The Minster and the blob

Kemi Badenoch in her Telegraph article implies she had to back down over removing a lot of needless or damaging EU law because the civil service were unable or unwilling to do the work to sort out the good from the bad amongst the 4000 laws they had identified and transferred to the UK from the EU. Her critics will say it is for Ministers to decide. She could have insisted that this was her priority and could have ensured enough resource to do the job. Her friends will say she was victim of a civil service that intends to defend every EU law, wishing to keep the UK aligned with Europe as closely as possible, and working with the EU and Opposition parties that never wanted the UK to leave. She certainly did not herself identify some of the more obvious ones and make the case for their repeal in public as you would have hoped she might do.

I do not buy the line that the civil service could not read and understand all the EU law in the seven years that have passed since the vote and offer sensible advice over the merits and demerits of the inherited laws. There is plenty of evidence that the civil service is alive to the EU legislative inheritance, and many cases where they have been keen to save it in case Ministers wanted to amend or remove it. The latest Energy Bill has a big chunk of draft UK legislation confirming EU laws and schemes and putting it into UK law. The civil service note providers were kind enough to tell us they are doing that in case the EU Retained Law Bill otherwise dropped these laws! The civil service was particularly keen to keep us aligned with EU data rules, so Ministers were persuaded to put all that into directly acting UK laws as well as transferring it as part of inherited EU law. There are other cases from finance to environment.

Conspiracy theorists will say the UK gave in to all the EU demands over the Northern Ireland Protocol. These always included stopping the NI Protocol Bill in the UK which would have resolved matters unilaterally and might have also included a secret promise to dump the EU retained Law Bill. Others will think this is just another example of weak Ministers giving in to officials who did not want to lose any EU law and who therefore decided to make it more difficult for any Minister wishing to do so.

We are offered a list claiming to be 600 measures which will go. Most of the items on the list have already time expired or relate to EU international agreements which clearly no longer affect the UK as we are not members covered by them. There are items relating to 1990s agricultural settlements long gone, to Olympics special measures for the London games, and a range of temporary controls for things like BSE which have passed. It is tidy to clear them up but makes no difference to the costs of doing business or the freedoms in our daily lives.

For this policy to work there needs to clear areas where unhelpful rules and charges disappear, so people and businesses can do more more easily. So Kemi should include getting rid of the carbon taxes and emission trading, the complex product specifications, many of the VAT impositions, simplify the data regime, abolish the Ports Directive, and many others often mentioned on this site. She should revisit Iain Duncan Smith's Report on repealing EU laws which sits unimplemented.

The Bank of England forecasts for inflation

There is something badly wrong with the Bank of England's forecasts for inflation. The absence of money and credit from their thinking seems to guarantee they get it wrong. Because they get the forecasts wrong they get the policy wrong.

Their aim is to show inflation will be around the target of 2% in two years time. Quite reasonably they allow themselves some shorter term flexibility around this longer term target. Their problem includes an overwhelming tendency to lurch based on what has just happened to inflation. I call it rear view mirror driving, when what they need is a better view of the road ahead to avoid a crash.

Let us take the last two years. In May 2021 the Bank concluded that inflation in two years time would reach 2%. Because immediate past inflation was below target they decided to carry on with an interest rate of 0.1% and with printing more money to buy up bonds. The more bonds they bought the higher the prices went so the lower the longer term interest rates went. It was an invitation to a credit party where the credit was so cheap. Some of us at the time warned against more money printing and further lowering of longer term rates, pointing to the already visible recovery in the economy and the increases in money and credit. "I see no inflation coming" meant they were looking the wrong way.

By May 2022 the inflation was already well set. It hit 5.5% before the invasion of Ukraine, and then went higher as the energy and food price consequences of that came in. The Bank set an interest rate of just 1% and said rates might in future need to get up to 2.5%. On that basis they forecast inflation would be back down to 2% by 2024 and below target at 1.3% in 2025. Some hope.

This May they decided to hike interest rates by an additional 25bp or 0.25% to 4.5% and continue with a large bond selling programme designed to cut money and credit further and drive rates higher. On that basis they forecast 2% inflation by 2025 which may be nearer the mark. Unfortunately it comes with the price of overdoing the tightening meaning a bigger real income squeeze and a big slowdown in growth. They are now mesmerised by the inflation they have created and unable to see that the dramatic money tightening they have undertaken will come through. So they now want to do too much too late. The rear view mirror tells them to slam on the brakes when the vehicle is scarcely moving.

[The Treasury and Bank advice used to bring down governments]

I am told grown ups follow Treasury orthodoxy and admire the Bank of England with its independence. The governments that have followed these luminaries have usually put the economy through a boom/bust cycle and have invariably lost if they own the bust.

Edward Heath accepted advice to introduce competition and credit control in the early 1970s when the dollar went off the gold standard. A big inflation was created, to be followed by a sharp collapse just in time for the 1974 elections which Heath lost. There was a secondary banking crisis and property slump. The Labour government which followed i chose an inflation prone high borrowing high tax strategy of its own which ended in a further bust when it collided with financial reality.

