New fiscal rules?

I read that the Treasury is getting round to reconsidering their fiscal rules. That is a necessary and urgent task.

There are two key rules affecting the conduct of economic policy that are in place today that I think should continue.

The first is the 2% inflation target that is meant to guide Bank of England interest rate decisions. It also needs to guide the Treasury as they make decisions on levels of money creation and bond buying with the Bank of England, and as through fiscal policy they have a substantial impact on inflation.

The second is the debt interest rule, that the interest charges on government debt should not exceed 6% of revenues. They are under half that at the moment, thanks to very low interest rates and to Quantitative easing. This is a sensible target to continue, and could be toughened to 5% of revenues.

There are two rules over the deficit. The first is it should be brought back to balance on current spending within a three year horizon. This is a bizarre target, as the government/OBR hits it by forecasting favourable changes three years out which might never take place. The second is capital spending in the public sector should be limited to 3% of GDP. It has been running below this for some years. Capital spending levels should primarily be judged on prospective returns and ability to be self funding over time. Add these two targets together and we return to the Treasury's much loved Maastricht target of keeping the deficit down to 3%. The OBR/Treasury are also still wedded to the idea that state debt as a percentage of GDP should be brought down, so they encourage ministers to impose tax rises and spending cuts to get state debt as a proportion of GDP falling. This reflects the Maastricht requirement to get state debt down to 60% of GDP sometime.

It is high time we cancelled the Maastricht austerity targets. The Treasury still reports how we are doing against them as if we were still governed by the EU Treaty that made that necessary. Instead we should have a growth target. Like the Fed the Bank of England should have the twin targets of low inflation and faster growth. A growth target would stimulate more thought and action in government to raise living standards and follow policies that boost UK jobs, incomes and business. A suitable growth target would be to aim to return to 2.5% per annum growth from the more anaemic levels of this century under Maastricht austerity.

Letter to Michael Gove

Dear Michael

Congratulations on your new Cabinet appointment. Levelling up and the defence of the Union are two huge topics of great importance.

Levelling up is sometimes seen through the narrow focus of place. Attention is given to the built environment and the public service fabric. Of course providing capital to allow replacement school buildings or better hospitals can be an important decision for a local community. These can be necessary to show commitment to high quality pubic services with good working conditions for valued staff. Providing funds for a new community centre or a tram system will not in themselves transform the lives of the many people who live in the place though there may be a case for them.

What many voters want from levelling up is tangible improvement in their own lives. If there is a gap in public money between the more prosperous communities and the less so in our country, it is one where the lower income community receives more per head for its school places or its health provision than the higher income area. It is true that the more prosperous south and London does attract substantial capital for additional facilities and especially for transport, but that is because there is rapid population growth in these areas. London and the south attracts a disproportionate amount of the new private sector housing investment and in turn needs the roads, schools and surgeries to service the new estates.

I suggest that we need to pull together current and prospective policies around the theme of improving people's personal journeys through life. There need to be better pathways to owning your own home, to gaining a good education, to acquiring necessary qualifications, to working your way up to a better paid job, to setting up your own business, and to expanding a business to take on others as staff. The places that want to level up need to attract more housing investment to attract people with high qualifications or established entrepreneurial skills to help lead the local economic recovery. Policies to raise school standards for all, to expand vocational qualifications that enhance a person's earning power, to make it easier to set up and expand a business and which encourage buying British and buying local are all crucial to this task.

The vision of everyone an owner, with the chance to own a home, own their own business, own a share in a bigger business, have some savings for a rainy day should be our vision. It is still too hard for many people to get that better job, to get that qualification, to get that mortgage to get on the property ladder. I look forward to an opportunity to discuss these matters with you, and wish you well with this great task.

Yours

John Redwood

We need more electricity

When I woke up yesterday two thirds of the electrical power we needed was coming from fossil fuels. The wind was light so windfarms were producing little, and photovoltaic was also well down. In common with recent days some electricity was being generated from coal power stations, brought back into use to keep the lights on. The gas stations were much in demand. As I was penning this I learned that our foolish dependence on imports has been adversely affected by damage to the French interconnector leaving us even more short of power.

