

My Intervention on the Charter for Budget Responsibility Debate

John Redwood
(Wokingham) (Con)

My right hon. Friend the Member for North West Hampshire (Kit Malthouse) makes some powerful points. He is right that if we cut certain tax rates, we collect more revenue, not less. The historical evidence is very clear on that, but OBR and Treasury models do not capture that. He is right that if we try to guide our economy by a debt-to-GDP ratio and we go into recession, the ratio gets worse. We are then advised to take exactly the wrong action, and intensify the downturn by trying to chase the ratio with tax rises that will push the economy lower; it is an extremely foolish thing to do.

My right hon. Friend is right that the Treasury needs its own independent forecasting, and needs to be able to say sometimes that the independent OBR forecast may be wrong. If it is genuinely independent, why should the Chancellor have to defend it? When it is as wrong as it has been at points in the last three years—for example, as wrong as it was on the deficit—it would be extremely helpful if the Chancellor was encouraged to disagree with it, because it is sending him exactly the wrong signals. For two years running, it grossly exaggerated the deficit and debt at a time when we could have done more to promote growth. This year, predictably—indeed, I did again predict it—it got it wrong; it understated what would happen, because it did not understand that its other policies would slow the economy so much. My right hon. Friend is right about the longer-term issues, but time does not permit me to go into that, as people apparently want to go home this evening.

On the control framework, I will be the one person who says that I do not think that this control framework is good. It clearly has not worked in the past, and it is fairly unlikely to work in the future. We have one extremely important control, which is not mentioned in this document: the 2% inflation target. That should be even stronger and better enforced. It is very worrying that the Bank of England, which seems to have the main responsibility for it, allowed inflation to reach over 10% when it had a clear target of 2%. It would not listen to those of us who said that if it carries on printing too much money and buying too many bonds at ever higher prices, it is very likely to have inflation. I hope that it does not cause the reverse problem, and put everything into reverse, giving us a bigger recession than we need. We do not want any recession at all, but clearly a slowdown was needed to correct the extra inflation as the Bank tried to correct its past mistakes.

It would be good to complement the 2% inflation target, which should apply to the Government as well as to the Bank of England, with a 2% growth target. We would then have the balanced model that the Federal Reserve is wisely given by our American friends and colleagues. The Fed is told both that it must keep inflation to around 2% as a priority, and that it must maximise employment in doing so. A balanced mandate of 2% inflation—it would be nice

if we could do 2% growth, but the current official forecasts are way below that—would provide the right kind of signals, and give us more chance of a sensible economic policy.

This is our one chance to remind ourselves of the big issue of how we manage this enormous debt, bearing in mind that about a third of state debt is owned in accounts by the Bank of England, which means that it is owned by the taxpayers and by the Government. When I last looked, the Bank of England was 100% owned by taxpayers and the Government. Every pound of that debt that was bought up, was bought up on the signature of Labour, coalition and Conservative Chancellors, with this House agreeing that we would indemnify the Bank against all losses. Indeed, the Bank of England understandably put on its website that the whole of the bond portfolio is held with it acting as an agent for the state. These are joint control decisions, and the Government are clearly the senior partner, because they have to pay the bills.

It is quite wrong that we should have this uniquely difficult treatment when it comes to handling the rundown and the losses, when the European Central Bank and the Fed made exactly the same mistake of buying too many expensive bonds . There is a lot to be said for the ECB idea that the rundown should take place as the bonds naturally repay. One does not go charging into the market to undermine one's own bond prices by selling even more of them at a loss. If we want to be ultra-tough on money, like the Fed—it probably has more of an inflation problem than we did—then if we sell the bonds into the market, why send the bill to the taxpayer? Why does the bill not rest with the central bank, which can actually stand that kind of thing? As the Fed constantly points out, the fact that it is sitting on a lot of losses does not matter, because it can always print dollars to pay its bills—it is not like a normal company. We should look again at this particularly hairshirt treatment, whereby the Bank of England expects taxpayers to send it money every time it sells a bond at a loss—and it wants to sell a lot of bonds at a loss, when there is probably no need to do so for the sake of the conduct of monetary policy.

