

# 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 hope 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

---

## My speech during the Debate on the Address, 19 December 2019

**John Redwood (Wokingham) (Con):** It was a pleasure to see our new Speaker in the Chair at the start of the debate, and I would like to send my congratulations to him through you, Mr Deputy Speaker. I was delighted at his election, and I am quite sure that he will be a fair and experienced judge of our affairs and will look after our House very well.□

The recent election and the conversations that I was able to conduct even more intensively than usual with the electors of Wokingham told me that they do want some changes. I made promises to them that I would come here again as an advocate for more money for our local schools, which have been short-changed in recent years, so it is a pleasure to see in the Gracious Speech the down payments promised for next year, and I look forward to those continuing in the years that follow.

My electors and I agreed that we need more money for our local surgeries, more nurses and doctors to be recruited and better support for our local district general hospital in Reading. Again, I see that answer already in the Gracious Speech, with a promise of substantial new resources—financial and personnel—for the national health service, which will be laid out in legislation for a five-year period. I welcome that. It is a pleasure to say to my electors that two parts of the job seem to be well on the way to being done, but having a little experience of government, I know that there will remain, day by day and month by month, issues to sort out, to ensure that my constituency gets its fair share of the money.

**Liz Saville Roberts (Dwyfor Meirionnydd) (Plaid Cymru):** In his capacity as a former Secretary of State for Wales, does the right hon. Gentleman share my concern and disappointment that there was no mention of Wales whatsoever in the Queen's Speech, as well as my concern about how the money being promised to England will find its way to Wales, through the Barnett formula or wherever? Finally, will he perhaps ask the same question as me: how much longer do we need the Wales Office for? Looking at the behaviour of this place, there will be people outside saying, "Surely Wales could do a bit better than this."

**John Redwood:** The right hon. Lady knows full well that there is a formula and consequential from the English settlement. I am quite sure that my right hon. Friends in the Government will look after Wales, and it is her job to test them out in the appropriate debates. This speech is not the appropriate moment, because I am not here to speak for Wales; I am here to speak for Wokingham and West Berkshire, and I am here to speak for the wider nation, as we all do.

I am also looking forward to the promises on infrastructure. The Government

have rightly said that we have a big job of work to do to improve our railways and roads, to make sure that people can get to work and get their children to school, that we can bust the congestion and that people have easier journeys. That, too, will reduce pollution and increase safety.

Wokingham is a very fast-growing area, because we are doing more than our fair share for the national housing achievement. We particularly need support on putting in additional transport links, with digital signals on the railways so that we can have more capacity and more trains, and an improved road network. It was a pleasure to work with the previous Secretary of State for Transport in the last Parliament on the idea of strategic local highway networks. We needed more money and support for those important roads, which are under the control of councils. They do not qualify for trunk status but can often relieve trunk roads and provide an important means for my constituents and others to get to work or get their children to school. The previous Government answered that, but it falls to the new Government, with the more generous financial settlement that I look forward to, to ensure that we can work together, so that I can get some of those road schemes and rail improvements for the Wokingham area, which will be much needed.

The big thing, which represents a seismic shift in Government policy and which I welcome, is the introduction of optimism and enthusiasm—the belief that this country can achieve great things, that we do not have to constantly cut under the Maastricht criteria and that we should no longer make state debt the main objective of economic policy. I have been working away for some time to get that change of policy, but Philip Hammond was not sympathetic to my views in all sorts of ways. I am delighted that the new Prime Minister and the new Chancellor are enthusiastic about the idea that the aim of economic policy for this Parliament must be prosperity—prosperity for the many, and tax cuts for everyone.

Tax cuts are a very important part of creating greater prosperity. People work hard, and they want to keep more of their own money. They are often better judges of how to spend their money than councils and Governments. It falls to a renewed Conservative party to take that message to every part of the country, implement that message in the forthcoming Budget and show that not only will we find more money for schools, hospitals and roads, which is needed, but we will also have some money for tax cuts.

Some tax cuts do pay for themselves because our rates are too high, and if we cut them to an affordable rate, people work harder, stay here, contribute more and are more enterprising, and we get more money in. Other tax cuts will reduce the revenue, so we need to grow the economy, and over the years it works because growth generates more jobs and higher incomes, and in comes more money.

To fulfil this new objective, the Government have rightly changed the basis on which the economy is going to be governed. We have gone away from state debt as a percentage of GDP, the iron rule that dominated the last dreadful years of the Labour Government—a period of collapse, when state debt got out of control—dominated the coalition period of recovery and dominated the Philip Hammond Conservative Government period, when he seemed to like that

particular proposition. Now we have a much more sensible idea, which is that we should of course be prudent—there is no magic money tree, and we cannot spend safely on the scale Labour recommended to the country—so what we are suggesting now as the golden rule is that any current expenditure must be covered out of taxation, but we can borrow up to 3% of GDP to put in those big new investments and the myriad smaller investments in broadband, rail, road, water and the other things where public money is needed as an adjunct to the substantial private investment that will in many places be going into those important developments.

This will make a lot of difference, because this Parliament needs to understand that there has been a very nasty world manufacturing recession over the last six months or so and there has been a worrying slowdown in the world economy over the last year. It began, as these things always do, with the central banks that get it wrong. It began with the tightening of the central bank in America, the Federal Reserve Board, in the third and fourth quarters of 2018. We could feel the shake on the world economy, and we saw what was happening to world markets. It spread to the eurozone, which stopped all its quantitative easing, although its economy was still very weak and could not really take that particular shock, and it came to the United Kingdom, where we had a very severe policy being pursued by the Bank of England. Very predictably—I remember warning about it some time ago—these changes in central bank policy did indeed slow the world economy.

