

## Postings to this site

A few people are sending in many posts a day including some long ones. I have just deleted a lot From multiple posters without reading to catch up . For this to work Please keep your contributions to a sensible number and length. One poster now sends in so much I automatically delete everything apart from the occasional one or two liner that catches my eye as I go to delete.

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## The Transmission rate and the lock down

On Monday I was at last a winner in the lottery to get to ask a question in the Commons. The occasion was the Urgent Question on the government's approach to the lock down.

I followed up the work I have been doing and the issues I have been raising with Ministers over the scientific advice concerning the transmission of the virus and how we arrest it. The Secretary of State confirmed my argument that I have been putting for some time that to get a more accurate estimate of the transmission rate the scientists need a run of numbers of how many people in the country have the virus, based on sample tests that seek to capture the population as a whole.

He also confirmed my other point, that it is difficult constructing an accurate trend for the UK for the early weeks of the disease, because this sample testing was not then carried out. There is a danger that the numbers collected then are misleading, or that the presence of many more tests later detects more of the virus than was detected in the period of few tests.

It must also follow that as they move to more localised lock downs they will need even more accurate sampled testing to see what is going on town by town or smaller area. It appears that infection control in hospitals and care homes is also crucial, as these centres may have spread the disease more intensely than social gatherings.

There is a good case to relax the social distancing requirement from 2 metres to 1 metre as soon as possible. The evidence is very little extra protection is offered by the longer distance, though the economic impact of the reduction would be most helpful to hospitality and travel businesses.

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# Food standards and future trade deals

I enclose a copy of a letter I have today received from the Government. They rightly confirm that they have no intention of compromising on our high food standards or animal welfare.

Dear John

## **Food standards and future trade deals**

I know that many of you will have been contacted by constituents concerned about recent media reports that UK food standards will be lowered as part of future trade deals.

**This UK Government will not compromise on our standards.** Our manifesto is clear that in all of our trade negotiations, we will not compromise on our high environmental protection, animal welfare and food standards. We remain firmly committed to upholding our high environmental, food safety and animal welfare standards outside the EU and the EU Withdrawal Act will transfer all existing EU food safety provisions, including existing import requirements, onto the UK statute book.

These import standards include a ban on using artificial growth hormones in domestic and imported products and set out that no products, other than potable water, are approved to decontaminate poultry carcasses. Any changes to existing food safety legislation would require new legislation to be brought before this Parliament.

The UK's food standards, for both domestic production and imports, are overseen by the Food Standards Agency and Food Standards Scotland. These are independent agencies and provide advice to the UK and Scottish governments. They will continue to do so in order to ensure that all food imports comply with the UK's high safety standards. Decisions on these standards are a matter for the UK and will be made separately from any trade agreement.

All parts of the UK should be proud of our world-leading food, health and animal welfare standards and we will not lower our standards as we negotiate new trade deals.

Best wishes,

THE RT HON ELIZABETH TRUSS MP

Secretary of State for International Trade & President of the Board of Trade

THE RT HON GEORGE EUSTICE MP

Secretary of State for the Environment, Food and Rural Affairs

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# Are Central Banks independent? Central Banks, Covid 19 and the era of President Trump and the German Constitutional Court

Yesterday, I delivered a talk about the independence of central banks. I am reproducing the slides from my lecture below:

## **Four assertions to test**

- Central Banks are not independent, and never have been. They are the agents of the state or regional grouping they serve
- Euro area government bonds are not sovereign bonds as the governments which issue them cannot create money to repay them
- The Karlsruhe judgement underlines the lack of a transfer union in the Euro area to ensure smooth running of the currency and banking system
- National Central Banks are now working closely with national governments to try to offset the huge economic damage done by the anti virus lock down and social distancing policies

## **Independent?**

- Central Banks are usually established by elected assemblies on the advice of governments. Their functions, objectives and constitutions can be changed any time the political sovereign wishes
- In Europe the doctrine of CB independence was strongly promoted as part of the creation of the Euro. It derived from the German CB set up after the war to create a low inflation stable currency the DM
- The UK also changed from a CB that worked with the Treasury to a narrow idea of independence based around the decisions on interest rates. The Labour government also gave the powers of the CB over the banking system away to a new Regulator

## **Collaborative?**

- The Fed always had a twin objective of low inflation and decent growth or employment, and always accepted it had to be in sympathy with government policy
- The Peoples Bank of China makes a virtue out of working within the economic policy framework set out by the President of China