I hope that the Government look again at those issues, because we have a very difficult nexus between decisions taken jointly, decisions taken by the Government, and decisions taken by the Bank of England. The treatment of this debt is having a big impact on the Budget judgments that the Chancellor comes to.

My final point is on the strange treatment of debt interest. As the Minister pointed out, the debt interest programme has shot through the roof to extremely high levels, but the bulk of that is, of course, the indexation provisions on the index debt, which in the UK is a rather high proportion of the total debt. None of that requires cash payments, so it is not a bill that we have to pay today. In practice, it will wash through by our simply rolling over the debt when the bonds fall due. We will re-borrow the real amount rather than the nominal amount, so we will not actually feel it. It is very odd that we put that as a cost against the accounts. The great news, however, is that as a result of that strange accounting treatment, we will have a great bonanza, apparently, because I think the forecasts are right, and that inflation will come down quite sharply over the next two years—indeed, the

Bank of England thinks it will go well below 2%. The debt interest programme will absolutely disappear through the floor, given all this so-called debt interest throwing out the figures. I hope some of the proceeds will be used for a sensible policy to promote growth.

8.29pm
John Glen

It is a privilege to close this debate on behalf of the Government. I thank those who contributed to the debate, including the distinguished Chair of the Select Committee, who highlighted some of the issues and presumptions of Government policy. I cannot comment on what will happen with fuel duty, as that will be the Chancellor's decision. I thank the right hon. Member for Dundee East (Stewart Hosie) for his contribution, in which he seemed to suggest more targets and a poverty of ambition on behalf of the Government, and I can assure him that that is not the case.

I would like to respond to my right hon. Friend the Member for North West Hampshire (Kit Malthouse), who made a number of observations about the independence of the OBR; its certification and validation role; and the iterative process and whether that compromised the apparent independence of the Treasury. He described economics as not just an art or a science but even psychology. I can confirm that the OBR's remit is unchanged: it is the Government's official forecaster. But—as he notes and I am pleased to confirm—the Treasury maintains considerable analytical capability to support the policy advice to Ministers, and it does a very good job of it too. There is a clear separation between the OBR and policymaking, but it is a matter of securing credibility for those policies, and I think he would agree with me that that is a very important point.

[My Intervention on the Charter for Budget Responsibility](#)

Charter for Budget Responsibility – Volume 727: debated on Monday 6 February 2023

John Redwood
Will the right hon. Gentleman give way?

Mr McFadden
I am happy to—I thought mention of the IMF might bring the right hon. Gentleman to his feet.

John Redwood
I would like to know the Labour position. The European Central Bank is not selling debt at a loss into the market because it does not want the losses.

The Americans are selling debt into the market at big losses, but they do not send the bill to the taxpayer. Only the Bank of England insists on both making huge losses and sending the bill to the taxpayer for immediate payment. Who is right?

Mr McFadden

I suspect that the Bank of England will not be the only institution attacked by the right hon. Gentleman tonight, but I remind him that part of the purpose of the charter is to restore our faith in the economic institutions, after what happened less than six months ago.

The IMF has forecast that the UK will have the lowest growth among developed countries for the next two years: bottom of the league on the record and bottom of the league on the forecast. And yet still the Government come along tonight and table a debate supposedly designed to enhance their economic credentials.

Well, what will the effect on those credentials be of the re-emergence of the former Prime Minister at the weekend? I have to give her 10 out of 10 for timing. What better time to write an article saying that her mini-Budget was right all along than the day before the Chief Secretary has to come here and stand up for the Government's fiscal stability record? What better moment for her to say to members of pension schemes that had to be put on life support as a result of her mini-Budget that it was not her fault? No contrition for trying to borrow from my constituents in Wolverhampton South East in order to pay for a tax cut for people earning over £150,000 a year; not a word of apology to the millions of mortgage holders left paying a Tory mortgage penalty because of the reckless irresponsibility of the Conservative party. Just when the Government were trying to bury the memory of that mini-Budget under 10 feet of concrete, up she pops—like one of those hands coming out of the swamp at the end of the film—to tell us it was all someone else's fault.

