[My intervention in the Charter for Budget Responsibility and Welfare Cap debate, 10 January 2022]

John Redwood – (Wokingham) (Con) – Could my right hon. Friend comment on what difference, if any, he thinks it makes that a significant proportion of that debt is now owned by the Bank of England, which is 100% owned by the Government on behalf of the taxpayers?

Simon Clarke (Chief Secretary to the Treasury) – The Bank of England has obviously helped to underpin our wider response to the crisis that we face. Clearly, it does have a bearing on the relevant significance of debt, but it would be simply irresponsible to leave ourselves exposed in the manner in which we risk being if we fail to constrain the borrowing, which risks otherwise becoming an unacceptable burden and which would leave us very vulnerable. A 1% rise in interest rates would cost the Exchequer £22.8 billion in 2025-26. That is a meaningful level of exposure and one which we want to take action to address.

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John Redwood (Wokingham) (Con) – Further to that point, is my right hon. Friend not quoting a gross figure for the impact of a rise in interest rates, and quite a bit of that would be credited back to the Bank of England, which, in turn, could pay it back as a dividend to the Treasury?

Simon Clarke (Chief Secretary to the Treasury) – I think it remains the case that we need to make sure that our debt-to-GDP ratio is more sustainable than it is at present, and I do not think colleagues would significantly demur from that. I take the point that, obviously, there is an interaction—some of these interactions are of a relatively circular nature—between the Bank and Exchequer, but none the less, it is important that we control our public debt. Indeed, we were able to respond to the pandemic as comprehensively as we did precisely because of the fiscal space created since 2010. The fact that we faced two once-in-a-generation shocks in just over a decade highlights why we must have the buffers to provide support when it is needed most and why we must act to rebuild those buffers, so that we are ready for any future shocks. In its most recent "Fiscal risks report"—not an easy one to splutter out—the OBR said:

"In the absence of perfect foresight, fiscal space may be the single most valuable risk management tool"

that we have.

The third and final reason we need to keep our debt under control is simple: our public finances are the legacy we leave for future generations, and the decisions we take now will have a material impact on the lives and livelihoods of our grandchildren. They will help or hinder challenges, from climate change to an ageing population, or indeed to seize the opportunities that lie ahead.

The charter for budget responsibility contains new fiscal rules to guide us back to fiscal sustainability in a fair and responsible way. The rules will ensure that we get debt down over the medium term. They will allow us to deliver a significant uplift in capital investment, in turn driving economic prosperity, but without burdening future generations with borrowing to fund our day-to-day spending. The new rules require that underlying public sector net debt, excluding the impact of the Bank of England, must as a percentage of GDP be falling. The current budget must be in balance, which means that everyday spending must be paid for through taxation. Both rules must be met by the third year of every forecast period, giving us the flexibility to respond to events in the near term, such as omicron, while credibly keeping the public finances under control.

Finally, a third rule will ensure that public sector net investment does not exceed 3% of GDP on average over the forecast period. This rule will allow the Government to deliver on our ambitious plans for investment over this Parliament, with the highest sustained levels of PSNI as a proportion of GDP since the late 1970s. With this rule, we are delivering on plans to invest more than £600 billion in gross public sector investment over this Parliament to spread prosperity across the UK. The £4.8 billion levelling-up fund is part of that. An unprecedented investment package of £5.7 billion for eight English city regions to transform their local transport networks is also part of it. On top of these commitments, the UK Infrastructure Bank is now open for business and is expected to support more than £40 billion of infrastructure investment. Crucially, the rule also mitigates the risk of increasing debt to an unsustainable level. Our fiscally responsible approach supports growth while keeping debt under control.

Combined, these rules will guide responsible decision making. The International Monetary Fund has noted that

“Countries that have followed a debt rule have typically managed to reverse a jump in debt…significantly faster than other countries”,

and it recently assessed that the

“new fiscal rules have anchored fiscal policy well”.

Thanks to our support for the economy and early responsible decisions to strengthen our public finances, in its October forecast, the independent Office for Budget Responsibility confirmed that the rules were met. The current budget is in surplus and underlying debt is forecast to fall in the current target year, 2024-25. The rules will guide fiscal policy for at least this Parliament and will be reviewed at the start of each Parliament to ensure they reflect the economic context and mean that we can deliver for the British people.

In addition to the rules in this charter, we will go further, becoming one of the first countries to formally consider the broader public sector balance sheet in our management of fiscal policy. The OBR will now forecast broader measures, including public sector net worth, which it says provides a fuller picture of fiscal sustainability and allows for more sophisticated analysis.

