Having a proper debate on the economy

Parliament has failed to have a proper debate on the economy for many years. The main reason is that it has fallen for the lie that the Bank of England is independent. Because many commentators and politicians think that they fail to debate the crucial reliance we have had on the Bank printing loads of money and keeping the government's borrowing costs very low. The Opposition keeps off all matters that the Bank is involved with and wishes to blame the government for any economic failing in a way which reveals a deep misunderstanding of how the modern Treasury and Bank work together.

Let me have another go at explaining. The Bank under the last Labour government at the end of its time in office, under the Coalition and under the more recent Conservative government has relied primarily on printing more money and buying bonds to keep rates low. There were times when this was the right policy, most notably in 2020 to offset some of the bad economic consequences of lockdown. There were times when this was a bad idea, as with continuing it throughout 2021 when it was bound to be inflationary. The crucial thing about this central economic policy is it is a combined responsibility of the Chancellor and the Bank. Indeed, the Chancellor not only has to give approval for the Bank's recommended money printing, but he has to underwrite the Bank against losses on the bonds it buys. So far the Bank in several bursts over the last thirteen years has created and bought up bonds to the value of £895bn.

Despite these enormous moves, Parliament has preferred to argue about the odd £10bn of spending or savings either way in a succession of budgets, or to laser in on individual spending programmes arguing over whether they are a few billion too light. The recent centre of the national debate has been £12bn of extra tax in a £2.2 trillion economy. The Treasury absurdly argued they needed exactly £12bn extra for social care and health, when they overestimated public borrowing for last year by a stonking £95bn. As they did not have much of a clue about how much revenue existing taxes would bring in it was a particularly precise nonsense to say they needed £12bn. Then in the Spring statement they decided they did not need a third of that £12bn after all so they raised the threshold before you pay national Insurance!

Such a pity we did not debate the £895 bn and it's more recent inflationary impact. The Treasury says the Bank is independent and is responsible for controlling inflation. Now the Bank has visibly failed to control the inflation or to even predict it until recently maybe we are due a proper debate about economic policy.

Economic forecasts

The latest IMF forecasts show the UK economy going from being the fastest growing economy last year to be the slowest of the advanced countries next year. The IMF is more pessimistic than the OBR/Treasury for 2023 and is more likely to be right. The OBR/Treasury model usually underestimates the impact of permissive monetary and fiscal policies on the upside, as it did last year, and is too optimistic about the resilience of the economy to tight money and tax hikes on the downside. Last year I predicted a much lower deficit and higher tax revenues than the official estimates at the time of the budget and was pleased to see that happier outturn come to pass.

The IMF says the UK economy will be slowed from 7.5% in 2021 to just 1.2% in 2023. That should be no surprise to anyone watching policy developments. Last year the Bank went on printing extra money all year, long after it should have stopped. This year it will be printing none. It is in danger of hiking rates too high to contract things more. Last year the Treasury planned for a lax budget deficit. This year it is trying to get a lower one through large tax rises. This will sandbag growth which in turn reduces buoyancy of revenue. The OBR model still does not capture the full sensitivity of tax revenue to growth rates. Both these policy tightenings come on top of the large hit to real incomes being administered by energy and food price inflation. The high inflation is both the result of past laxity in money growth and the global supply hits to the world economy.

The collapse of the GFK Consumer confidence index to minus 38 should be a final warning to the Treasury. This takes it down to a level lower than it hit in 2020 over lockdown, lower than during the Exchange Rate Mechanism recession and almost as low as the great recession and banking crash of 2009.

One of my critics wants clarity about my forecasts. I am always clear about them. I do not have a model of the economy myself, but study the official models and offer adjustments to their results as they are flawed in ways I have described. Just as last year I forecast a lower deficit and more tax revenue, for 2023 I forecast a lower growth rate for GDP and a worse situation on revenues and deficit than the OBR figures. I urge the government to abate its large tax rises which are the main reason the IMF figures put the UK in bottom place next year. The other main advanced economies have the same pressures from higher inflation as us, and the US, Canada and some others will have a substantial monetary tightening to contend with but do not have the big tax rises. The European countries need tighter money to curb their inflation and may get it later this year.

Ask Councils about roads

We all need roads. Many need to drive to work, drive to take children to school, drive for the weekly food shop and drive to leisure and social events. In most U.K. communities car use is required by the geography and the transport system.Only in large cities are there mass transit systems with frequent services.

