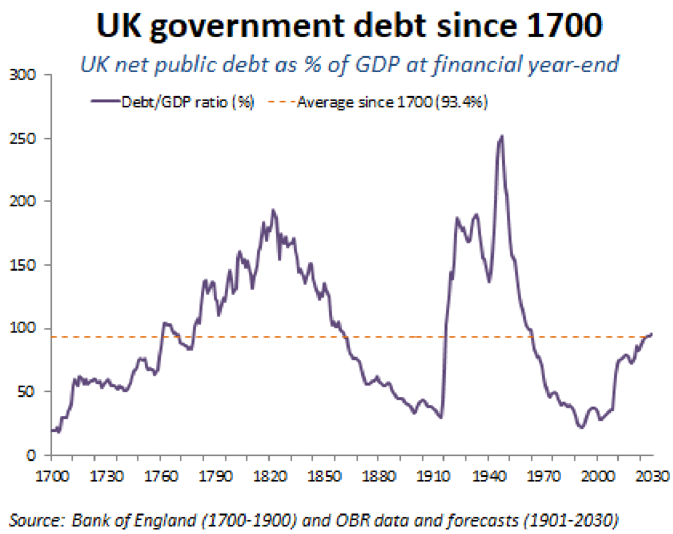
Chart 7



As a result, I am sceptical that this series of policy errors has yet come to an end. My own forecast for inflation is for UK inflation to rise higher and come down more slowly than the Bank currently expects, as this chart shows. However, this raises the question of why the MPC has made a series of monetary policy errors and whether some changes may be needed to the framework of monetary policy to avoid a repeat of the recent experience. I will return to this issue later in my lecture.

The third issue I want to cover under the theme of the dismal 2020s for the UK economy and economic policy is the state of public finances. You will have noticed that I am keen to provide some historical perspective on recent economic trends. Chart 8 is another chart with a time series stretching back for several centuries. It shows the ratio of UK government debt to GDP back to 1700 and highlights how much it has fluctuated over the past 325 years.

Chart 8

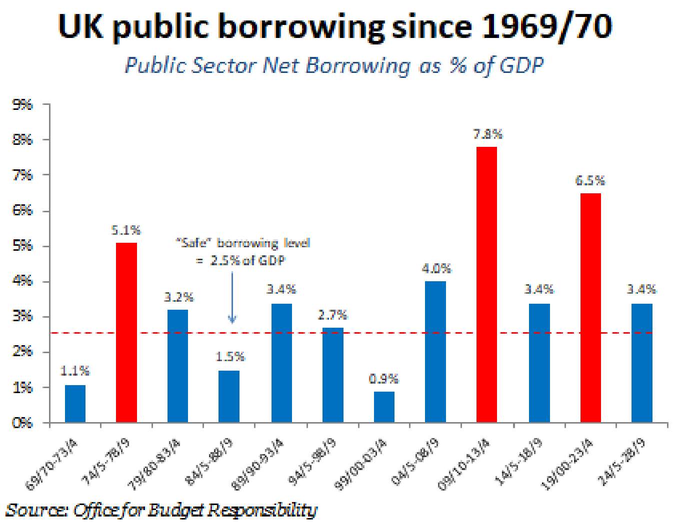


There has been a lot of concern expressed about recent increases in public debt, not just in the UK but in other countries too. This chart shows how the amount of government debt is driven by wars and other national emergencies. The ratio of debt to GDP rose significantly during the 18th and early 19th centuries when Britain seemed to be continually at war with other continental European nations, culminating in the Napoleonic wars. After peace broke out in Europe with Napoleon's defeat in 1815, a more stable and growing economy, coupled with prudent management of public finances, saw the debt to GDP ratio fall from nearly 200 percent of GDP to around 30 percent by the outbreak of the First World War in 1914. In the 20th century we saw the same debt roller-coaster repeating itself, with the two World Wars pushing up the debt/GDP ratio - this time to about 250 percent of GDP, followed by a gradual decline in the post-war years to around 30 percent by the early years of the 21st century.

