Disguised remuneration – Independent loan charge review

The government's website now publishes the Loan Charge Review and sets out the government reply through Jesse Norman's response. The government is changing its treatment of pre December 2010 loans and pre 2016 where full disclosure was made and no HMRC Enquiry launched. The position remains complex and each person involved still needs to sort their affairs out with the Revenue on a case by case basis. I suggest constituents affected should read the detailed Review and response and if necessary take professional advice on it. The government also clarifies its position on terms and timings of payments, to seek to avoid anyone's home being at risk.

How independent is a Central Bank?

In an autocracy the Central Bank is the instrument of the state and takes instruction from the government or Leader. In some democracies like Turkey and India the politicians clearly change personnel in the Bank to get the answer they want.

In an advanced sophisticated democracy the relative powers of the government and the Bank are more subtle. It is still fashionable to claim that the Fed, the Bank of Japan and the Bank of England are independent . The answer is, only up to a point.

It is true it is now common for Central Banks to have Committees or Boards of actual or supposed experts to review the domestic economy regularly and to set interest rates at the short end. This process is said to be independent. In practise it is heavily influenced by the appointments made to the committee which are under government control, and or to the views of the Bank Governor who is also appointed by the government.

Mr Trump took a strong interest in the appointment of Chairman of the Fed when the vacancy occurred and made clear his wish to have a Chairman who backed his expansionary growth oriented policies. When he did not do so sufficiently the President and the markets complained until he changed policy.

In the UK it was commonly reported that the former Chancellor was keen to appoint Mr Carney as Governor and got his way during the appointment process. Mr Carney had a negative view of Leave, a crucial and contentious issue. His view coincided with the Chancellor's. The Bank did not rate the obvious upsides from ending the payments to the EU, having our own trade, fishing and farming policies and the other gains. The Bank joined the Treasury in making a series of short term forecasts about the immediate aftermath of a Leave vote which were predictably far too pessimistic.

The famous pioneer of so called independent Central banking was the German Central Bank set up after the War and continuing into the Euro era. It was true that for many years the German Central Bank made decisions on rates and money that were unchallenged by politicians. The truth was the politicians were happy with what the Bank was doing and there was no need to challenge. The first major disagreement between Bank and government came with the decision of the government to press on rapidly with amalgamating the Ostmark into the DM on the merger of the two Germanies. The Bank gave good advice on the rate of transfer and the timing which the government overrode, reminding the Bank of their supremacy. The Bank was right on the economics but overridden by the politics.

Further humiliation came for the once proud Central Bank when the German government decided to abolish the DM, the currency the Central Bank had to control and guide, and to go into the Euro. The Central Bank had to accept its sidelining with the abolition of the very currency it had proudly championed for years.

In the UK Chancellor Darling rightly overrode the Bank of England on interest rate changes during the banking crisis. It was dressed up as Bank decision by the Bank agreeing to hold an out of diary special meeting to cut rates to co-ordinate with other countries following Ministerial agreement. Gordon Brown changed the inflation remit of the Bank when he wanted to influence policy more directly.

The USA gets it right. The Fed has twin objectives of inflation and growth, and has to work closely with the Administration's economic policy. The President was right to demand money loosening at the end of 2018 and the Fed came to accept his judgement for themselves.

[Flood warning]

The Environment Agency has issued a flood warning for the Swallowfield area. Fortunately their latest posting says they do not expect property flooding. Their site has details of who to contact if residents become concerned about water levels.

Their floodline is 0345 988 1188

www.flood-warning-information-service.gov.uk

Central Banks have plenty of options

The Bank of England has uniquely amongst the larger Central Banks of the world set its policy against promoting growth. The rest of the world's leading Central Banks have been loosening policy this year to prevent the global slowdown becoming a recession. How are they doing this? What are the Bank of England's options?

Some have simply been cutting interest rates. Some have lowered reserve asset ratio requirements, which is a way of allowing commercial banks to lend more for the same amount of capital they hold. Some have made available cheap facilities for commercial banks to borrow if they will lend more to the real economy they serve. Some have undertaken full Quantitative easing, creating money to buy bonds and ETFs to drive asset prices up and keep interest rates low. Some have injected more money in through the money markets.

I am not proposing a resumption of Quantitative easing in the UK. Nor does the Bank have to cut interest rates, though taking 25 basis points off the 0.75% interest rate would send a signal. Better would be to relaunch Funding for lending, a scheme to provide more money for commercial banks to support investment and larger consumer purchases in the economy. The Bank should also cancel or defer its recently announced doubling of the counter cyclical capital buffer.

There will be those who object that the Bank is independent , so the rest of us should not discuss these matters. How wrong they are. In a democracy the Central Bank, owned by taxpayers, has to be answerable to Parliament and people. The government has just appointed a new Governor, so presumably they have discussed with their preferred candidate how they see the task ahead. The Labour government legislated to make big changes to the functioning of the Bank, taking away substantial powers it needed to regulate and guide commercial banks and money markets. The Coalition government legislated to put those powers back. Government and Parliament settle the aims of Bank policy and can change those if they wish. There has to be continuous dialogue between Central Bank and Treasury as they are both having influence over the same economy. It helps if they are both trying to achieve the same purpose.

The Governor is accountable to Parliament and comes to give evidence of progress. The Bank works closely with the Treasury, particularly at budget time. The two institutions do not usually diverge much in their forecasts. The new Governor has to understand there has been a big change of economic policy with the change of government. The target of reducing state debt as the main aim of policy has gone. The promotion of growth now lies at the heart of the new fiscal framework. It must also inform the Bank's work. The Bank of course has to keep to the inflation remit but needs to understand the shift of its parallel aim of helping promote growth and good levels of employment. Currently there is no inflation threat in the advanced world and no inflation problem in the UK.

Let's hoper others join in the call for a change of approach at the Bank of

England. They have fought inflation successfully. They now need to join the mainstream of world Central Banks and fight against slowdown.

Letter to the Chancellor on the Loan Charge

I have written to the Chancellor urging him to publish Sir Amyas Morse’s independent report on the Loan Charge as soon as possible and to suspend the payment deadline of 31 January until a decision on how to proceed is taken.

THE RT HON SIR JOHN REDWOOD MP, D.Phil, FCSI

HOUSE OF COMMONS
LONDON SW1A 0AA

The Rt Hon Sajid Javid MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

19 December 2019

Dear Sajid

I understand that you have now received Sir Amyas Morse's independent report into the Loan Charge.

With the loan charge settlement date of 31 January 2020 is fast approaching, many of my constituents who are affected are understandably concerned that Sir Amyas's report has not yet been published. The uncertainty is proving to be extremely distressing for those who are being faced with large bills going back more than ten years in respect of loan arrangements they declared at the time and believed to be legal. It would seem very much a case of changing the goal posts when people naturally plan their lives and spending around their net income, and do not expect retrospective tax bills many years after the event.

I would urge you to publish the report as soon as possible so that those affected as well as MPs can give it due consideration.

I would also ask that the payment deadline of 31 January be immediately suspended while a decision on how to proceed is being taken.

I should be grateful for a response which I can forward to my constituents.

Yours ever

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