Funding the Future

Incompetence comes at a very high price

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The UK inflation rate reached 3.6% yesterday.

The Bank of England predicts that it may reach 5% next year.

And yesterday it was forecast that the energy price cap for UK households might increase by more than £400 a year from January next year. A great many UK households do not have that level of spare capacity in their budgets.

And it is planned that things will get worse. The Bank of England's chief economist, Huw Pill, has said interest rates must rise to tackle the inflation resulting from these price increases - which do not in any way reflect excess demand or an excess capacity of people within the economy to spend - when his real agenda is that he wishes to prevent wages from rising to ensure that people can meet need.

The reality is that there is no heat in the economy for the Bank of England to remove.

War in Iran caused this crisis. That is continuing. There have been tankers burning in the Gulf this week, whatever Trump might say about wanting this conflict to end.

We also know energy companies are profiting enormously as a result.

And that is not surprising. High oil and gas prices are great news for them, just as they are very bad for us, not just because this means that petrol, diesel, oil and gas prices rise, but because electricity prices do too. Why? That is because, in the UK, wholesale electricity prices are largely determined by marginal-cost pricing.

Under the government created electricity pricing mechanism in use in the UK, generators offer electricity at different prices to distributors, with the cheapest being used first. However, the price paid to all successful generators in the ongoing, 24-7, 365-day-a-year wholesale electricity price auction is set by the most expensive supplier needed to meet demand, and that is very frequently a gas-fired power station.

This means that cheaper to generate renewable and nuclear electricity is sold at prices

determined by expensive gas generation, creating substantial additional revenues for some generators.

And that is why electricity in the UK is so expensive. We pay for all of it at the cost of producing the most expensive element in the overall supply, meaning the whole pricing arrangement is a profit-maximising opportunity run to benefit corporations at our cost.

Is this necessary? Of course, it is not. It is an absurd pricing policy based on the supposed microeconomic theory of the firm, which does not represent the known behaviour of any company in the whole of economic history, despite which it is taught is if a fact in every university in the U.K., and quite probably worldwide.

Never has a falsehood come at such a cost. We are paying that cost. Companies are profiting from it. The government, which created this system that approximates madness, is doing nothing about it. And the Bank of England is using its powers to suppress wages and inflate the level of unemployment in the economy, whilst rewarding the wealthy because electricity is overpriced due to the neoliberal economic madness if our electricity pricing system.

Let me be clear: I am not saying we have not got an issue with rising energy costs. I am saying those costs need not be nearly as high as they are. If we had a government made up of people who knew economic theory, could think critically about it, and see through it and then understand it as the exercise in exploitation for which it has been used as cover, the people of this country would be very much better off.

But we are not possessed of such people. And so we suffer as a result.

Incompetence creates a very high human cost in terms of misery imposed, and all to pretend there is a market in operation when there is not.