The charter also retains the welfare cap in order to keep welfare spending on a sustainable path and to support the other rules in strengthening the public finances. Since the cap was last set at Budget 2020, the covid pandemic has had a significant impact on the medium-term outlook for welfare spending. To reflect that and to align with the updated fiscal framework, the level of the cap is being reset in line with the latest forecast. That leads to an effective increase of £10.5 billion in the cap by 2024-25.

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John Redwood (Wokingham) (Con) – Let me return to the subject of the debate, the charter for budget responsibility. I will not follow the Opposition into a debate on the general state of the UK economy, which I am sure we will have other opportunities to discuss.

I see this as the Maastricht rules tribute debate. Every year under the Maastricht treaty, whether under Labour, coalition or Conservative Governments, we used to have a debate. We had to look at the two fiscal rules, which of course both came from the European Union: rule one was that the budget deficit had to be 3% of GDP or less; and rule two was that we had to either be below 60% of GDP with our state debt, or we had to show how we were going to get down to 60% of GDP with spending cuts or tax rises. The UK normally favoured the tax rise route, rather than the spending cut route.

That was characterised by the Opposition parties of the day, once the Conservatives or the coalition were in office, as austerity economics, although they would never accept that the cause of the austerity was the rules designed in Brussels. They would point out, when I made that point, that, “Oh well, because the UK is not a member of the euro there are not the same penalties imposed if the UK fails to comply.” The fact was, however, that the whole UK economic machine—Bank, Treasury and officialdom—believed they were very serious commitments and that, as they were treaty commitments, the UK had to keep to them. So when we finally got out of the EU, I was one of those voices saying to the Government, “Let’s scrap all that. Let’s not have those Maastricht tribute debates”—although I think we had one even after we left—“and let’s have our own UK framework.” That is what we should be debating tonight.

The Government have come up with a charter for budget responsibility, which I welcome, but reading the detail, it has a familiar ring to it. What are the two main rules in the charter? One is that we must keep the budget deficit down to 3% or below. It has been repackaged in relation to investment, but it is basically the 3% Maastricht budget deficit rule. The second rule is that, by the third year, debt should be falling as a percentage of GDP. Of course, our debt is well above 60%, and it will be quite a long time before we get back to 60%, if at all. It is now built into the framework as a regular review item, although it has the extra twist that it is a three-year average, so there is a bit more scope for flexing things.

I think we can do better than this Government. We could come up with an economic framework geared to the modern needs of an independent country, and I would suggest that our charter should embed two great aims of economic policy. The first aim that it should definitely embed is controlling inflation. It is right that the so-called independent Bank of England—this House regularly changes the rules and shows that it is actually in charge of the Bank of England—is charged with the duty of keeping inflation down to around 2% on average. I have no problem with that as a target, but the Government need to adopt it as a target as well, because as Ministers must well know, we cannot do all of the heavy lift through monetary policy—we cannot do it all through interest rates or quantitative easing. We also need to have a sensible fiscal policy.

Above all, the Government, who control such a huge chunk of the economy, need to manage their own affairs well, in terms of productivity, sensible real wage growth and so forth, and they have a duty to follow an anti-inflation strategy for the public sector directly under their control as a back-up to what the Bank and monetary policy are trying to do. I think that we should embed the inflation policy more firmly in the charter and that the Treasury should have to tell us how it is contributing to controlling inflation. It will be very topical this year, because clearly inflation is considerably above where we would all like it to be and there is no immediate sign that it is about to drop down, although I think it will drop down towards the end of the year, unless policy is particularly foolish.

The second criterion or objective that I would put in the charter is a growth objective. Labour made an entirely fair point by saying that what matters is growth. The faster the growth—as long as it is not inflationary—the more we would solve our deficit and debt problems. Our economy and our figures are incredibly sensitive to the growth rate. In the first half of the current financial year, we had very fast growth. It was a recovery phase and things were going fairly well from the covid lockdowns. As always, the OBR and the Treasury completely misjudged what favourable impact growth has, so they overstated the deficit for the first six months of the year by a whopping £50 billion. The deficit tumbled by £50 billion more, with no tax rises. But there was a huge tax rise—it was called tax on growth. More people went to work, and more people earned higher wages, bonuses or salaries. More people spent more money, so there was more VAT. So income tax receipts, VAT receipts and other receipts in the economy greatly outperformed the OBR and Treasury forecast, demonstrating that, if we can go for growth, we will make much better progress on the debt and deficit, which we need to do, than if we go for austerity economics, slowing the economy with tax rises and a too abrupt monetary deceleration.