Now things have changed, but they have not changed yet in the United Kingdom, so I urge the Prime Minister and the Chancellor to get the UK authorities into line with the analysis and the prescription of the world central banks outside the United Kingdom. What we have seen in the last six months is a very big move to cut interest rates worldwide by most of the major central banks not only in the advanced world, but even more dramatically in quite a number of the emerging market countries from Turkey to India and Brazil. We have seen cuts in the United States of America, and we have seen the reintroduction of quantitative easing—bond buying, created money—in the eurozone, because the eurozone economy has shuddered to a halt in some places. We have seen further developments in Japan, which carried on with quantitative easing and zero or negative interest rates throughout the difficult period, but it too needs to boost things rather more.

However, there has been no response in the United Kingdom. Indeed, only in the last few days the Bank of England has gone the other way. It has done a series of stress tests on the major banks, and I am delighted to say that our major banks passed with flying colours. The worst case in the stress test was very severe, but there were no problems for the banks, as the Bank of England reported. However, the Bank of England then said that the clearing banks had to double the counter-cyclical buffer of capital they keep. That is technical language. What does it mean? It means there is about £20 billion less available for mortgages, car loans, business expansion and new investment. That is what it means—a very fundamental monetary tightening. It happened at the same time that sterling went up about 10%—another very strong monetary tightening.

Money growth is eye-wateringly low in the United Kingdom, unlike in the

eurozone, and it is well below that in the United States of America. At exactly the point when we were doing this, the Federal Reserve Board, with 2%-plus growth in America, which we would love to have on this side of the Atlantic, was injecting billions—I think about \$150 billion was injected in a single month—into the money markets to keep things liquid so that the American consumer, car buyer, mortgage demander and small businesses would have access to the money they needed to continue the very successful American growth strategy. Let us ensure a growth strategy in which monetary policy does not stand too much on the brake.

There is also the issue of how the Treasury has been recalculating our obligations at official level. Around October, when it probably thought that we might be leaving the European Union—there was a chance of that at the time—it decided that the student loan system was costing us £12 billion a year more, although that system had not been accounted for in such a way up to that point. There were no changes to the student loan system, or to the experiences of those who could not repay their loans, yet the figures that we presented deteriorated sharply as a result of that decision. I do not think we should allow that to deviate from what I hope will be a positive Budget—probably at the end of next month, given the rumours I see in the press.

We need the Budget to provide that boost to growth. I think it is eminently affordable to have the increases that we promised and talked about in the general election regarding schools, hospitals and infrastructure, and also eminently affordable to have those promised tax cuts to business rates and national insurance. We would not need to offset that with other tax increases, because this economy desperately needs a boost.

In a world where some other Governments are boosting on the fiscal side, and practically every other country is boosting on the monetary side, in order to see off the threat of the world slowdown turning into something worse, it is important that the United Kingdom authorities do the same thing. I have every confidence in my right hon. Friend the Prime Minister, who I think is single-handedly turning around the mood with his message of confidence and enthusiasm for how we can do better. That will take some cash, however, and now is the time to spend a bit of that.

This country and its economy can achieve a lot more, so let us ensure that the new message of prosperity for the many and tax cuts for everyone is seen through. That is the way to bring most people in this country together, and honour the promises that many of us made in the general election. That will show that the country has made wise decisions up to this point, and that Brexit will not be damaging to our economy, but can be part of a positive move towards faster growth, better jobs, and more paid jobs, just as we have experienced in recent years and months.

---

# We need change at the Bank of England

I look forward to new leadership at the Bank of England. The current leadership allowed their independence to be tarnished by one sided interventions in the referendum. They compounded the error by making absurdly pessimistic forecasts of house prices, output and unemployment for the short term after any Leave vote. In this they followed in the long unfortunate tradition of the Bank in always recommending and supporting EU policies that were damaging. The Bank's worst error was recommending UK membership of the European Exchange Rate Mechanism in the 1980s which led to a slump and the long term defeat of the Conservative party which accepted the advice.

The new Governor should have to answer three basic questions about the task ahead:

- 1 Why is the Bank of England tightening money so markedly when all the other main Central Banks are loosening to stave off the world economic downturn?
2. What action should the Bank take to promote UK growth, given the bad slowdown now experienced?
3. When will the Bank think through the flattening of the Philips curve and the move from national to global capacity, issues which undermine the current basis of assessing interest rates?

I spoke about this yesterday in the Chamber. I did not have time to develop the issue of what the Bank should do to stimulate growth. Some say Central Banks have run out of options with rates so low and QE so large from past programmes. I do not agree. CBs have a huge range of instruments and options to boost activity.

They can cut rates, run Funding for lending programmes, operate LTROs, intervene in money markets, intervene in bond markets, use repo markets, issue new guidance, change banking ratios.

There are two basic ways of stimulating growth. One way is to expand the Central Bank's balance sheet by QE or money market interventions. The other is to expand commercial banks balance sheets by reducing capital ratios, relaxing lending controls or by open market operations.

---

## Queen's Speech

I am glad to read we will get Business rate cuts and cuts in NHS parking charges. These were both items I included in my Brexit bonus budget proposals and promised to support in the election.