For me, the best bit in the article was when, in a long list of culprits, other than the Government that actually introduced the mini-Budget, the former Prime Minister blamed the Treasury civil servants for not warning her about the impact on pension schemes. I had to ask myself, were these the same Treasury civil servants that she had spent the whole summer scorning and disparaging? Were they the same Treasury civil servants whose boss was shown the door on the first day of her premiership? In what world are we expected to believe that the former Prime Minister, her Chancellor and the Government would have listened to a word those civil servants said, when all along she defined them as being part of the problem and not part of the solution?

The real problem for the Prime Minister, the Chancellor and the Treasury is that this is not going away. The last Prime Minister is not a lone voice, and the more that Conservative Members realise the Government have nothing left in their tank and are resigned to managing decline, the louder the drumbeat will become; and it will be cheered on by the same newspapers that gave such a warm welcome to that mini-Budget in the first place. The Prime Minister, demonstrating the sureness of touch with which we have come to associate him by now, has labelled those on the Government Benches calling for tax cuts "idiots". That is his phrase, not mine—about those on his own side. And yet

today, fearful of them, the Prime Minister now says he will listen. Which is it? Are they idiots or is he listening? This weekend's intervention, and those who cheer its argument, will have the Prime Minister and the Chancellor looking over their right shoulders every day between now and the election, when they should be focused on the needs of the country.

This debate is supposed to be about all of us swearing fealty to fiscal rules, but there is another problem: since this Government came to office, they have broken their fiscal rules 11 times. They have had even more sets of fiscal rules than they have had Chancellors and Prime Ministers over the past year. If you don't like one set, don't worry—there will be another one along in a while! The Chief Secretary himself outlined how these rules were different from the ones we debated this time last year in the George Osborne tribute debate of 2022, and each time we are expected to treat the new rules as though they were the ten commandments.

The second part of this is about respecting the role of the Office for Budget Responsibility. The document before us is very clear about that. It talks in great detail about the importance of that role. Indeed, when it was first launched, the Economic Secretary to the Treasury of the time set out the benefits of the OBR, making clear the value of its

“strong, credible, independently conducted official forecasts”—[Official Report, 14 February 2011; Vol. 523, c. 747.]

She said that the establishment of the OBR and its independence from the Treasury meant that

“Governments will be reticent about introducing policies that seem to take them off course”—[Official Report, 14 February 2011; Vol. 523, c. 749.]

Well, there was not much sign of that reticence last year as the Government crashed the economy, caused a run on the pound, caused mortgage rates to rise and put pensions on life support. Indeed, we had a real-time lesson in the cost of disparaging our institutions—institutions that the Conservative party used to care about. But tonight, even after that experience with chapter 4 of the charter, we are back to a hymn of praise for the OBR.

The real problem here is not just inconsistency, but credibility. I am afraid that the many-year record since the idea of this charter was first conceived a decade or more ago has meant that the Conservative party has now forfeited the right to call itself the party of sound management; it has forfeited the right to call itself the party of growth, because the record on growth has been abysmal; it has forfeited the right to call itself the party of low debt, because debt has rocketed; it has forfeited the claim to careful stewardship of the public finances, with billions lost in bounce back loan fraud, personal protective equipment waste and tawdry stories of one dodgy contract after another; and it has forfeited the right to call itself the party of low tax, because the tax burden is at its highest for decades.

What, after all that, has this been for? We have record waiting lists, trains that people cannot rely on, and delays and backlogs everywhere. In fact,

there is not a single public service that runs better now than it did 13 years ago, when the Tories took office. Low growth and high tax for a worse outcome—that is the record. When people are faced with the question, “Are you and your family better off?”, the answer is no.