In this century it is not wars which have pushed up the level of public debt, but other national emergencies – the 2008-9 Global Financial Crisis and its aftermath followed by the Covid pandemic in the early 2020s. The fact that these emergencies came in relatively close succession means that the debt to GDP ratio has increased again to close to 100 percent of GDP. In itself this not a totally shocking figure – as the chart shows the public debt burden in the UK over the past 300 plus years has averaged around 94 percent of GDP, about where it is now. However, the higher public debt rises, the more important it is for the government to work to stabilise it and if possible gradually reduce it. The failure to do so convincingly is likely to strain the tolerance of the lenders in the bond markets, pushing up the cost of servicing debt.

We have already seen this upward pressure on borrowing costs start to happen in the case of the UK, with bond yields rising in response to concerns about the credibility of plans to reduce the deficit. UK government debt interest is now running at over £100bn a year, and getting close to 4 percent of GDP, compared to an average of 2 percent in the two decades before the Pandemic hit in 2020. The issue facing the Chancellor of Exchequer is therefore not just the high level of debt taken in isolation, but how sustainable are her plans to manage public spending and public borrowing against the background of the need to service a relatively high debt level at the same time.

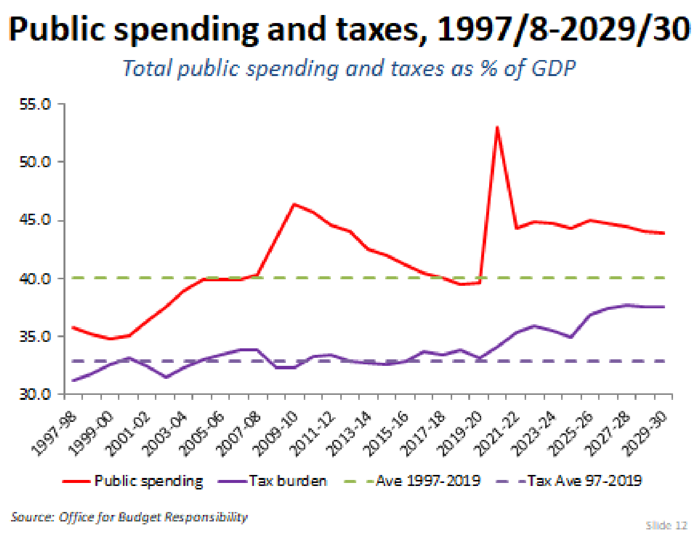
Chart 9



Looking at the Chancellor's spending and borrowing plans, it is not surprising that bond markets are getting nervous. First of all, borrowing continues to run at a relatively high level. If we set aside the exceptionally heavy borrowing under Denis Healey – which precipitated the IMF crisis – and periods affected by the Global Financial Crisis and the Covid Pandemic, deficits averaging around 3.5 to 4 percent of GDP are the highest we've seen over five-year periods in the UK since the 1970s. At present, though, borrowing is currently running higher than this - at 5 percent of GDP in 2024/25 with a similar borrowing rate so far in this financial year. These are Denis Healey levels of public borrowing, so it is not surprising that some economists are drawing parallels with the 1976 IMF crisis.

The Chancellor can get away with this for now because she is promising to get borrowing down later in the Parliament. That is when she hopes to get the deficit down to 2.5 percent of GDP or below, described on this chart as within the "safety zone" for the deficit and hopefully meeting her fiscal rules. This would result in an average borrowing level of 3.4 percent of GDP across the five years 2024/25 to 2028/29 as a whole, covering this Parliament. However, that means borrowing reductions are being promised for the future, rather than being delivered in the present, which inevitably raises the issue of whether they will be achieved at all.