Over the last week as a whole fossil fuels provided more than half our electrical power, and over the last month 47%. Renewables have been down to 13-14% and coal has had to contribute. Low winds are very disruptive to our current and planned mix of energy. Gas continued to keep most of us warm at home when we needed heating.

We now have the official figures for the first quarter of 2021 compared to the same quarter the previous year. This shows a similar pattern to more recent events. We came to rely more on gas when as the official document states "due to colder weather and poor renewable output" demand for gas driven power surged. Electricity generation needed 17% more gas than in the prior year. We came to rely more on imports as a result, with Norway accounting for around half and LNG around one quarter. Lower wind speeds led to a 16% reduction in renewable generation in thee first quarter of the year.

It is a good thing that a unit at Drax, at West Burton and Ratcliffe on Soar are still available to supply electricity from coal in emergencies, though it would be better to make provision to avoid this. Unfortunately this entails importing coal, much of it from Russia, which is neither environmentally good nor strategically sound. It is a better thing that we still have good combined cycle gas stations with decent capacity as we rely crucially on them. It is a pity we rely more and more on imported gas, when maybe we should prospect for more in our own territory to cut down transport costs and reduce the strain on our balance of payments. It would also be the greener option. It is a pity the industry has got rid of the Rough Field which was an important gas store. We now operate with very levels of stocks, so our security of supply is poor.

The truth is we do not have enough domestic energy for our needs and are becoming far too dependent on imports. If we want an electric revolution the first task must be to put in a large increase in electrical capacity so the power will be there as and when the electric cars and heating systems take off as consumer items. If we want to be sure we can keep the lights on and the boilers keeping us warm it would also be a good idea to put in some additional generating capacity anyway, and to look at increasing domestic output of gas. It would also help to put in more gas storage against more cold winter days when the wind does not blow. The government needs to review all this, as the energy market is now complex mixture of subsidies, arranged prices and managed contracts where the regulator and government have a major role.

The first duty of government energy policy is to keep the lights on.

Better ventilation

I am pleased to report some progress with the idea that more can be done to extract air and to use UV filters to clean air to reduce the risk of infection transmission. The following has appeared in the latest government Covid 19 Plan:

"Ventilation

Due to the importance of fresh air in limiting the spread of COVID-19, the Government will set out in guidance the practical steps everyone can take to maximise fresh air in order to reduce the risk of airborne transmission, taking into account the colder months when more activities take place indoors.

The Government will support improved ventilation in key settings by:

- a. Providing further advice and support to businesses to help them check their ventilation levels and introduce Carbon Dioxide (CO_2) monitoring where appropriate.
- b. Conducting further scientific research to assess ventilation levels in a range of business settings.
- c. Investing £25 million in c.300,000 CO_2 monitors for schools.
- d. Improving the management of ventilation across the public sector estate alongside bespoke guidance to maximise the effectiveness of existing mechanical and natural ventilation. This has included deploying CO_2 monitors in courts as well as targeted rollouts and trials of these monitors in other settings.
- e. Continuing to support and promote pilots of how to limit transmission through ventilation or air purification, such as the trials of high-efficiency particulate absorbing filters and ultraviolet-C air cleaners in 30 Bradford schools, as well as working with stakeholders such as the Rail Delivery Group and Rail Safety and Standards Board to trial the use of upgraded air filtration devices on passenger rail stock."

[My contributions to the debate on the Health and Social Care Levy Bill]

Sir John Redwood (Wokingham) (Con): I support my hon. Friend the Member for Basildon and Billericay (Mr Baron), although I will not press the matter to a Division either; I understand that the Government have a sense of urgency.

I think we need three debates, not one. First, we need a debate about how an extra £10 billion or £12 billion would make a big difference to waiting lists in the NHS; I would like to know the plan for that. Secondly, we need a debate about how we transition the money from health to social care and about what the social care plan looks like. Thirdly, we need an economic policy debate about whether we actually need to raise £12 billion in tax and, if so, whether this is the right tax to raise it with.

