

The delayed budget should not seek to convert a downturn into a recession

There was more uncertainty yesterday about the Financial Statement scheduled for 31 October. We had been told it was crucial to the markets to see early sight of the spending and tax proposals of the new team and to accompany it with Office of Budget responsibility forecasts. I was never that happy about holding it on Halloween, thinking of some of the obvious headlines and journalistic jokes that would invite. It is better it is done in a considered way with full buy in by the new Prime Minister as well as the fairly new Chancellor. They are saying that they want the latest forecasts, and with the recent fall in gas prices there will be at least temporarily better news on the costs of the Energy package and inflation.

We are told this will be a Financial Statement, not a budget, yet it will have many of the characteristics of a budget. It will presumably have a set of tax proposals, full spending plans, and forecasts of budget outturns with borrowing figures for the next few years. It will be accompanied by OBR forecasts. The difference between a Statement and budget will not it seems be a matter of substance, but a matter of Parliamentary treatment. A budget is presented to the House by the Chancellor often in an hour long speech, responded to immediately by the Leader of the Opposition with a speech and followed by a five day debate on wide ranging economic, taxation and public spending matters. A Statement will be a much shorter speech by the Chancellor followed by maybe two hours where many MPs can ask just one question each of the Chancellor, with the Shadow Chancellor able to ask several things in a short response. The idea of announcing substantial spending plans by Statement was developed by Rishi during the pandemic to reflect the need for quick action, often agreed on a cross party basis.

The Financial Statement is clearly dominated by whatever figure the Office of Budget responsibility comes up with for the possible deficit or amount of borrowing in 2025. The government has allowed itself against my advice to have as its main economic control the need for state debt as a percentage of GDP to be falling in three years time. The problem with this is twofold. The OBR has been wildly wrong on its next year forecasts at all three recent annual budgets. No-one can come up with a realistic forecast of state borrowing three years out given all the likely big changes to inflation, the costs of the energy package, interest rates and government policy. The second is the figure could send the wrong signal for policy changes now. Today inflation is near its peak and is widely expected by independent forecasters as well as by the Bank of England to fall away rapidly over the next two years. The new threat is to trigger a longer and deeper downturn to the economy as the higher interest rates and restricted credit have their impact. Tightening further into a downturn is usually a bad policy but a negative guess about borrowing levels in three years time could force just such an action.

The cruel paradox is this. Tightening too much now, whether by hiking taxes

or cutting public services could create a recession. In a recession deficits rise and the state has to borrow more, not less. Tax revenues fall as people lose jobs, consumers spend less and companies make less profit. State spending goes up as more people need benefits. It would not be a good idea to follow the wrong response to current economic conditions in pursuit of a lower number for three years time which no-one can accurately predict or deliver .

My Interventions during the Second Reading of the Retained EU Law (Revocation and Reform) Bill

Rt Hon Sir John Redwood MP (Wokingham) (Con): I strongly support the Bill and congratulate the Minister on his presentation. I hope that the Government will urgently reform the energy directives and regulations that have made us cruelly import-dependent such that we now have to buy excessively expensive energy on the world market when we should drive for self-sufficiency.

Dean Russell, Parliamentary Under-Secretary for Business, Energy and Industrial Strategy: I thank my right hon. Friend for his intervention. It is ultimately about ensuring that we are doing the right thing by people across the country. The truth is that the Bill is a framework, and this is not the time to debate the minutiae and the details as there will be plenty of opportunities for that in Committee, the future stages and statutory instruments. We should welcome the Bill's framework, which is about taking back control for the country.

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Rt Hon Sir John Redwood MP (Wokingham) (Con): I thank my right hon. Friend for all the great work that has been done on the draft legislation. Does he not find it an odd paradox, or contradiction, that many Opposition Members come to this place apparently to form laws but do not believe we can ever make a law that is good, and we need to rely on EU law in so many areas where I think we can actually do better?

Rt Hon Jacob Rees-Mogg MP: I am grateful to my right hon. Friend, who is wise, as always. But it is even odder than that, because there is this very strange view that laws that came in without any scrutiny at all—regulations of the EU that became our law automatically—cannot be removed without primary legislation. That is just bizarre.