Chart 10

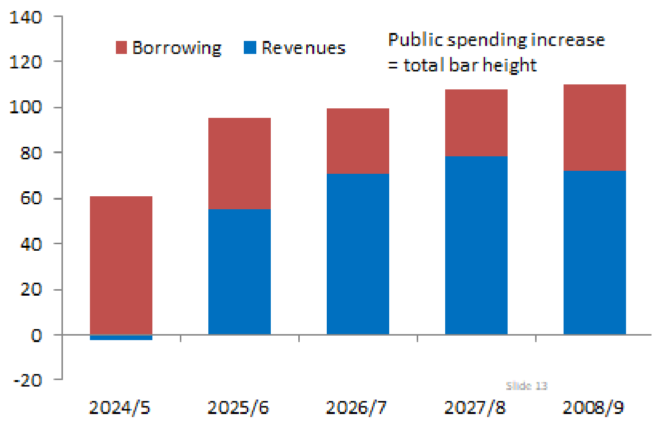


It is not hard to see the reasons for the Chancellor's difficulties with borrowing when we look at recent trends in public spending and taxes. Public spending has normally been around 40 percent of GDP in the UK, fluctuating around this level due to the economic cycle and other shocks. That is the average shown on this chart from 1997 to 2019, before the big spike in spending you can see due to the Pandemic. That average is in fact very similar for the 40-year period from 1979 to 2019, which is 40.3 percent of GDP. This spans the decades when UK performance growth and inflation performance were generally satisfactory and enabled successive Chancellors to keep the tax burden around 33 percent of GDP. Combined with non-tax revenues of around 3.5 to 4 percent of GDP, this normally created a sustainable situation for public borrowing and debt.

Since 2020, however, public spending as a share of GDP has moved up to much higher levels. For the remainder of the 2020s, current plans are for the government to spend close to 45 percent of GDP, a much higher sustained level of spending than we have seen in earlier decades. With spending nearly 5 percent up on the historical average, a sustained rise in the tax burden of a similar magnitude is required to balance the books. This underlies the rise in the tax burden which is now taking place, including the rise in employer National Insurance, changes to capital gains tax and inheritance tax and the freezing of personal tax allowances, which contributes to “fiscal drag”.

Labour’s boost to public spending, borrowing and tax

£bn rise in public spending, revenues and borrowing, latest forecast vs July 2024



Source: OBR Public Finances Databank, July 2024 and August 2025

Chart 11 looks at the same issue in a different way, comparing the cash totals for spending, tax and borrowing currently projected by the OBR with the amounts the OBR was forecasting following the March Budget last year. The total spending boost is around £100bn, most of which has come through over the course of the last year and the current financial year. Only about two-thirds of this increase in cash spending is covered by extra revenue, however, with borrowing taking some of the strain. This is because the current Chancellor’s fiscal rules give her more scope to raise borrowing than Jeremy Hunt was allowing himself in his Budget last year.

So, to sum up the ingredients which are contributing to the “dismal 2020s for the UK economy .Economic growth in this decade will most likely be the worst for 100 years. Inflation is too high and there have been quite serious errors in the conduct of monetary policy. Public borrowing has been running at an unsustainably high level and the Chancellor is relying on a significant improvement over the course of this Parliament – but it is not clear how that will be delivered. Meanwhile, public spending and the tax burden are at historically high levels. The job of economic policy is to correct such problems when they arise, but in a number of ways, UK policy-makers have contributed to these economic problems rather than trying to remedy them.

There is a danger of looking at the past through rose-tinted glasses, particularly if you are reflecting on a long career as an economist, as I am doing now. However, if we look back over the period from the 1980s to the mid-2010s, there was a remarkable consistency and relative stability in the economic policies pursued by both Labour and Conservative governments, which has been disrupted in various different ways in the past 5-10 years. This consistent approach to policy began to be established in the 1980s under the Thatcher government and was modified and moulded by successive governments.

I would identify three broad approaches which underpinned this policy mix, covering the three main arms of economic policy – monetary policy, fiscal policy and supply-side policies aimed at ensuring the microeconomic processes in the economy were working well to deliver jobs and growth. In many ways, these policies were a reaction against the turbulent times and policy errors of the 1970s, which brought us double digit inflation, stuttering growth, rising unemployment and the 1976 IMF crisis – which was a national humiliation for the UK,

On monetary policy, the main focus was to control inflation, based on the belief, which I strongly support, that without low and stable inflation, the economy would be lurching from one crisis to the next and all other aspects of economic performance would suffer as a result. The policies to control inflation evolved from a crude monetarism in the early days of the Thatcher era under Geoffrey Howe as Chancellor. This was followed by experiments with targeting the exchange rate in the late 1980s and early 1990s – which came to an end when the UK dramatically left the European Exchange Rate Mechanism in 1992. That led on to the current inflation target framework operated by the MPC under an independent Bank of England, established by Tony Blair and Gordon Brown in 1997.