Two weeks ago, we had the Chancellor’s speech on the way forward. He had four Es, and more than one person said that the biggest E was for empty, because the real problem for the Conservatives is that, when it comes to growth, the only policy they reach for is unfunded and untargeted tax cuts, and when they tried that in September, it blew up in their faces. Growth is the right question for the country, but it does not come from the discredited idea of trickle-down economics. It comes from the efforts of all of us—from every businessperson with a new idea and the drive to make it happen, and from making sure we use the UK’s strengths to make the most of the green transition that is coming, rather than standing back and allowing those investments to go elsewhere. It comes from every teacher equipping a pupil with new skills and knowledge, and from not having 7 million people on NHS waiting lists, keeping many of them out of the labour market. Talking of former Prime Ministers, it does not come from saying “F*** business”, but from a modern partnership with business that brings in the long-term investment the country needs. Most of all, in a knowledge economy like today’s, growth has to come from everyone, not just from a tiny proportion of people at the top.

Fiscal stability is an essential foundation for what we have to do—I agree with the Chief Secretary on that—but it is not an end in itself. It has to be the foundation for meeting the challenges the country faces and for giving people a more prosperous future. After many years of this debate, we look less at the latest version of the rules and more at the gap between claim and reality, because after crashing the economy and leaving the British public to pay the bill, the Government have no credibility to come forward and claim to be the champions of fiscal stability.

The idea for this charter was born in another political time, as I said at the start, and if it did have a purpose, events since have rendered it an unconvincing exercise to say the least. It certainly has not kept the Government to their fiscal rules, which have been broken many times, and it is unlikely, particularly after recent months, to convince anyone outside this Chamber that the Government have got the economy back on track.

My Intervention on the Charter for Budget Responsibility – Inaccurate

forecasts

John Redwood
(Wokingham) (Con)

Does the Minister not think there is some difficulty in trying to steer the economy on the basis of a five-year forward debt forecast when the official forecasters have been more than £100 billion out in two of the last three years, and £75 billion out this year with a one-year forecast?

John Glen

I will address the provisions of the charter and my right hon. Friend's point directly in a few moments. As the Chancellor set out last week, we have a credible plan to generate economic growth by getting Toggle showing location of Column 723 people back into employment, reinvigorating a culture of enterprise and continuing to drive up standards in education, and ensuring that that happens everywhere. The Chancellor's plans to generate growth need to be underpinned by sustainable public finances, but the global economic shocks we have faced mean that borrowing remains high. We are expected to borrow £177 billion this year—double pre-pandemic levels. That is contributing to ever larger public debt.

Along with high debt in a time of rising inflation and interest rates comes the £120.4 billion we are projected to spend this year on debt interest alone. Let me remind the House why that is. For almost two years, in the face of a historic pandemic, we took unprecedented, bold, decisive action to support people, jobs and the economy. We rolled out vaccines at a world-leading pace, we paid 80% of people's wages, and we gave grants to businesses to help cover their bills. The costs of inaction in the face of covid-19 do not bear thinking about. I am proud to represent a Government who took the big decisions to keep the public and the economy healthy.

As inflation rose to figures we have not seen in more than 40 years, led primarily by increasing energy prices, we again took action to safeguard the nation by contributing to people's bills. Nobody in this Government would argue that that is not money well spent, but we are also cognisant of the facts. At nearly 100% of GDP, public debt is at its highest level since the early 1960s. It would not be sustainable to continue to borrow at current levels indefinitely. If debt interest spending were a Department, its departmental budget would be second only to the Department of Health and Social Care. Not only does that direct our resources away from vital public services, but for those of us who have paid attention to the economy, it is clearly unsustainable in the long run. It is unsustainable because increasing debt leaves us more vulnerable to changing interest rates and inflation. For every percentage point increase in interest rates, the annual spending on debt will increase by £18.2 billion. That is money we could be using to invest in schools or hospitals and in the transition to net zero.

Aside from investing in the services that we need and that so many rely upon,

there is another important moral point to debt. Letting our debt increase is simply racking up debt on the nation's credit card and handing the bill to our children and grandchildren. We are not alone in our ambition to reduce debt as a share of GDP over the medium term—Germany, Canada and Australia have made similar commitments. It is not just numbers on a spreadsheet; it will have a material impact on the lives and living standards of those who have not yet been born.

