

My contribution to the debate on the Economy, 8 July 2020

Sir John Redwood (Wokingham) (Con): I have declared my business interests in the Register.

We need a job-rich recovery. I therefore strongly welcome the measures that the Chancellor has announced today. Some of those measures will save jobs. Some of those measures will create or stimulate new jobs. The Government are right to worry that we have lost too many jobs already over the closures and they are right to worry that we might lose more in the days ahead. They are right to make the changes they are making to the furlough scheme, to encourage as many of those jobs as possible to return, and they are also right to say that we cannot carry on with a furlough scheme indefinitely; there has to be a test of whether there is still a job there. If we roll it on for too long, there will be no real job left, and it becomes just a different kind of benefit, delaying the time when that person can retrain or find a better prospect for their work.□

What do we need to extend this jobs recovery? First, we need plenty of money and credit around, so that it is available for the business to pick up and the incomes to rise. The new Governor is a welcome breath of fresh air. As I have mentioned before, the previous Governor went in for extreme austerity, which slowed the economy needlessly. The new Governor has corrected for that and made a very big boost at the beginning of this crisis, which has been extremely helpful. I see no need for the Bank to go to negative interest rates. I do not think the Swedish experiment with them was particularly helpful, and the Swiss experiment is specific to the pressure on the Swiss franc, which we do not have on the pound. I do not think we need to go to negative interest rates, but I would say that the Bank is in danger now of going rather slowly on the quantitative easing and loosening. We see that in some of the figures coming out.

If we compare our figures with those of the United States of America and the Fed, we see that the Fed is doing twice as much or more than the Bank of England, proportionate to the size of the economy. Some might think that perhaps the Fed is doing a little bit too much and the US might end up with some inflation, but we are in danger of not doing enough again, and I hope that progress will be made in getting the right adjustments.

Sir Edward Davey (Kingston and Surbiton) (LD): Does the right hon. Gentleman agree that while it is right that the Bank of England is doing quantitative easing, how that money is spent ought to have more democratic input? That money could be used for the sorts of investment we need now for jobs and tackling climate change.

John Redwood: The money is used to maintain the price of Government bonds so that the Government can borrow on very low interest rates as much money as they want. Investments are therefore determined by this House and the

Government, so I cannot quite understand what point the right hon. Gentleman is making.

The Government are right to borrow a lot of money for six months or so, to get us through the crisis and to speed the recovery, but it has to be a one-off. We cannot live like that. One needs to earn a living, but this is a one-off crisis. The markets are such and the Bank of England's intervention is such that the Government can borrow a lot of money very cheaply and quite long term. That is the best we can do, and it is the right thing to do to try to save jobs and create new jobs.

This week, we have had the summer forecasts from the European Union for the economies of the European Union, and it has still done a UK forecast. It is worrying, because the forecasts say that the French, Italian and Spanish economies will lose more than 11% of their economic output and income this year. They say Britain will be in high single figures—a bit better than those three—although not as good as Germany, which has come through it the best so far.

However, the figures are not acceptable, and most people feel that the United States figures will be considerably better, because the US response to this crisis has been on a far bigger scale, both fiscally and in terms of monetary policy, than the European response. The UK needs to be closer to the American example in this case, because this very severe hit to major economies requires something very big to try to carry them through and rescue those jobs.□

I hope that the Government will look at the opportunities for sourcing more in the United Kingdom through its purchasing programmes as we leave the European Union. I am all in favour of strong competition, value for money and good pricing, but I think we have had examples of our not having enough national resilience. We found that we could not buy the things abroad that we needed for our health service, because we were relying on others' goodwill and they needed it for themselves.

We are finding that buying things from China comes with all kinds of difficulties. We will find, if we go down the route of importing more and more electricity, that we have strategic weakness in depending on Russian gas, which is the main source of continental energy. I urge the Government to use their purchasing intelligently to give us resilience and more British jobs. Value for money and competition are good, but let us make sure that the purchasing goes to home purposes, just as they do in other countries abroad, where they look after themselves first.

A sensible package

The Chancellor yesterday set out how he intends to wind down the furlough

scheme whilst encouraging employers to keep those employees and to restore their work. He also made some proposals to boost tourism and hospitality business, and to assist more young people into the workforce. I will post my short speech in the House on the economy later this morning.