## **How independent was the Bundesbank?**

- The German Central Bank enjoyed a long run making its own decisions about interest rates and general levels of money and credit. It was able to do so because it was successful in its remit and had no serious political opposition to what it was doing

- It proved to be anything but independent when East and West Germany merged. The Bank's advice on delayed timing and on the rate of exchange for the merger of the Ostmark and DM was ignored. The political imperative of union took priority
- The final irony of the so called independent Bank was when the German government decided to abolish the successful DM currency that the Central Bank was there to uphold and support
- The Bundesbank accepted most of the important monetary powers it possessed being transferred to the ECB

### **How independent was the Bank of England, 1997-2019?**

- The Bank had to accept the loss of powers, including the power to regulate the commercial banks, and the power to issue government debt, in the legislation passed to create so called independence
- The Bank then had to accept a change of inflation target when it suited the Labour government to flip to the softer target of CPI from RPI
- The MPC agreed to an extraordinary meeting during the banking crash to lower rates as part of an international agreement brokered by the Chancellor
- The Bank accepted joint control with the Treasury over Quantitative easing
- The Bank then agreed to a change of powers from the Coalition government, who wished to give it back some powers over commercial banks

### **The battles between the Fed and the President 2016-20**

- The Fed decided on a policy of raising interest rates which the President opposed in public. He favoured zero or negative rates like the EU with more QE
- In 2019 the Fed had to admit they were wrong and changed course to rate cutting, given the sluggish performance of the economy compared to forecasts and aspirations
- In 2020 the Fed altered their opposition to near zero interest rates and proposed more QE as the virus effects gave them good reason to do so

### **Sovereign bonds are treated differently in markets, usually commanding lower rates and higher prices than corporate bonds, for two main reasons:**

1. The state that issues them can demand tax payments on threat of imprisonment to service and repay its debts
2. The state can require the Central Bank to create extra domestic currency to repay the debts if necessary. German, Italian French and Spanish government bonds no longer enjoy this latter characteristic. The ECB and the EU authorities determine money creation in the Eurozone

### **The ECB offers mixed messages on Euro government bonds**

- Mrs Lagarde famously said the spreads or differential interest rates between say Italian and German state bonds was not a matter for the ECB to manage
- The sharp adverse reaction by markets led to the ECB announcing Euro 750

bn more QE, and spending some of it on trying to get the prices of Italian state debt up

- In practice the ECB partially manages the spreads, but allows Italian, Greek, Spanish and other weaker country debts to offer higher yields than German
- Intervention has been controlled by the so called capital key

**The Karlsruhe judgement goes to the heart of whether the ECB should make it easier and cheaper for Italy and others to borrow, drawing on the strength of other member states finances:**

- It says of QE "The more its total volume increases, the greater the risk that the Eurosystem becomes dependent on member states policies as it can no longer simply terminate and undo the programme without jeopardising the stability of the monetary union"
- The Judgement condemns QE saying the ECB "completely disregards the economic policy effects of the programme"

**The constitutional battle for control of the ECB**

- The German court asserts that the member states are "the masters of the Treaties" that embody the laws and constitution of the Union
- It dismisses the judgement of the ECJ, the EU's Supreme court, as "a view"
- It asserts that the ECJ's upholding of ECB monetary policy is "simply untenable"
- The Court however seems to give the final power to the German state which may well wish to confirm ECB power over QE

**A new era of collaboration between Central banks and governments**

- The advent of anti Covid policies closing down great swathes of the world economy and requiring new business models when lock down is relaxed has led to joint Bank and government action
- In the USA, the UK, Japan and elsewhere the government encourages the Bank to lend and create money on a huge scale, and the Bank encourages the government to spend and borrow on a huge scale
- Both have done so with the approval of each other
- In the Euro area the Bank has expanded QE substantially, but the lack of a clear single sovereign for the EU has limited the fiscal response at EU level and caused more debates about pooling of risks and EU borrowing levels
- Meanwhile member states have expanded their budget deficits greatly without EU demands to limit them to the 3% of the Treaties

**The future**

- How will the new era of collaboration work out?
- Can the pretence of independence be re created and should it be?

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## Lawbreaking and riots

I am asked why I did not write today about the violence over the week-end. I am not running a newspaper and had nothing original or new to say about it. The Home Secretary made a Statement today condemning it and telling us the perpetrators would be prosecuted.

There are democratic ways of moving statues from prominent places if people no longer wish to remember the individuals concerned. The Labour Mayor of Bristol did not get around to doing that.