Instead, we choose a responsible, fair approach. We are demonstrating fiscal discipline, which will support the Bank of England in bringing inflation down. That is carefully balanced against the need to support the most vulnerable and to protect vital public services. At the autumn statement we announced a series of difficult decisions worth around £55 billion to get debt down, while ensuring that the greatest burden falls on those with the broadest shoulders.

All Members will hope that, having faced the pandemic, war in Europe and a bout of rising prices, we will have seen the worst of this economic storm. The truth, however, is that we do not know exactly what lies ahead, and we need to create the room to respond comprehensively in the future, should another shock occur. Last year my right hon. Friend the Member for Middlesbrough South and East Cleveland (Mr Clarke) came to this place to approve rules to guide us on a path to strengthen the public finances after the worst of the pandemic had passed. By the third year of the forecast, in 2025-26, those rules require underlying debt—that is, public sector net debt excluding the impact of the Bank of England—as a percentage of GDP to be falling and everyday spending to be paid for through taxation by the same year.

Since then the context has changed yet again. To continue protecting the most vulnerable and investing in public services, the Chancellor updated the fiscal rules at the autumn statement, and we are updating the charter for budget responsibility. It will give everyone the confidence and certainty that we are going to repair our public finances. It will provide the foundation for long-term growth. In following them, we will be able to get debt down while protecting the public services upon which we all rely. The rules require that we reduce the deficit so that debt falls as a share of the economy in five years' time. Expenditure on welfare will continue to be contained within a predetermined cap and margin set by the Treasury unchanged from the level set in 2021. I am pleased to say that the Office for Budget Responsibility confirmed in November that we are on track to meet all our rules, with debt falling and the deficit below 3% GDP in the target year of 2027-28.

Aside from the fiscal rules, the charter remains unchanged. We continue to be at the forefront of financial management through our monitoring and management of the broader public sector balance sheet. The independent Office for Budget Responsibility provides transparency and credibility via its economic and fiscal forecasts. Many colleagues have remarked on the important principle that our fiscal plans are transparent, fully costed and accompanied by an independent assessment of the economic and fiscal implications. The Government agree with this principle. There may of course be extraordinary

circumstances where that cannot be the case, as we saw during the pandemic, and it was right not to delay announcing critical help for households and businesses, but in normal times major fiscal announcements should be made with one of the OBR's two forecasts. As is usual, the spring Budget on 15 March will be accompanied by a full OBR forecast.

This updated charter puts stability first. It sets a credible plan to deliver on the Prime Minister's key promises to get debt falling and to halve inflation, and it fosters the conditions for growth. It continues our historic support for households, as it allows us to increase the national living and minimum wage and pensions. It maintains gross investment at record levels in innovation, infrastructure and education. We have protected the most vulnerable and vital public services, and we are protecting the economy. After making the difficult decisions at the autumn statement, today we have a choice: we can sit idly by and let our economy slip into disrepair, or we can secure the foundations of our future by protecting the foundations of our economy. For those reasons, I commend this motion to the House.

[My intervention on the NHS Strikes Debate](#)

NHS Strikes – Volume 727: debated on Monday 6 February 2023

Will Quince

I remember another Scottish National party Member making a similar comment in a previous urgent question, crowing about how Nicola Sturgeon, the First Minister of Scotland, was directly negotiating with the unions and that they had paused their industrial action, but only a handful of weeks later that industrial action was renewed. Pay is of course a devolved matter for Scotland and for Wales.

I will not make unfunded promises or pledges from this Dispatch Box. I want to have an honest and open dialogue with the unions about what is affordable for the NHS, where we recognise and reward NHS staff—who do the most incredible job day in, day out—with one eye to recruitment and retention, but it also has to be fair to taxpayers; and that is the spirit in which I approach this matter.

