

Why the Bank got it wrong

The Sunday Times ran a topical joke." Two members of the Bank's Monetary Policy Committee walk into a bar. You'd think one of them would have seen it". It is not good when the Bank's ability to forecast and to carry out its main task of keeping inflation to 2% is cause for wide ranging ridicule and censorship. Let me try and explain a little more why inflation is so high and who is to blame.

The first thing necessary to have a more adult debate is to understand the very considerable limits on so called Bank independence. When the Bank first starting printing more pounds to buy up more bonds in the policy called Quantitative easing the Chancellor, Mr Darling, insisted on the Treasury agreeing the sums. The Bank wanted an indemnity against losses on the bonds from the Treasury and taxpayers, so the Chancellor demanded the he and his successors signed off the amounts of any such policy. All Chancellors since have done so and continued the indemnity.

The second thing to grasp is that the main reason inflation has set in badly here, in the USA and in the Eurozone is that all three central banks printed too much money. The Chinese and Swiss Central Banks did not do this and their countries have today inflation around 2% despite also experiencing the sky high energy prices and rising food inflation. Countries like Turkey and Argentina which have printed even more have much higher inflation rates.

So we need to ask why did the Bank of England recommend and execute a policy of creating an extra £450bn and buying bonds with it from 2020 to end 2021? They decided that the large contraction in economic output triggered by the wide ranging and long lasting lockdown of the economy from March 2020 required a substantial monetary offset. As rates were already low and they thought they could take only them down to 0.1% they needed to inject large sums of additional cash into markets. They were also conscious alongside the Fed that in March 2020 the fears of the impact of lockdown were causing a financial and banking market collapse which needed large sums in liquidity to offset.

I think their judgement in March 2020 was right and I strongly supported it. I also supported the Treasury action it made possible, of borrowing huge sums to return some income and cash to the many people and firms that were losing income from the shutdowns. The two actions went together. The state could only borrow that amount at a very affordable rate if the Bank printed money to help them. The impact was not inflationary overall as so many activities were stopped or greatly reduced by the controls.

Unfortunately in 2021 the Bank continued to print money and keep interest rates on the floor long after a good recovery in activity had taken hold. The government continued to borrow and spend on huge scale on a series of special programmes where test and trace was the largest. This was bound to be inflationary, though the Bank ignored those of us who warned it to stop printing. The government continued with expensive lockdown style policies for

longer even though vaccines and treatments had greatly reduced death rates from the virus . The economy revealed a number of crucial supply bottlenecks as lockdown measures had damaged UK and global capacity in various areas.

China and Switzerland show that even with sky high energy and dear food it was possible to keep inflation down. The Peoples Bank of China have monetary targets and think controlling the amount of new money is an important part of controlling prices. The Bank of England do not bother to monitor and control the amount of cash . They prefer to believe the unlikely proposition that if you print a load of money and give it to people and businesses they will use it less. That was true in lockdown but they wanted to spend when lockdown tailed off. Maybe the Bank should start to take money growth more seriously.

It was a pity that China who got inflation right was busy trying to correct a credit bubble in property they had allowed. There are many features of the China approach it is better not to follow. The question for Bank of England MPC members is when you saw those piles of cash you were printing, why did you think people would not use them? Or was it you did not see them because you did not bother about the money supply?

Signing international Treaties

The U.K. has signed too many Treaties in my life so far. They seek to bind the country in for the long term. Where they succeed it offends one of our fundamental democratic principles that one Parliament cannot bind a successor. If a government signs up to a Treaty obligation which the Opposition disagrees with then it is particularly offensive as the incoming Government will find it difficult to disengage. I and my friends had two wins when both main parties wanted to sign the Maastricht Treaty. To secure it through Parliament the government had to gain the opt out from the single currency, the main point of the Treaty. It also secured an exit clause from the EU as a whole, which transformed our options and outlook.

Other Treaties do not offer such good opt outs or fail to include an exit clause. They become ways of freezing policy on an issue to the global consensus at the time of their making which may prove wrong or damaging. I do not think it would be a good idea to sign a binding Treaty designed by the World Health Organisation based on the current level of pandemic knowledge. We should learn from their data and experience and incorporate their best ideas in our future health management but not bind ourselves in.

All Treaties are in practice subject to revision or termination if all the signatories come to agree they are outdated or wrong. Some Treaties are necessary to settle a peace. These should not be disrupted by a losing combatant when they get stronger, but may need UN or other external guarantors. Treaties about everything from the environment to health usually go too far in crimping democracy. Sign too many and swathes of self

government are constrained or prevented, or a future government has to exit them or amend unilaterally how to interpret them.

Open letter to the Democrat visitors to Westminster about Northern Ireland

Dear members of Congress

You are welcome in the United Kingdom of Great Britain and Northern Ireland. You will find many MPs here grateful to the USA for helping produce a peace on the island of Ireland after many years of terrorist violence. As one who survived the Brighton bombing the world is a much better place for the Agreement between the nationalist and Unionist communities of Northern Ireland. It is best they work through the ballot box and in a devolved elected Assembly together.