Fiscal policy was driven by a strong emphasis on strict control of public spending and borrowing, which again operated in different ways under different governments. A very significant development was that the broad principles of fiscal policy did not change when Labour came to power in 1997 and when the Conservatives resumed control in 2010, initially in coalition with the LibDems.

The third principle underpinning economic policies over this period were various iterations of supply-side policies – alternatively described as microeconomic policies - aimed at ensuring government policies were as supportive as possible towards economic growth and jobs. Under the Thatcher government this started with quite dramatic steps including privatisation of key industries, and the establishment of a regulatory structure to oversee the privatised industries – which is the basis of the activities of the Regulatory Policy Institute whose annual conference is meeting today and tomorrow. Tax reform was a major theme under the Chancellorship of Nigel Lawson – though sadly it has not been on the radar of subsequent Chancellors.

As we moved into the 1990s and into the Labour government of 1997 to 2010, the emphasis of supply-side policies shifted towards labour market interventions and reforms to support training and address barriers which prevented unemployed and discouraged workers from filling available jobs. Underpinning all this was an approach to running the economy founded on access to European markets through membership of the EEC, which morphed into the European Union in the early 1990s. The UK aimed to be open for business and an attractive place for international businesses to locate and invest in.

In various ways, the UK has drifted away from these polices in the second half of the 2010s and first half of the 2020s. This was not intentional. I am not in general a subscriber to the conspiracy theory of history, being a firm believer in the “cock-up” theory of history instead. Nor is it the result of one single factor. Rather, a series of mishaps, accidents and distractions have shifted policy-making away from the principles which underpinned relatively successful economic conditions for the UK economy for over three decades starting in the 1980s.

The slide overleaf aims to list the most important issues in my judgement. However, others in the audience may want to highlight different issues – I would not claim this is an exhaustive list, and I can’t go into too much detail on each in the limited time available.

First of all, the Global Financial Crisis and the Covid Pandemic created shocks, in the space of just over a decade, which strained the policy frameworks I have described above. In relation to the Financial Crisis, I believe the UK weathered the storm relatively well – even though there was a major cost to public finances and a significant overhaul of financial regulation was required to remedy the weaknesses exposed by the crisis. The UK did less well in response to the Pandemic and a number of serious policy mistakes were made, and the problems we are having with control of public spending now were seriously aggravated by this episode.

What undermined the 1980s-2010s policy regime?

- Big shocks – Global Financial Crisis and Covid Pandemic
- Brexit – a major political distraction and a negative influence on economic growth and policy-making
- Weakening of fiscal and monetary frameworks, accompanied by policy errors
- "Independent" institutions – Bank of England, OBR, etc - have not been sufficiently robust
- Loss of focus and direction in supply-side policies, which have drifted away from promoting markets and supporting economic growth to other objectives

However, policy-makers cannot blame everything on these two big shocks – not least because other countries seem to have been less affected by their longer-term impact on economic performance.

Second, Brexit also deserves an honourable mention. The report which I was involved in at PwC in 2016, commissioned by the CBI, estimated that the loss of GDP from leaving the EU would be 3 percent of GDP spread over a number of years. This would help to account - at least in part - for the sluggishness of UK growth in the 2020s and may have contributed to the sluggishness of some of our leading EU trading partners, including Germany.

Third, in the sphere of monetary and fiscal policy, the policy frameworks as they have been operated in recent years do not have the rigour and precision of earlier decades. Gordon Brown was the first Chancellor to introduce formal fiscal rules, and he was the first to adapt them to allow him to spend and borrow more – in the mid-2000s. There have been at least ten different versions of UK fiscal rules since they were introduced in 1997. In general, the effect of changes introduced by successive Chancellors – and there have been 10 of them since 1997 too – has been to give the incumbent more scope to relax fiscal policy, and Rachel Reeves has continued in this tradition.

Monetary policy still operates under the framework laid down by Gordon Brown in 1998, but the conduct of policy has become more variable and less decisive, particularly in the past 5 years. There seems to be a persistent inflationary bias as the Monetary Policy Committee is generally more willing to cut interest rates than increase them, which always seems to be a less popular move with the media and politicians. In fact that is something of a puzzle, as only about 30 percent of UK householders are buying a house with a mortgage, so the direct beneficiaries of an interest rate cut are in a minority these days.

