My Interview with Times Radio

Please find below the link to my interview with Times Radio

My interview begins at 25:52

Ayesha Hazarika with Times Radio Drive | Times Radio | The Times and The Sunday Times

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All Souls lecture slides

John Redwood's Lecture, All Souls College, Oxford
'The great western inflation should lead to changes at the Central Banks'
26 May 2023
11:00 – 12:30
All Soul College, Old Library, Oxford

Inflation, Consumer Price Index 2020-2023
The inflation rates demonstrate that whilst all countries faced dearer energy from the war in Ukraine, the 3 western countries faced inflation peaking at five times target whilst the two Asian majors kept inflation near the 2% target

Year	UK	Euro area	US	China	Japan
2020	1.79%	0.29%	1.7%	2.39%	(0.03%)
2021	0.85%	2.45%	1.4%	0.85%	(0.2%)
2022	7.8%	8.31%	6.5%	2%	2.5%
2023	10.1%	6.9%	6%	2.9%	2.9%

Central Bank interest rates 2020-23

The Bank of Japan kept interest rates very low throughout, enforced by their policy of Yield Curve control

The Peoples Bank of China kept rates around 4% throughout, with some small cuts as the economy slowed
The other 3 took rates down to around zero, held them there, and then pushed them up sharply after inflation had risen to several times target

Year	UK	Euro area	US	China	Japan
2020	0.1%	0.01%	0.36%	3.65%	(0.1%)
2021	0.25%	0.01%	0.08%	3.85%	(0.1%)
2022	3.5%	0.5%	1.68%	4.3%	(0.1%)
2023	4.25%	3.25%	4.59%	3.65%	(0.1%)

Japan and China kept money growth to similar levels that applied before covid lockdowns.

The 3 western Banks stimulated rapid growth in money and credit over the covid period

Money and credit growth, M2/M3 2020-23
Quantitative easing and tightening
The US, UK and Euro area undertook substantial QE 2020 to 2022. All three started Quantitative tightening 2022-23.
China undertook neither Japan continued with Quantitative easing throughout

The Chinese critique of the Fed and ECB

It opposes "launching a deluge of strong stimulus policies " that bring about asset bubbles, excessive investment or debt escalation
Aims to keep the size of its balance sheet stable to avoid inflation and to keep financial strength to be able to act as lender of last resort.
"held meetings to analyse the money and credit situation"
Has a target to grow money and credit in line with nominal GDP growth, and to keep inflation around 2%.
Shows a graph comparing the growth of the Fed and ECB balance sheets with the stability of its own

The defence of the leading western central banks
– They claim they are independent of government
– They forecast inflation and target it directly based on their forecasts
– Their forecast of inflation is based on assessments of capacity utilisation, with special emphasis on levels of unemployment
– They claimed they needed to undertake QE when they hit zero on rates

Are these banks independent?
– Changes at Federal reserve Board on change of President
– US twin mandate of employment and inflation
– UK Bank of England requires Chancellor to approve all bond changes, and to underwrite all QE/QT transactions
-ECB "will do whatever it takes" to ensure the survival of the Euro and the union scheme

Why did these western banks get their inflation forecasts so wrong?
– They take a national rather than an international view of pressures, yet capacity includes imports
– Unemployment is not necessarily a proxy for capacity utilisation
– Judging capacity utilisation is very difficult – the shortage of one small part for a car can prevent production of many vehicles

Is Quantitative easing inflationary?
– Is designed to inflate the prices of assets
– It created an asset bubble, with dearer bonds spilling over into dearer shares and property
– In due course the extra cash and higher asset values led to more spending and credit

Are there dangers in Quantitative tightening?
– Silicon Valley Bank brought down by weakness in the bond market

– UK LDI funds became distressed shortly after the announcement of QT and falls in gilt market
– QT is deflationary, just as QE is inflationary

Why did 3 central banks want to lose so much money in bonds?
– The central banks bought up more and more bonds at excessively high prices. They then increased interest rates, signalled the wish to see bonds lower and then started selling bonds at a loss.
– The Fed says it will just put the losses on its balance sheet. They do not matter. It can always create money for its needs, however much it has lost
– The Bank of England says the Treasury/taxpayers have to reimburse it for all losses to avoid weakness on its balance sheet

– – -The ECB says 80% of the losses will be owned by the member states Central Banks, subordinate institutions under the ECB in the system of Euro area CBs.
Quantitative tightening

Federal Reserve Board
-Took its balance sheet from $3.759 tn in August 2019 to a peak of $8.965 tn in April 2011. (plus 138%)
-Now at $8.593 tn, up from $8.339 tn in March 2023.

European Central Bank
– Has an accumulated bond holding of Euro 3.23 tn under its Asset Purchase Programme, and Euro 1.71 tn under its Pandemic Purchase Programme.
– Balance sheet Euro 7.7 tn

Bank of England
– Reached a peak holding of £895bn. Added £450 bn over covid period.
– Ran down holdings by £38bn Feb to September 2022 from repayments. Now undertaking an £80 bn a year QT programme.
– Bank balance sheet current £1.05 tn

Bank of England inflation
– May 2021 forecast 2% inflation in two years time if kept rates at 0.1% with Quantitative easing – outturn 10%
– May 2022 forecast 2% inflation in two years time with rates at 1% rising to 2.5%
– May 2023 forecast 2% inflation in two years time with rates at 4.5% and a major Quantitative tightening programme

Bank of England economic forecasts and models
– The Bank sets out to predict inflation by forming a view of capacity in the economy and using a concept of capacity utilisation to assess whether the economy is running hot or cold. – – Unemployment is a crucial proxy for the judgement of capacity utilisation.
– The concept is based around the UK national economy. It finds it difficult to handle the international dimension in a very open economy which allows the UK to access global capacity for many items.
– It dos not take into account the impact on demand and prices of credit growth supplementing incomes.