John Redwood (Wokingham) (Con) Can senior managers of NHS England and its various trusts make more use of pay gradings, job evaluations, promotions and increments, using pay flexibilities so that staff who are doing a good job feel valued and can be paid more?

Will Quince:

That certainly is an option. My right hon. Friend talks about NHS managers. Understandably, the Opposition focus on nurses and paramedics, but let us not forget exactly who we are talking about: the entire Agenda for Change workforce, which is 1.245 million people. That is exactly why every 1% equates to £700 million. My right hon. Friend is right that pay is a factor, but it is not the only factor, which is why we also focus on working conditions and environment.

Comparing the digital and green revolutions

The digital and green revolutions compared

In recent years the world has been swept by a massive wave of digital investment. Most people have come to own a smartphone, pad, desktop or laptop computer. Many have switched their entertainment from standard national tv channels to downloaded films from subscription services. Many now get what news they want from websites and social media in place of newspapers and tv news. More education and training is now done remotely on computer. Families keep in touch with on line meetings instead of a phone call. Many people communicate with friends and family on social media instead of letters and face to face to face meetings. Businesses are automating more and more processes, taking advantage of the enormous processing and storage power of electronic systems. Much shopping has gone on line. Phone apps can be used for getting a cab, following a map, booking a meal, ordering a service. All this happened with no special taxes, no bans and legal requirements, no public subsidy. Businesses innovated, showing how they could offer a much wider range of service over the web and people piled in to get more of it. The high price of some mobile phones and the subscription sums for broadband, software and download services was no barrier to many taking advantage. Covid lockdowns accelerated the movement. Those people who were not sure how to use the technology, or thought they did not like it, or who thought it a bit dear were tempted into adopting it as it offered the obvious way of staying in touch and placing orders for goods and services. Young people who adopted it more readily as a whole helped teach Granny who made the effort to stay in touch with her grandchildren.

Meanwhile the green revolution is a top down revolution. Its main proponents are governments, large companies, universities and experts. They want people to swap the petrol car for an electric vehicle. They want families to rip out the gas boiler and put in a heat pump. They want people to give up most of their meat eating and go vegetarian. They want to discourage car and airline travel, promoting walking and cycling. So far the response has been on a modest scale. Many people think electric cars are too dear, worry about their range and about how easy it will be to recharge them.

They stick with their diesel and petrol models for the time being. Very few people put in a heat pump, finding them dear and the work involved very disruptive about the house. We have still to find the Mini or Beetle car of the electric car revolution that sells in millions at an affordable price to delighted buyers. We have not yet seen the electric heating package that people want enough to make the commitment of time and money to the work. Some are now trying more vegetarian food, but meat and dairy eating habits are well inbred in national traditions and mothers' menus.

Governments understand enough of market principles to try to use market mechanisms to promote their revolution. They offer subsidies to cut the price of electric vehicles. They are still offering a tax free period on the power to fuel them, unlike the high taxes on motor fuels for internal combustion engines. They are imposing higher taxes on older fossil fuel vehicles using certain routes or banning them altogether from some urban settings. They are imposing carbon taxes to switch business away from fossil fuels through an adapted price mechanism. The main problem with all of this is that because it is not done worldwide by all countries the market can shift activity around to places where there is less restriction and less tax on fossil fuel technologies. Individuals can stick with old boilers and cars if they do like the performance and price of the new alternative.

To get success in the market the new idea has to be one or more of better, faster, cheaper. On line shopping was often cheaper and certainly faster than in store. Web calls gave you pictures the phone did not offer whilst sparing you the journey needed to meet in person. Downloaded entertainment allowed you to choose what you wanted to watch rather than relying on pre planned schedules on tv. Getting news off the web allowed you to be your own editor, free from the political distortions of conventional news channels. People were prepared to pay for these improvements or got some of them free thanks to adverts. So far most people do not see the heat pump as better than the gas boiler, and know it is a lot dearer. They do not want to trade in a car with 500 miles of range based on a five minute filling stop for a car that may have less than half the range and uncertainties over how to find a charger when out, and requiring substantial time for a full recharge. They certainly do not pay a premium for that.