This is your opportunity to comment on the current state of the recovery and government plans to stimulate it.

My question during the Urgent Question on Coronavirus, 7 July 2020

John Redwood (Wokingham) (Con): Could the Secretary of State remind us how big an increase in intensive care capacity there has been for the health service? That increase is a great achievement. Were the unthinkable to happen and there was another surge in the virus, could we have isolation hospitals that dealt with that so that the rest of the hospitals and surgeries could carry on with their other work?

The Secretary of State for Health and Social Care (Matt Hancock): Yes. We have doubled the intensive care capacity, which, alongside the Nightingale, has been a remarkable achievement of the NHS. There are now green and blue areas in hospitals, or whole hospitals, depending on the geography—in a rural area, we could not make a whole hospital covid-secure or covid-free, because it would have to serve both covid and non-covid patients. That separation of the NHS into blue and green areas is an important part of their being able to reduce the impact of infection control procedures, which are obviously having a big impact on the provision of services.

The state of the car industry

June saw car showrooms re open and some sales take place. Some dealerships reported brisk trade and pent up demand. We now know the overall result. June sales were 35% down on June 2019, and year to date sales are now down by just under one half.

Some of you write in and point out many people cannot afford a new car. Others tell me it is silly to buy one, given the costs and the early depreciation. I continue to research and write about the car industry because it has figured prominently in UK debates about manufacturing, tariffs and trade. It is a modern political paradox or contradiction. The MPs who are

keenest on green policies are also often those who worry about the state of our car industry, not seeing that it is green policies which have done most to undermine traditional car manufacturing.

There are several reasons for the collapse of car output and demand. Of course the main one is the lock down period and the impact of anti virus policies. There are however underlying trends and policies that were weakening car output well before covid 19 hit. The high VED put people off buying new. Tax and regulatory attacks on diesels cut buying interest in these cars., These were the vehicles the EU and UK governments had urged the industry to specialise in when they saw diesels as more environmentally friendly than petrol cars. The Bank of England under Mr Carney also tightened credit conditions for car loans. Readers of this blog read my forecasts of decline at the time of the new measures.

There is this central muddle in UK car industry policy. The government seems to want a major car industry, yet still dislikes its main products. It wants a very different car industry. The danger is its recourse to higher taxes and more regulations puts people off existing products without bringing them to buy the products the government wants to see. The industry is caught spending money closing down the old before its time, and spending even more money on the new before there is mass demand. The virus just got in the way and blew a crater in the sales figures.

A V shaped recovery?

Andy Haldane at the Bank of England is an optimist thinking we will experience a quick V shaped recovery. A V shaped recovery implies that the output and incomes we lost in the three months of downturn will be replaced in the following three months. One side of the V, the fall, should be balanced by the other, the recovery.

This requires very fast rates of growth in jobs, output and incomes. If we take the overall downturn as 20% then you need a 25% recovery to get back to where you were. For those badly affected sectors that suffered a halving of their turnover, they need 100% growth from the bottom to recover fully. With car sales down 99% at worst, they need to recover by 10,000% to get back to the start.

There will be fast rates of growth for the sectors coming out of lockdown. It is curious the so called PMIs, the surveys of orders and output undertaken month by month, are not stronger than they are. They are meant to measure the rate of change from the previous month, so where that was very depressed you would expect a very fast rate of growth to recover. Maybe people filling in the forms have allowed general mood to influence their replies, and have not allowed enough for recovery.

The problem is many of the worst affected sectors will not get back anytime soon to where they were, because social distancing and changed patterns of work and leisure behaviour means less business for them. Some entertainment and sports venues will remain closed to audiences for the rest of the year. Some shops will not re-open. Some bars and restaurants will have to accept far fewer customers to allow social distancing.

It is true some businesses will record growth taking them above the levels of January. On line everything will be doing more. Some things will benefit from a rush of sales as people catch up with delayed haircuts or postponed home and car buying. This is unlikely to be sufficient to make up for the weakened areas this year, so I fear we will end the year lower than we began. Full Recovery will take longer.