– It fails to report or comment on money and credit growth

Why aren’t more MPs worried about UK reliance on imports and lack of capacity?

The UK imports too much of our food, our energy, our industrial goods. So many of the policies urged by the opposition parties and adopted by the government entail higher taxation and stricter regulations at home, losing us jobs, factories and capacity.

The UK imposes the higher carbon taxes of the advanced world, accelerating the loss of our steel works, ceramics factories and the rest. The UK is planning the earliest ban on new petrol and diesel cars making it likely we will lose more of our car industry than the main rivals who do not do threaten that. The UK offers plenty of grant money to owners of farmland not to grow crops and rear animals, instead of spending more of the money on promoting great home grown food. The UK imposes a corporation tax twice as high as the neighbouring Republic of Ireland, only to see many large companies set up over the Irish Sea to take advantage of the lower rates. Ireland raises almost four times as much in business tax per head than the UK thanks to the lower rate.

The water regulators keep us short of water instead of allowing and encouraging more reservoirs. This country gets plenty of rain but it does need collecting when it is around and storing. Inviting in 600,000 extra people every year to settle here requires more water, more road space, more health capacity, more school places.

The NHS keeps us short of beds and the key medical staff to service them despite getting large increases in money in recent years. Too many new homes are built without the school places, by passes and other facilities we need.

High corporation tax and windfall taxes are deterring investment in producing our own oil and gas, making us ever more dependent on imports which deliver more CO2 as well as big bills for the UK to settle abroad. Investment in wind farms has proceeded well leaving the UK short of grid capacity to transmit the power, and short of ways of storing it on windy days to sue on days when there is no wind. The UK used to be self sufficient in electricity and for a period in oil. We now depend far too much on imports for no good reason.

A growth policy would set tax rates at suitable levels, offer the necessary permtis and let the private sector get on with resolving most of these capacity shortages. The extra tax revenue the growth would generate could be used for the extra NHS beds and school places we also need.

The by elections

The frustration of some Conservative MPs with current policy and management of the party led to three of them resigning with immediate effect, a most unusual development. MPs usually accept they have made a commitment to their electors to serve for a Parliament.

Some will dismiss these actions as arising from the special circumstances over the Parliamentary enquiry into the past conduct of Boris and from the bitter disappointment of his closest allies over the way a wave of Ministerial resignations was used to force him out of office. The PM’s closest supporters are putting round that an attempt to copy the rolling resignation method of applying pressure has failed as they do not anticipate any more doing it. They see this as a win.

What matters more is how the PM now responds. He needs to do all he can to win the by elections. Losing any one of them would be worrying. Losing all would be disastrous. He needs to understand as the polls tell us that it is not just 3 Conservative MPs who have lost the wish to support for their own personal reasons, but millions of Conservative voters who voted Conservative in 2019 but who tell pollsters they do not want to if asked again right now. Just sending lots of volunteers and MPs to deliver leaflets will not be enough. Voters will want some persuasion that policy will reflect their needs and preferences going forwards.

The Boris statement which of course stemmed immediately from his dispute with the Committee on conduct ranged widely. It argued that the promises made in 2019 on Brexit wins, taxes, growth, animal welfare and others need to be honoured instead of dropping the relevant legislation and hiking taxes.It would be helpful to the country as well as to the PM and to the Conservatives in the by election if the lower taxes, Brexit wins and growth strategy were introduced now. The right kind of lower taxes and growth policies are not only popular but will also cut the deficit.

Atlantic Charter and Atlantic Agreement

In 1941 Churchill and Roosevelt met on a U.S. warship to draw up the Atlantic Charter. It was before the Japanese attack on Pearl Harbour and slanted heavily in favour of the USA reflecting the weak position of a near isolated UK fighting the Germans. It contained some important binding truths that have united the two countries ever since. Its terms became more important once the USA was in the war. It set out a future peace based on the self determination of peoples, the reversal of occupations imposed by force, free trade and the pursuit of peaceful resolution of conflicts.

In 2023 President Biden signed an update, a revised Atlantic Agreement, with the UK. Reflecting the modern U.S. preoccupations of the Democrats, it set out a course of future economic development with more state involvement, more subsidies and more protection. It is a partial prospectus for a divided world, where the US will lead one alliance against a China leading the main contestant grouping. The document wants onshoring, friendshoring and western technical superiority It wishes to impose a green revolution, seeking to remove fossil fuels from the western side by 2050. It identifies quantum computing, semiconductors, smart biology, artificial intelligence and advanced communications as crucial areas to develop.

The UK will hold a conference in the autumn on regulating AI and will push for a world regulator. It is difficult seeing the Chinese bloc wanting to submit their IP and plans to such scrutiny. It is difficult to know how to regulate before you know what you are regulating. My best advice to the UK is understand there is going to be a race to expand and adopt these ideas.The UK should concentrate on creating better conditions on tax and talent to help the UK stay ahead.The USA will naturally put America first and will expect her large subsidies to buy advantage.