

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 crystallising 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 crystallising losses, resulting in unspecified amounts of money that will have to be paid.