The laws with which we are dealing came in under section 2(2) of the European Communities Act. Either they came in with minimum scrutiny but could not be amended or changed, or they came in with no scrutiny at all. I know that my

hon. Friend Sir William Cash disagrees with me on this, but we are not using this procedure to repeal Acts of Parliament. Even though these measures have the effect of introducing EU law, an Act of Parliament has had full scrutiny in the House, and to be repealed it deserves full scrutiny to be taken away. That is the correct constitutional procedure.

[Rishi must set out his low-tax vision to get our party members on side \(Written for Telegraph\)](#)

I offer the new Prime Minister the same loyalty I showed to his two recent predecessors, and the same economic advice designed to see off inflation whilst avoiding a deep and prolonged recession. The first task Rishi needs to address is to bring together more of the MPs and members of the party behind the common endeavour of greater prosperity and a better economic policy to avoid the inflationary money printing of the last year. The voluntary party that knocks on doors, delivers leaflets, finds Council candidates and helps pay the bills of party officials must be wooed and thanked. It is a pity they did not get a vote on another change of leader. It is a shame the very truncated timetable did not allow Rishi to set out in general terms how he plans to tackle the budget issues, balance necessary spending with affordable tax rates, and create a productivity revolution in industry and services. We need all these to go right if we are to see off recession, level up communities around the country, grow and produce more of our own needs and bring the deficit down through the extra tax that comes from economic success.

Many members feel let down that their two choices for leader in recent leadership elections both fell prey to MP disagreements and to infighting within the Parliamentary party and government. One of the main attractions of becoming a member is to play a role in selecting candidates for Councils, Police Commissioners, and MPs, with the best prize being a say in who should be leader and Prime Minister when we have a majority. Each elected official is more accountable to party members because they have that say, requiring us all to listen to the grassroots as well as to our wider constituencies in our official capacities. I hope Rishi will reach out to the members and tell them how he plans to bring them into the big task of fulfilling our 2019 promises and seeing us through the inflation, energy crisis and the need to reverse the decline in many people's spending power. He needs to speak to them to get their buy in to the project he now needs to set out.

The dilemma he faces is the same as his immediate predecessors in office. The problems to be overcome are the same. Whilst in some ways everything has changed because there is a new leader who will bring a new team to the tasks,

in another way today nothing has changed. It is the same party to lead, the same inflation to finally quell, the same recession to see off. We saw from Liz Truss and Kwasi Kwarteng proposals to make the UK more competitive with some modest tax rate reductions, and a huge spending programme of support to tackle surging fuel bills. It was a pity they did not frame these with the rest of the spending plans, and allow us forecasts of the short term and longer term borrowing that might result. Of course they needed to be affordable, but they also needed to avoid plunging us into deep recession. When adjusting and developing these plans for growth the new team needs to avoid lurching to too restrictive a policy which could deepen and lengthen the downturn. This would increase overall borrowing rather than reduce it, as borrowing is very sensitive to the rate of growth. The extra pound of income earned from growth is taxed more highly and helps save on benefit bills as more people get work to meet the increased demand for goods and services.

The new team needs to ask why the Bank is keen to sell bonds it bought at high prices at large losses today. If they do so the Treasury has to send them money to pay the losses. There is no need to sell these bonds now, and making losses on bonds is not a good priority for spending. It needs to build on past government work to find ways for more of the people on benefits to take some of the many jobs still available. It must always be worthwhile working. Those in work paying taxes expect people who can work to do so where there are jobs available rather than being on benefits.

The members responded well to Liz Truss this summer because she was upbeat, promising us growth with lower tax rates. Her aim was to generate more revenue from the growth to pay for the healthcare and education we want. In his first speech as Prime Minister elect Rishi said he too wanted growth and lower taxes. That will warm more of the members to him. That requires delivery. He will get more unity from a bruised party if he shares its members aspirations and then manages to implement them. He also needs to tell them more of this vision and win their confidence.

