

My interview about energy supply

Here is my interview today on talkRadio with Mike Graham about energy supply:

Part A

<http://johnredwoodsdiary.com/wp-content/uploads/2021/09/Interview-Part-A.mp3>

Part B

<http://johnredwoodsdiary.com/wp-content/uploads/2021/09/Interview-Part-B.mp3>

What should Mr Kwarteng do?

We read that Mr Kwarteng will be locked in more talks with the energy industries and Regulator today, after an intensive week end of talks. With a chronic shortage of gas, little wind power and a dangerous dependence on imports he needs to change policy.

He needs to persuade the gas industry to open more gas storage. Germany has five times as much and France seven times as much proportionate to demand. The government needs to build a strategic reserve if the industry cannot.

He needs to liberate new UK production from existing fields and stimulate more exploration and development. The UK is going to need a lot of gas for some years to come. It is cheaper, greener and safer to produce our own rather than import.

He needs to help the electricity industry boost its reliable generating capacity. Given the green driver of policy that may mean ensuring more biomass, hydro, battery and pump storage. There needs to be a bigger margin of capacity as we enjoyed in the last century.

He should work with the Agriculture department to deliver more UK wood and plant material for biomass, to cut import dependence we currently suffer.

He needs to review price controls. They cannot protect customers from major increases in the world price of oil and gas. They can help drive some businesses into bankruptcy. They can stand in the way of new investment in additional capacity.

The energy market is so rigged by regulation, tax and subsidy it will take government interventions to sort out the current shortages. Solutions which help restore market pricing would offer a better way forward.

AUKUS alliance

I welcome the US/UK decision to share technology with Australia so they can build and operate a fleet of eight nuclear powered submarines. I understand there had been delays, cost escalations and disputes with the French over how much of the work on the prospective diesel submarines would be undertaken in Australia which led Australia to source better boats from alternative suppliers.

I also welcome the more global tilt to UK policy, recognising the growing importance of Asia to us and our US ally. The President of the USA turns to the quad of USA, India, Japan and Australia for his tilt to Asia. Both the UK and the USA are seeking to join the Trans Pacific trade partnership.

The UK and NATO are assisting in helping keep the shipping lanes open in the South China Sea against Chinese expansion. Taiwan is a crucial source of the most sophisticated and modern microprocessors. China regularly tests her defences and Western willingness to offer support to the island.

Global Britain has global trade and defence interests. A closer relationship with the Quad in Asia is a good idea, offering further business opportunities as well as cementing alliances. France is behaving badly after losing the potential contract. France has in the past sought to operate independently of NATO and more recently has been pushing a European EU defence idea. She has shown every wish to be more distant from the USA and UK, so she should not complain when we help her wish come true.

New fiscal rules?

I read that the Treasury is getting round to reconsidering their fiscal rules. That is a necessary and urgent task.

There are two key rules affecting the conduct of economic policy that are in place today that I think should continue.

The first is the 2% inflation target that is meant to guide Bank of England interest rate decisions. It also needs to guide the Treasury as they make decisions on levels of money creation and bond buying with the Bank of England, and as through fiscal policy they have a substantial impact on inflation.

The second is the debt interest rule, that the interest charges on government debt should not exceed 6% of revenues. They are under half that at the

moment, thanks to very low interest rates and to Quantitative easing. This is a sensible target to continue, and could be toughened to 5% of revenues.

There are two rules over the deficit. The first is it should be brought back to balance on current spending within a three year horizon. This is a bizarre target, as the government/OBR hits it by forecasting favourable changes three years out which might never take place. The second is capital spending in the public sector should be limited to 3% of GDP. It has been running below this for some years. Capital spending levels should primarily be judged on prospective returns and ability to be self funding over time. Add these two targets together and we return to the Treasury's much loved Maastricht target of keeping the deficit down to 3%. The OBR/Treasury are also still wedded to the idea that state debt as a percentage of GDP should be brought down, so they encourage ministers to impose tax rises and spending cuts to get state debt as a proportion of GDP falling. This reflects the Maastricht requirement to get state debt down to 60% of GDP sometime.

It is high time we cancelled the Maastricht austerity targets. The Treasury still reports how we are doing against them as if we were still governed by the EU Treaty that made that necessary. Instead we should have a growth target. Like the Fed the Bank of England should have the twin targets of low inflation and faster growth. A growth target would stimulate more thought and action in government to raise living standards and follow policies that boost UK jobs, incomes and business. A suitable growth target would be to aim to return to 2.5% per annum growth from the more anaemic levels of this century under Maastricht austerity.

Letter to Michael Gove

Dear Michael

Congratulations on your new Cabinet appointment. Levelling up and the defence of the Union are two huge topics of great importance.

Levelling up is sometimes seen through the narrow focus of place. Attention is given to the built environment and the public service fabric. Of course providing capital to allow replacement school buildings or better hospitals can be an important decision for a local community. These can be necessary to show commitment to high quality public services with good working conditions for valued staff. Providing funds for a new community centre or a tram system will not in themselves transform the lives of the many people who live in the place though there may be a case for them.

What many voters want from levelling up is tangible improvement in their own lives. If there is a gap in public money between the more prosperous communities and the less so in our country, it is one where the lower income community receives more per head for its school places or its health

provision than the higher income area. It is true that the more prosperous south and London does attract substantial capital for additional facilities and especially for transport, but that is because there is rapid population growth in these areas. London and the south attracts a disproportionate amount of the new private sector housing investment and in turn needs the roads, schools and surgeries to service the new estates.

I suggest that we need to pull together current and prospective policies around the theme of improving people's personal journeys through life. There need to be better pathways to owning your own home, to gaining a good education, to acquiring necessary qualifications, to working your way up to a better paid job, to setting up your own business, and to expanding a business to take on others as staff. The places that want to level up need to attract more housing investment to attract people with high qualifications or established entrepreneurial skills to help lead the local economic recovery. Policies to raise school standards for all, to expand vocational qualifications that enhance a person's earning power, to make it easier to set up and expand a business and which encourage buying British and buying local are all crucial to this task.

The vision of everyone an owner, with the chance to own a home, own their own business, own a share in a bigger business, have some savings for a rainy day should be our vision. It is still too hard for many people to get that better job, to get that qualification, to get that mortgage to get on the property ladder. I look forward to an opportunity to discuss these matters with you, and wish you well with this great task.

Yours

John Redwood