Fourth, across a whole range of economic institutions, the concept of independence has been weakened in various ways over the years. In that, I include the Bank of England, which has had to work closely with government in the two big crises since 2007, and this seems to have had an impact on their day-to-day decisions too. The Office of Budget Responsibility is another so-called independent body which works very closely with government and is often lobbied behind the scenes. Some of its recent decisions do not seem to be wholly independent of the Treasury. Industry regulators like OFCOM and OFGEM have also become less independent in their actions – often acting nowadays to implement government policy.

Finally, we seem to have lost our way in the direction and purpose of supply-side policies. We have seen major fiascos in the conduct of decisions to expand airports and develop high-speed rail. HS2 was frowned upon by Rod Eddington, former Chief Executive of British Airways who advised against “grands projets” of this nature in a major transport review commissioned by Gordon Brown when he was Chancellor of the Exchequer. HS2 went ahead anyway and has now ended up as an expensive White Elephant which will shave just 20 minutes off the journey time to Birmingham.

I was at British Airways in 2000 when the then Labour government launched its consultation on the expansion of UK Airports. Twenty-five years later not an inch of new tarmac has been laid at Heathrow to start building a new runway, which in the meantime has become hideously expensive and is no longer supported by airlines. At Gatwick, a very simple project to move the Northern Runway to allow a big expansion of capacity, is still being scrutinised by the Planning Inspectorate and is a long way from going ahead. It would not be a surprise if these proposals went the same way as HS2 and other airport proposals at Cublington and Maplin Sands which were abandoned in the 1970s.

Restoring stability and success to UK economic policy

- Get back to sound economic principles
- Monetary and fiscal policies to deliver low inflation, sustainable public finances and economic stability
- Updated "supply-side" policies – skills, infrastructure, tax/benefit reform, public service efficiency, regulation, etc – to support market-driven growth
- Reinforce and respect independence of economic institutions (BoE, OBR, regulators, etc) with properly independent appointment procedures
- Successful economic performance is delivered by a complementary mix of policies – not a single policy

So what can be done to improve things? The slide above summarises the key points. As is often the case with major public policy problems, there is no magic silver bullet solution. In his Mais Lecture in 1984, Nigel Lawson set out the shape of the policy agenda very much along the lines I have described for this lecture: monetary and fiscal policy directed towards economic and financial stability rather than trying to manipulate demand, while supply-side policies help to deliver growth. But at the end of that speech he emphasised that the UK needed complementary policies which work together across all areas of government policy, particularly to deliver growth and jobs.

My agenda for the future is much along these lines and I do not need to reiterate the direction we need to move, which is clear from earlier sections of this lecture. We need to arrest the drift away from sound economic principles and restore more discipline to monetary and fiscal policy. To achieve this, there needs to be a recognition and enhancement of the independence of key economic institutions, particularly the Bank of England and the OBR, both of which have drifted towards acting as arms of government policy. The Chancellor regularly applauds the Bank of England for cutting interest rates and appears to be egging the MPC along in this direction. Yet at the same time she is writing letters to the Bank Governor bemoaning the fact that inflation is way above target, and Andrew Bailey writes back with warm reassuring words, and then cuts interest rates at the next meeting!

I believe independence can be enhanced by the appointment processes to the MPC and OBR, which are still very opaque. An independent appointments commission, staffed and guided by experienced figures in the world of economic policy, should be established to make appointments to both bodies. Consideration should also be given to changing the balance of members on the MPC in favour of external members, so they hold a majority, either 6-3 or 5-4 relative to the internal Bank officials, who more often than not follow the Governor's lead. The Board of the OBR could also be expanded by bringing in more non-executive members – at present there are just 2 in a Board of 5.

The other key recommendation on this list is to develop an updated and enhanced framework for supply-side policies, revisiting areas which have been neglected in recent years such as tax and benefit reform, public sector efficiency, and transport investment. At present the Chancellor creates the impression that all public sector investment is a good thing, whereas we need a renewed focus on investments which enable and support private sector growth – which is ultimately the engine for the economy to create new jobs and rising living standards.

I hope this has been an interesting and illuminating lecture. Thank you for listening and I look forward now to some questions and discussion, both in the time remaining and over dinner.