[The need for a rethink by the Central Banks]

The Fed, the Bank of England and some other leading Central Banks set interest rates based on the idea that if unemployment falls too far there will be inflationary pressures on wages. This requires them to put up interest rates and deter more credit being advanced, to reduce the pressure of excess demand in the economy.

In the last century it was the case that the USA, UK and other leading economies were prone to wage inflation when potential demanded exceeded potential supply and when unemployment fell to a low level. The so called Phillips curve illustrated this trade off. Whilst there were monetarist economists who preferred a money based explanation of inflation, and other economists who pointed to the role of external shocks and commodity price trends in inflation, the mainstream view based on capacity and employment was bedded into the forecasts and intellectual framework for rate setting.

I have long queried the idea of national capacity linked only to employment in an increasingly global market. We have seen how economies capable of creating many jobs and expanding capacity invite in large amounts of migrant labour, as in the USA, UK and Germany, reducing the upwards pressures on wages. We have seen how the US and UK simply import a lot more goods and services when their domestic capacity is insufficient to meet demand, tapping into vast numbers of unemployed and underemployed people elsewhere in the world capable of doing the work. There is also the option of putting more capital to work with labour saving investment.

The Governor of the Bank of England has acknowledged this in a speech which said the Phillips curve is now very flat – in other words there is not much of an inflation threat from low official unemployment figures. The Fed has recently announced a major rethink of its approach, and has stated that in the USA now the curve is also fairly flat. In the USA employment rates are still low at a stated 60.6% of the working age population, and as the economy improves more people find work who were not registered as unemployed. There are also strong migrant flows into the country to take up new jobs. Low unemployment is not a good guide to wage growth.

So what is a better guide for a Central Bank seeking to set rates? I prefer them to consider money figures more, where the figures show too much tightness in the UK and a modest rate of expansion in the USA that should not lead to an unsustainable rise in inflation. Of course they need to listen to markets and watch the trends in output and prices generally as important guides as well. The markets saved us from too much tightening in the USA late last year. What will it take for the UK authorities to follow a more pro growth policy? Given the strict fiscal squeeze, there is an even better case for a looser money policy in the UK. The US is lightening up the money supply even though the government has embarked on a big fiscal relaxation as well.

UK law to delay our exit

The government is seeking to delay our exit until October 31 by a negative resolution Statutory Instrument. This is a law which they can make without needing Parliamentary approval first, subject only to a vote in Parliament after the event if Parliament insists on one. I have put my name to the list of those wanting this to be debated and voted on.

The Easter recess

My Parliamentary office will be open today and next week as usual, closing for Good Friday and Bank holiday Monday only for Easter.
I will be mainly in the constituency for the two week-ends and next week, and will provide my usual 7 day a week response service to constituents with emails and urgent problems.
I have made my views clear on how the UK should now proceed to leave the EU, and will write at greater length about that next week again.

Our local police service

Thames Valley police budget will be £420 million in 2019-20, an increase of £28.3 m or 7.3% on 2018-19. Some of this increase is needed to pay for the increased costs of police pensions.

The new budget will allow increased spending to improve call handling and responses to public reports. More officers will be recruited to give more visible presence in our local communities. More resource will be put into tackling fraud and cyber crime. Data handling and intelligence processing and transfer will also attract more cash.

The Police and Crime Commissioner has developed victim support, and runs a Community Safety fund to offer more money to tackle priority problems.

The Thames Valley force has been graded “Outstanding” in the Police efficiency, effectiveness and legitimacy review

The Fed eases policy

We are living through a world manufacturing recession. The Fed, Bank of England, Bank of China and the European Central Bank all tightened policy too much in the second half of last year. They spooked the markets and hit borrowing for investment. Several governments, led by the UK, hit their car markets hard with higher taxes, fewer car loans and an attack on diesels.

The Fed has now changed policy. It has ended its rate rises and slashed its Quantitative tightening programme. It has now announced a rethink of its whole approach to rate setting and balance sheet management.The ECB has been slow to respond, ending its Quantitative easing just in time for the industrial collapse. The Bank of China has set out new ways of getting credit into new sectors and ventures to offset the slowdown its balance sheet clean up of commercial banks has triggered. Only the Bank of England has failed to respond despite tightening substantially with its advice to reduce car loans and mortgages, and two rate rises from the low.

We should avoid a global advanced country general recession. Inflation remains very subdued with plenty of spare capacity and competitive forces. The Bank of England should be more attentive to the state of the real economy and get more into line with action being taken to avoid a downturn. The UK needs to end its attack on the car industry.