

U.K. Energy Policy Is a Flop

It will keep inflation high—and markets know it.

By Donald L. Luskin

In trying to understand why equity and currency markets reacted so badly to new U.K. pro-growth tax policies, your editorial “[The United Kingdom’s Growth Plan](#)” (Sept. 23) doesn’t mention the U.K. plan to cap energy prices and subsidize energy firms to compensate them for it. Recall that immediately upon his inauguration as president in 1981, Ronald Reagan did the exact opposite by decontrolling energy prices, allowing markets to efficiently equilibrate in response to price signals. Reagan’s decision marked the end of an era of high energy prices.

Now, in the U.K., subsidizing energy prices will keep them artificially high by giving neither consumers nor producers any incentive to seek efficiencies or make rational allocation decisions. That will keep inflation high which, in turn, will cause the Bank of England to keep working at cross-purposes with the new prime minister by jacking up interest rates to tame inflation by slowing the same economy that Liz Truss is trying to grow.

Mr. Luskin is chief investment officer of TrendMacro.