# The Bank of England's options.

Inflation is at 1.6% compared to the target of 2.0%. Thanks to the world slowdown and the Chinese epidemic oil prices have fallen by one fifth this year, with freight rates and other commodities also well down. The pound is rising against the Euro and yen. All this points to no inflationary surge ahead. Indeed if there is an inflation problem it is it will be too far below target, as the target is meant to be symmetrical.

The Bank of England should recognise that its tightening of credit conditions through two rate rises, FPC advice against car loans and consumer credit, and tough rules on mortgages has greatly reduced money growth. Tight credit has helped slow the UK economy down to almost a standstill. There is nothing wrong with some increase in credit to people in  jobs to buy homes and cars, or to businesses needing more stock and equipment  because their revenue is growing. The Bank has to work with the commercial banks to assist  low inflation growth.

I do not think a 0.25% cut in the low official rate will do much. I would prefer a new round of Funding for Lending, a scheme which makes cheaper money available to UK banks prepared to undertake sensible new lending to the UK economy. This worked well before and would ease pressures in various areas.

The second is to do what the Fed is doing and make clear to markets that the Bank will make cash available by buying Treasury Bills if needed to preserve liquidity and enforce the current low rate structure in money markets. Commercial banks need to know the Central Bank is not about to squeeze them or damage them as the Bank of England did in 2008-9 by leaving markets short of cash.

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# Prosperity not austerity

Prosperity, not austerity, was my slogan for both the 2017 and 2019 elections. When it became clear Mrs May was going to keep Mr Hammond as Chancellor and allowed such a  negative approach from the Treasury and her top officials, I joined with others to replace her so I could advance the cause of Prosperity.

The new Prime Minister made clear his economic policy is the promotion of Growth and Opportunity. He has from the start injected a welcome optimism into the country's view of our future. When his chosen Chancellor fell for Treasury pessimism and tax rises, he asked him to work using shared advisers with No 10. I think the PM was right. The Chancellor was unwilling so  had to resign. I think we will be better off now we have a new Chancellor who should understand what the PM is trying achieve.

One of the Chancellor's jobs is to tell Treasury officials that we want realistic optimism about the UK's economic prospects, with an expansion minded budget which will boost our growth and improve our outlook. It was not a case of the outgoing Chancellor valiantly defending a Treasury orthodoxy that is right against a PM who wants too much expansion. It was a Chancellor giving in to the excessive pessimism of the Treasury/Bank/OPBR that has fuelled so many bad and wrong forecasts from them since 2015. The new Chancellor needs to say that we have growth in our own hands, and that whatever the outcome of trade talks with the EU the UK can have a good economic future if we take the correct decisions now.

In future blogs I will be looking at the range of measures the government now needs to take to shake off the slow EU style growth rate we have sunk to, and to liberate damaged sectors that have been hit by too many taxes and wrong policies like housing, cars, general manufacturing and retail.

The Bank of England too needs to work with the government on promoting growth. Inflation is below target and looks set to remain weak for the time being, so the Bank should assist the drive for growth.

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# [First Homes Consultation]

I strongly support the aim of the First Homes proposal. More people want to own their own home than currently can afford to do so. We need more affordable homes for sale.

The essence of the proposal is twofold. The first is that some of the large gains that landowners and developers stand to make on the grant of planning permission should be shared with First Home buyers by giving them a discount on the normal market value of these new homes, paid for out of the money that is released by the development. The second is that a buyer of such a home accepts a restrictive covenant on the property that means when they come to sell they need to offer a similar percentage discount to the buyer that they enjoyed on purchase.

I have no problem with the idea that some of the gains on development should be shared with buyers, Currently these gains are effectively taxed to allow the state to spend more money on supporting community infrastructure and on affordable homes to rent. It is no greater distortion of the market to allocate some of the winnings to subsidise affordable homes to buy instead. It has the advantage from the state's point of view that the buyers take responsibility for repairs and maintenance, whereas with rented social housing the obligation remains with the state or Housing Association. Given the strong wish of many people to buy not rent, surely we should do more to help them.