Before entering the UK debate and negotiations with the EU it would be a useful courtesy if you would read both the Good Friday Agreement which we all support, and the Protocol to the UK/EU Withdrawal Agreement. This will remind you that it is the EU's lopsided and heavy handed interpretation of the Protocol which is undermining the Good Friday Agreement. Asking the UK to go along with the EU will intensify the unhappiness of the Unionist community and make it unlikely Unionist Assembly members will resume joint working with nationalist parties. The Unionists see the Protocol as a fundamental change to their constitutional status as part of the UK and its internal market, and illegal under the Act of Union of 1801 and successor Acts which gave them that status. The Good Friday Agreement is based on the wise central proposition that changes can only come about if both communities, nationalist and Unionist, give their consent.

Let me reassure you that as an Englishman I wish both nationalists and Unionists well in Northern Ireland. I and my fellow Englishmen and women have no wish to keep Northern Ireland in the UK against its will. If at any time it becomes clear from opinion polls majority opinion is shifting in Northern Ireland to leaving the UK we would be happy for a border poll to be held and would accept its result. Current opinion polls say that around two thirds of Northern Irish voters wish to remain within the UK.

The UK did recently give a poll to Scotland when around a half of voters were indicating they wanted to leave the UK. The referendum produced a 55% vote to stay. As a majority of voters in the UK voted to leave the EU the UK cannot accept rule by the EU in part of our country. We voted for the freedoms the USA enjoys to make her own laws and impose her own taxes. I am sure you can understand that. If I had been alive in 1776 I trust I would have supported American independence.

Yours sincerely

John Redwood

Home ownership and house prices

House prices have risen a lot in recent years for a variety of reasons. Demand has been strong, with the country needing to provide for around 300,000 extra people every year thanks to the past free movement of the EU and UK immigration policy. Supply has been limited by a lack of capacity amongst the major housebuilders, a shortage of skilled trades and a country which has lost too much production capacity for building materials. The money policy going for ultra low official rates of interest and relatively low rates for mortgages has enabled a substantial number of people to afford and pay ever higher prices for property. The multiple of incomes of the typical mortgage for a first time buyer has soared, but mortgage interest payments in relation to income have not changed much as the lower rates have so far offset much of the house price increase.

Some say a shortage of planning permissions has kept building land in short supply, yet many Councils report large numbers of unbuilt out plots and leading housebuilders pride themselves in holding substantial land banks. It is of course true that having a restrictive set of laws over how someone can use the land they own will over time mean higher plot prices for building, but there is no appetite to go over to a system where anyone with land can build what they like. Their decisions do have substantial implications for the need for free infrastructure like roads, schools and surgeries where the public sector has to provide and offer some guidance on plans.

It would be a good idea to use the new controls over migration to limit numbers of economic migrants more. We do need to review the provision of building capacity, making it more attractive to people to undertake relevant training. Whilst the provision of cement and bricks, tiles and roof trusses is a matter for the private sector, the government could do more on its energy, mining, quarrying and forestry policies to assist in providing more domestic capacity for the main supplies needed for building.

Time to restore GB/Northern Ireland

trade

The BBC and other media swamp us with the EU view on the Protocol. Most of the interviewers clearly have not read the document. If they had they would be asking the EU

1 Why have they completely alienated the Unionist community leading to the breakdown of the Assembly Executive? This breaks the Protocol's support for the Good Friday Agreement.

2. Why do they presume to place controls and obstacles in the way of GB to NI trade when the Protocol expressly supports the integrity of the UK's internal market?

3. Why did they sign up to the Protocol under the Withdrawal Agreement which under EU law was not allowed to tackle the post Brexit relationship? Why did they help create Article 13.8 which recognised the potential need to change or abolish the Protocol?

4. Article 16 expressly allows U.K. unilateral action where there has been damage to the community and or economy of NI, as the Unionists demonstrate there has.

5. Clause 38 of the Withdrawal Act which gives legal force to the Agreement in the U.K. expressly allows the U.K. Parliament to override the Agreement where necessary. If it had not quite a few Conservative MPs who want a sovereign U.K. would not have voted for it.

6. Article 186 of the Withdrawal Agreement requires good faith by both parties. The EU has not shown this in relation to the guarantees in the document to respect U.K. sovereignty and internal market

It is absurd that U.K. supermarkets cannot ship items to NI as easily as to any place in GB. It is completely wrong that the EU can stop the U.K. cutting VAT in NI. It is outrageous that the EU pushes through huge amounts of new law that has to be applied in NI when they have no say in its making. The government must act. There are several ways of doing so legally. It is the EU which is failing to uphold the Protocol.

Protocol. "The Good Friday Agreement...should be protected in all its parts"

"shall use best endeavours to facilitate the trade between NI and other parts of the U.K."

"should impact as little as possible on the everyday life of communities"

"The importance of maintaining the integral place of NI in the UKs internal market"

etc