[My Intervention in the Urgent Question on Great British Railways](#)

Rt Hon Sir John Redwood MP (Wokingham) (Con): When will the Government and railway companies come forward with proposals for an improved pattern of services that attracts many more fare-paying passengers? We need to get the deficit down very quickly and the best way of doing so is by getting more people paying fares willingly.

Kevin Foster, Minister of State, Department for Transport: My right hon. Friend is absolutely right. Clearly, demand patterns have changed dramatically during the pandemic. For example, a lot fewer people are

commuting into London at 7 am to 9 am and then leaving between 5 pm and 7 pm, or they are doing that three or four days a week rather than five, so there is a need to look at how we can adapt. We are giving slightly more flexibility to some operating companies, and looking at how we use our ticketing and, in particular, our ticket pricing. The rail sale was a great way of getting a lot of people on to trains that might otherwise have been relatively quiet, producing new revenue to the railways. In addition, as I said in response to the SNP spokesperson, Lumo is targeting traffic that goes by air to get it on tracks.

My Speech in the Treasury Estimates Motion

Rt Hon Sir John Redwood MP (Wokingham) (Con): I am glad the Minister agreed that the £60 billion for the energy scheme will of course adjust according to market prices, and let us hope that the current downward trend in some of the gas prices is continued. We need a mild winter and other bits of good fortune, otherwise we could be back facing even bigger [bills](#). I am sure we are all appreciative of the fact that the new Chancellor wishes to review the scheme after March, because this is a very expensive scheme and there may be better ways of doing it to contain the expenditure.

I hope, for example, that consideration will be given, where price controls are still being offered to consumers, to limiting the amount of subsidised fuel any household can buy to a reasonable amount for a normal household, so that those who are in richer households and making much bigger demands on the fuel system would pay for the additional fuel they need—if they are lucky enough to have a heated swimming pool, or whatever it is—and would pay the full price on the extra fuel that such luxuries require. That is offered as a hopeful idea of how one can start to grapple with the very high costs of this scheme without in any way undermining the crucial guarantee to all those who are struggling with their bills already and want this kind of security.

I also have some concerns about the Bank of England estimate. It is quite true that, from Chancellor Darling onwards, quantitative easing decisions have always been jointly taken by Chancellors of the Exchequer and Governors of the Bank of England. One of the main reasons why they have always been joint decisions is that the Bank of England always understandably insisted on a complete capital guarantee against losses on the bonds, because it was envisaging buying so many bonds that they became very big for the Bank of England balance sheet, and it wanted to be reassured that the Treasury and taxpayers stood behind the system in case of losses.

To the extent that this supplementary estimate is to make good losses on bonds that the Bank of England is selling, I have these questions. First, why

does the Bank of England think it must sell bonds at this juncture, when the United Kingdom bond market, the American bond market and lots of other bond markets around the world are particularly depressed by the need for a counter-inflation strategy based on high interest rates? We are crystalising a loss that, as I understand it, the Treasury then has to pay for, whereas if we have an unrealised loss, no payments are of course needed until eventual redemption, and very often the redemption value of the bond is considerably higher than today's price in the market. I cannot quite understand why the Bank needs to sell these bonds now, and as this has always been a joint policy in which Chancellors have been very heavily involved and have heard Bank of England advice—Chancellors had to sign it off because the taxpayer is at risk, not the Bank of England itself—I hope this will be carefully re-examined.

To those who say that we do need to be selling bonds as well as putting up interest rates to curb inflation, I would say they should be careful not to overdo it. If the Bank really does feel it has to tighten even more, it can do so by a further rise in interest rates; it does not have to do so by selling bonds. Very directly, as we see tonight, the sale of these bonds can realise a loss and then can trigger a cash requirement on taxpayers and the Treasury at an extremely bad time for such a cash requirement. I think all of us have much better priorities than paying for bonds that are underwater, when we see the current state of the economy and the need to route more money to individuals and companies in the right ways, to see off a longer and deeper downturn and provide some balance in the public accounts. I ask the Minister and Chancellor to think again, and to talk again to the Governor of the Bank of England about their joint responsibility. They must ask whether this is really the right time to be crystalising losses, resulting in unspecified amounts of money that will have to be paid.