The second proposition is a new intervention in the housing market. It means creating a parallel market to the primary market for buying second hand homes out of a group of people who qualify for the scheme. This will only work if the pool of such people is sufficiently large so a potential vendor of a First Home has enough potential buyers to make a decent market. The Consultation wishes to limit the ability of First Home owners to rent out their property, as it has to be their home that they live in , and asks about reward for improvements. The danger in the scheme is the person will suffer a discount on the improved value of the home, not just on the underlying investment. So if someone bought a two bedroom First Home but was able to add two more bedrooms and extra downstairs accommodation they might not get back all they had spent on such a substantial extension given the application of the discount. The more restrictions that are placed on the First Home buyer the less attractive it is as a proposition, and the less like normal home ownership it becomes.

My view is I would rather share some of the gains with a First Home buyer than with some local Councils and their choice of projects to spend planning gain receipts on. We should not be afraid to help make people a bit better off by allowing them to buy a home at a discount.It is difficult to stop them renting out their homes if they suddenly get a requirement to work abroad for their employer or if an elderly person has to go into a long stay care home.

For this to work the rules need to be flexible. The issue is who should qualify? There does need to be some means test to stop people with substantial capital or high earnings from cashing in . The aim is to help local people, veterans and key workers like teachers and nurses. There does also need to be a cap on the price of property involved. I suggest this should be done by principal Council area from average prices in that area, where the cap is not above the average price. There will only be a satisfactory secondary market in First Homes if this is done at scale.

www.government.uk/gopvernment/Consultation/First-homes

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# [We need change at the Treasury]

Congratulations to Rishi Sunak. He is able and hard working, with a knowledge of the expenditure side of the Treasury from his role as Chief Secretary.

The immediate task is to challenge Treasury officials into completing the change from the Maastricht economics of austerity to a pro growth optimistic economics that chimes with the Prime Minister’s vision. Boris has been clear we want growth, opportunity and levelling up. The aim is prosperity, not austerity. The purpose is more people in better paid work, more owners, a better spread of wealth and income around the whole UK.

You do not achieve that by writing the Maastricht rules back into the fiscal framework, nor by hiking taxes or trying to tax the rich out of the country. I think The PM was right to want common working between the Chancellor's team and his own. The leaks, briefings and rows about the forthcoming budget were not helpful. I expect Rishi to spend more time on persuading Treasury officials to complete their journey. They need to move on from pessimistic Hammond style economics which said the UK cannot be a success on her own and needs to beg to stay close to the EU, to an optimistic global UK approach. We need to grasp the future by investing in it. We need a bigger and more prosperous private sector, which requires lower tax rates and a holiday from yet more prescriptive regulation.

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# The cost of homes

It is not surprising the cost of homes is so high, given the large increases in demand from new household formation, and the attempts to ration or limit supply by the planning system and the actions of the main housebuilders. It is also the case that pumping money into the system at low interest rates makes higher mortgages affordable for more people, so home prices like bonds and shares have risen thanks to QE and low official interest rates.

To contain prices we need to cut demand and raise supply to better balance. Markets would do this for us but we have instead migration policies, housebuilding standards and planning policies that give government crucial roles. The government via Councils and Housing Associations is also a major developer itself.All the time interest rates remain low we should expect mortgages at higher multiples of earnings to be affordable.

In a managed system the government could reduce migration numbers as it has promised to do. It can continue with efforts to increase the number of homes built. It can also ask whether its standards and specifications are the right ones to encourage more building. A combination of UK government standards and wish to produce traditional looking buildings by the industry means a lot of work takes place on site. The UK has not taken up factory made sections and components on the same scale as in some other countries. It means the task of building is prone to delays for bad weather. It requires a lot of on site supervision to ensure decent quality, matters which would be partly taken care of by precision machinery in a factory prefabricating more of the home. The structure of the house building industry with its heavy regulation and high financing demands mean that most of the housing is supplied by a few large companies. They say they are constrained by a lack of skilled people and the need to maintain and supervise high standards from building more homes more quickly against all the planning permissions already granted.

Tomorrow I will look at the latest proposed government intervention into this government steered sector with their plan to use planning gains to offer discounts to some people on buying a new first home.