John Major adopted Treasury and Bank advice by joining the European Exchange Rate Mechanism. Some of us warned this would be damaging and destabilising but the grown ups knew best. They brought on an inflation by printing too much money to keep the pound down, then a savage recession by slashing money to try to rescue a tumbling sterling. The Conservatives went down to a huge defeat even though Labour , the CBI and TUC had all backed the failed policy.

Gordon Brown and Tony Blair in the period 2005-9 accepted Treasury and Bank advice that they could allow a major expansion of banking credit and debt because there had been a new model of global banks that would magically smooth away the risks of excessive leverage. Indeed Gordon Brown didn’t just accept this woeful official advice but was part of the world foolishness that generated the idea. The Parliamentary opposition warned against so much state debt and private borrowing. The official advice shifted to demanding a deep recession to wipe out the inflation and some of the debts. Gordon Brown as PM agreed and was thrown out of office as a result.

Today it is possible to avoid the bust. The official advice has already given us the big inflation. According to government and Opposition the Bank is independent and is responsible for enforcing the 2% inflation target. It has lamentably failed, allowing inflation to hit 11%. It blames external events beyond its control, yet it did not warn us of the big inflation coming and fails to explain how Japanese, Swiss and Chinese inflation stayed down if it was just a matter of high international energy prices.

As constitutionally the government is responsible for the huge balance sheet the Bank of England has created by borrowing to buy up a load of bonds, the government should tell the Bank to stop selling these bonds back into the market at large losses as they are currently doing. taxpayers should not have to take the hit. Money and credit are tight. To avoid the recession action is needed now. The Bank has done too much too late to conquer inflation. Its inflation forecasts yo yo around undermining the credibility of its actions. How can anyone admire a Bank which deliberately bought too many bonds at crazily high prices and then wants to sell them at much lower prices to make the taxpayers pay for the losses?

[My Intervention in the Energy Bill (Lords amendments)]

John Redwood, Wokingham, Conservative:
I agree with the Secretary of State that we need more energy independence and more domestic energy, so why does the Bill propose a 140% increase in imported energy through interconnectors, which will make us more dependent and very vulnerable?

Grant Shapps, Minister of State for Energy Security and Net Zero:
My right hon. Friend makes an excellent comment, as ever, on interconnectors, but I would point out that with the growing number of interconnectors, particularly electricity interconnectors, last winter, for example, we were able to export 10 TW to France through interconnectors, providing us with income. The answer is that they work in both directions, and in some cases, they provide the reliability of, for example, France's vast nuclear fleet of 56 reactors. When whose reactors were down last winter—because even nuclear power sometimes has to come offline—we have been able to export our power to France, and it has been a net export. Our mission is to secure the clean and inexpensive energy that Britain needs to prosper.

[Retained EU law]

Brexit has delivered two important changes that get no mention. We no longer pay annual contributions to the EU – and have increased the NHS budget by more than the savings and by more than proposed on the bus. We no longer come under the large amounts of new law coming out of Brussels, leaving us free to decide if we want a law at all and if so what would be the best one for us. Many hundreds of pieces of legislation passed since we left do not apply in GB.

The PM promised to carry on with the Bill planned by his predecessors, the EU

Retained Law Bill. He saw the advantage of tailoring law to our needs. The aim was to remove all those inherited laws from the Statute book that were no longer relevant to us, the ones we had opposed unsuccessfully as members, and the ones where we could put in place something more effective for us. Jacob Rees Mogg when Business Secretary got the civil service to produce a website or dashboard with all the pieces of relevant law listed.

When I set out to write this yesterday officials had taken the dashboard down and left a message saying this useful resource is “no longer available”. That was a chilling message. When I complained it reappeared. It seems to square with news leaks that the current Business Secretary wishes to dilute the legislation, turning it into a device to keep most EU laws instead of initiating the proper review we need. Officials were said to always have been reluctant to carry out the exercise and to recommend pruning EU law. Clearly some senior officials and some business lobby groups have forgotten the good reasons the UK had for trying to prevent or to modify endless EU legislative proposals when we were a member. My main recollection from my days as Single Market Minister were many discussions, lobbyings and meetings to try to stall or dilute unwanted legislation that mainly served to give the EU more powers over more areas of government and our lives. It was doing the detailed work as Single market Minister and seeing the damage to innovation, small business and enterprise that much of the regulation would do that made me consider changing our relationship with the emerging government of the EU.

The EU Retained law Bill passed the Commons with a large majority and little Conservative disagreement. It would be odd if Labour decided to use their peers to try to wreck one of the gains of Brexit close to an election, after they lost so many votes over trying to stop Brexit in the previous Parliament. I hope the PM tells the Business Secretary if she does want to dilute this to think again. We could be better for freeing ourselves of laws that cost too much and get in the way. Of course the plan was always to keep important employment, safety and environmental safeguards and where necessary to continue with our UK policy of going beyond the core standards laid down by the EU in those areas.