I urge the Government, in their own interest, to unpackage all that, at least in their own remarks, and understand that we need to see the cases for their propositions. If I go to a shop, I do not present it with some money and go away being told that in a month's time I will get a brochure about what I might have bought; I expect to get the goods. Call me old-fashioned, but I would like to see what the goods will be. Would I like waiting lists down? You bet. Would I like people in my constituency to have access to better public social care? You bet, but I want to know that I will get that, and I want to know why the Government think that they need a tax.

Does my hon. Friend share my surprise that the Treasury can be precise in saying that it needs £12 billion from a new tax when it overstated the budget deficit by £90 billion last year, which shows that it does not have a clue about how much money will come in anyway?

Mr Marcus Fysh (Yeovil) (Con): My right hon. Friend makes a good point.

Yes, it would have been great to have had more detailed context of where we can get to in this economic recovery so that we could know where we were in terms of revenue before we make such momentous changes that affect the aspirations and potential of so many people within the economy. We also need to look at whether this measure will increase costs and cost pressures within the system that we are trying to help.

Sir John Redwood: I urge the Government to think again about the health plans. On the Treasury figures, this year the health budget in the public sector overall is £230 billion—£64 billion higher than the 2019-20 budget pre-pandemic. I understand that there were lots of one-off and special costs in setting up and dealing with procedures for tackling the pandemic, and I, like everybody else, am very grateful for the work that went in from health staff and experts. But that cost will drop away, so what happens to that money when it is no longer pre-empted by the special costs of the pandemic, and can it not be applied?

I hope the Government will listen to the Chairman of the Health Committee, my right hon. Friend the Member for South West Surrey (Jeremy Hunt), about the need for a manpower plan, because if we wish to clear the backlogs it is quite obvious that more nurses and doctors are going to have to carry out more treatments and procedures. Some of that will be possible through reallocation and improved working of the staff we already have, but a lot of it will require additional recruitment.

I am also very worried about the lack of a detailed social care plan, particularly for my own area of Wokingham. We have a large number of self-payers at the moment. How could I be sure that if we went for this levy scheme, which is still not properly detailed, sufficient money would come from it to a local authority like Wokingham, already under enormous pressure on its social care budget?

I am very suspicious of hypothecated levies. It is particularly dangerous to hypothecate a levy that is a tiny fraction of the budget one is trying to improve. That will give some people the misleading impression that the social care levy will pay for social care, whereas, on the numbers, the levy would be able to match under one fifth of the total public social care budget.

Pitted against the huge numbers for the NHS and wider public health budget, that is just over 4% of the total, so it is a very insignificant amount in relation to the huge sums we are already talking about for the health budgets. However, it is a big sum of money when it is broken down and becomes a tax burden on people on quite modest incomes and those struggling in self-employment or trying to get their little businesses going. The last thing they need, when we need rapid growth and a faster recovery, is a tax rise.

The economy does not need sandbagging with austerity economics; it needs promoting for faster growth. It is still below the levels of output before the pandemic hit. Up until this point, the Treasury has been magnificent in making an avalanche of money available to get us through a most difficult time. We have got away with it. It has been borrowed at very close to zero interest. In these unique circumstances, it was possible to take extraordinary monetary measures that one would not normally be able to rely on and would not want to, and I am very grateful that that was done.

I say to the Government: it is too soon to start braking the economy.

The growth rate almost disappeared in the last month. I am hoping it is going to look a bit better in the next month or two when we get more opening. But before the economy is completely opened up, and people have stabilised their businesses and repaired some of the balance sheet damage that the pandemic measures did, is not the right time to take money off them. We need more spending power, not less; more demand, not less.

If the Government back that, the revenues will come tumbling in to a much greater extent than if we put rates up. Do they not understand that they were £90 billion wrong last year because there was more recovery than expected? They are already £26 billion under this year because there was a fast recovery in the first few months. Do not kill the recovery and you will get the money.