Those who claim to be greener because they have found safe cycle routes for school or work, or do have good trains or are close enough to work and shops to walk there still need roads like the rest of us. They need the diesel lorries to restock the shops, they need the on line delivery driver, the plumber and the builder to get to their homes by van . They would need an emergency vehicle to arrive if bad fortune struck them. The environmentalists that go by bus need good bus sized roads to have their way.

All but our main motorways and trunk roads are local Council monopolies, provided free to all users on the back of national and local taxation, supplemented in some places by user and environmental levies. Local elections are a good time to engage with Councillors and candidates about what they are going to do to make the roads safer and easier to use, and to bust congestion and delay which disfigures many of them.

As I travel around the country I come across many Councils that are out to get the vehicles off their local roads. They spend all too much money on narrowing usable roadspace, worsening flows at junctions and crowding too many different instructions and restrictions into too little road. In future pieces I will look at how Councils could help make our journeys easier and safer, and how they could back more use of alternatives without worsening vehicle use of their roads.

Controlling public spending

There is renewed interest amongst Conservative MPs in value for money and controlling public spending. We have just lived through an extraordinary two years when public budgets were increased hugely to combat the virus, find a vaccine, set up a nationwide free test and trace system , boost benefits, pay furlough incomes , subsidise businesses facing impaired trading and offer finance to business in difficulties from banned or restricted trading.

The first part of controlling spending is reversing all of these special measures as the economy has now returned to its pre pandemic levels. This is largely done though the NHS budget needs to be fully adjusted to ensure enough of the expanded budget that remains goes to non covid work and to waiting list reduction. As answers to my various questions have shown the

NHS needs to do more to have a good manpower plan going forward, to recruit the extra medical staff it needs to handle demand. It may need more beds just as I and others strove to get to handle the first covid wave through the Nightingales. It needs to reduce overhead and concentrate resources on the medical services at its core. Much of the task of raising productivity in the public sector, raising service quality and improving value for money needs to come from this crucial service which absorbs 40 % of the state budget.

The government should urgently review overseas aid to eliminate payments to countries supporting Russia and countries with space,nuclear weapons or other large armaments programmes.

The costs of providing initial housing and other public provision for refugees should be charged to the overseas aid budget. The number of economic migrants should be controlled to allow a reduction in spending on additional social housing.

The government must work with the railway to make substantial reductions to the current very high level of subsidy. The Secretary of State is right to try to promote more use of the railway. The U.K. will need to be realistic about ticket prices after his initial bargain promotions. It may be that more freight use of the railway is the quickest win for revenue and beneficial environmental impact, reducing road congestion.

The Cabinet Office Minister Jacob Rees Mogg is right to seek a slimmed civil service. Ending much new external recruitment , promoting from within and eliminating posts would save substantial sums and boost productivity.

Funding for Children’s and Young People’s Mental Health Services

I have received the enclosed letter from the Minister of State for Care and Mental Health at the Department of Health and Social Care:

Dear Sir John,

Thank you for your correspondence about funding for children’s and young people’s mental health services.

I can assure your constituents that funding for children’s and young people’s mental health services is a priority for this Government.

On 27 March 2021, we published our Mental Health Recovery Action Plan, backed by a funding increase of £500million, to ensure that we have the right support in place over the coming year. This includes £79million to significantly expand children’s mental health services and allow for a faster increase in the coverage of mental health support teams in schools and colleges. This is in addition to our commitment through the NHS Long Term Plan to invest at least £2.3billion more a year in mental health services by 2023/24, so that 345,000 more children and young people can access specialist NHS-funded mental health care.

To address the impact of COVID-19 on children’s and young people’s mental health, NHS England and NHS Improvement announced an extra £40million of funding. This includes £10million to provide extra beds at units providing care for young people with the most complex needs, including eating disorders, and £1.5million to ensure that there are additional facilities for children under 13.

To further support children’s and young people’s mental health, the Department for Education announced £17million of mental health funding for schools and colleges to help them recover from the challenges of the pandemic. Funding worth £9.5million will be offered for up to 7,800 schools and colleges to train a senior mental health lead from their staff in the current academic year; this is part of the Government’s commitment to offer this training to all state schools and colleges by 2025.

We have also launched the £7million Wellbeing for Education Recovery programme, which provides free expert training, support and resources for staff dealing with children and young people who are experiencing additional pressures from the last year, including trauma, anxiety, or grief. This builds on the success of the £8million Wellbeing for Education Return, which has been used by more than 90 per cent of councils since its launch last summer.

I hope this reply is helpful.

GILLIAN KEEGAN