I urge the Government to look again at whether they can improve on the objectives in the charter, to reflect on it and to see how an independent Britain can have a growth policy. If the Government established a growth target—they would not always hit it, but they could establish it—it would start to inform the actions of every Government Department that has a bearing on the strength of our economy, new jobs and all the rest of it. That is what we want. We want a Whitehall that is positive about Britain, not one that is trying to hold it back. We want a Whitehall that thinks Britain can achieve things—can invest here, have more jobs here and substitute for imports—rather than a negative Whitehall that says, "Gosh, there is too much borrowing, What can we cut? What can we tax? What can we stop?" We want less stopping and more positive going. We want more ability, generated by a growth policy, to show that an independent Britain can produce more of its own energy, grow more of its own food, catch more of its own fish, and make more of its own personal protective equipment and of its own medical requirements.

David Linden (Glasgow East) (SNP) – That speech would perhaps have done even better with "Jerusalem" on in the background. The right hon. Gentleman speaks about growing more food, but can he tell me who is going to pick that food from our fields?

John Redwood (Wokingham) (Con) – It will be picked by people paid decent wages, and if that requires wages to go up a bit, I have no problem with that. It will also be picked by the growing mechanisation of agriculture. Our agriculture is not as fully mechanised in a lot of farms as it is possible to do when there are better capitalised farms, like those that have been growing more food elsewhere. How pessimistic that was—why is the hon. Gentleman not proud of the United Kingdom, Scotland or wherever, thinking that we can achieve more and do more? Why do we always have to be stopping people doing things, and saying that nothing is going to work and so let us import all our vegetables from Spain, all our flowers from the Netherlands and all our energy from Russia, Germany or the Netherlands or wherever because we are not able to do it here in Britain? It is just not good enough. We have this huge opportunity. We have a very talented people. We have many natural resources. We have a perfectly good temperate climate for growing most of our own food. So, Government, get on with it. Having a growth target would help energise a Whitehall that still seems to be very disappointed in the country it is trying to govern and seems to be trying to hold it back.

One other thing that the Chief Secretary mentioned in his remarks, which is mentioned briefly in the text we are debating tonight, intrigues me. It says that balance-sheet items are being worked on but have not yet reached a state of development where they can be shared with the rest of us. How long does it take? Why do the officials to the Government not know the asset and net asset position for the country? I believe there are some figures we can get from public sources that show that we do have some guesses about all that, but is it not rather important that when we debate the state of the nation's finances, we understand the balance sheet as well as the income account and that we know whether the public sector is adding value and long-term wealth or not? If it is, why do we not claim some credit for it? If it is not doing enough of that, we need to ask the difficult questions about the wisdom of the investments, the productivity of the schemes and all the things that go into making that a success.

I did ask the Chief Secretary about a balance-sheet item. I think it actually makes a difference if you have bought in your own debt, because you owe the debt to yourself. I am not asking for anything imprudent to be done. I understand why we have gone through this rather tortured process, as has the

European Central Bank and the Federal Reserve Board, and as, for many years, has the Bank of Japan. But we should not then fool ourselves into thinking that we have a worse problem than we have. The fact is that all these countries and currency areas spent a lot of money and created a lot of money to buy in debt over the pandemic, and we have got away with it, with a caveat that we have a little too much inflation. That debt is purchased; it is now both an asset as well as a liability of the state, so it is wrong to think that it is just a liability. The new argument is, “We owe the Bank of England and if the short rates go up, we owe the Bank of England more interest and so forth”. Yes, but it gets the receipt. If we want to do the transaction, the Treasury pays the Bank and the Bank can pay the Treasury back, because the Treasury owns the Bank. If I had bought in my mortgage from a mortgage company, I would probably just forget the whole thing. However, on Bank of England and Treasury logic, every month I would pay interest to myself because I still owe the mortgage, but then I could take that money back and spend it because I own the mortgage company and it is no longer a proper debt.

I think we have to understand that something different has occurred with quantitative easing, and I do not think we should go on doing it. It is normally very inflationary and very dangerous. In the strange circumstances of a covid lockdown in which a huge amount of demand and activity were taken out of the system, we could get away with it; indeed, it was right to do it, and I supported the Government at the time and praised them for the stimulus they offered. However, that has gone, and we now need to have sensible finances. To run those well, I strongly recommend a firm inflation target—inflation is a little too high at the moment, and needs to be taken very seriously—coupled with a much more optimistic growth target, because that is the way to grow the balance sheet and get the debt and the deficit down.