The Bank of England wobbles

Members of the Monetary Policy Committee are now telling us that maybe they should cut interest rates after all. Having watched as their tight money policies predictably slow the economy, they now express surprise at what they have done and seek some change of tack.

I am not proposing a 25 bp rate cut. I would urge them to look at the substantial tightening their Bank has undertaken through changes to the capital buffers, tough guidance on lending and the cessation of the Funding for Lending scheme. There is practically no money growth in the UK, implying continued slow performance from the economy.

Meanwhile the reintroduction of Quantitative Easing by the ECB has led to a spurt of money growth which probably heralds some pick up in the economy later this year. The Fed has stimulated a sharp rise in money growth in the USA which probably means a decent recovery for an economy still growing faster than the other advanced countries as the year advances.

Why has it taken the Bank so long to notice the obvious? Why are they still so out of line with all the other major Central Banks of the world? This institution got the ERM comprehensively wrong, the banking crisis and great recession hopelessly wrong and now is getting the world slowdown wrong.

Spending money with reform

Some write in to tell me increased spending needs to be accompanied by reform to ensure better quality and efficiency in delivery of the services provided. I agree.

Let’s take the case of schools spending. The government is promoting Free Schools. They have greater freedoms over the curriculum, teacher recruitment and rewards, and management. They can vary the school day and the length of terms. They receive their money direct from central government, removing the Council’s involvement and costs. 30% of these schools are rated outstanding, compared to a 20% level for all schools.

The government plans to drive forward its schools reforms, encouraging more free schools and ensuring more of the money available in the education budget gets to the schools where a Local Education Authority is still involved.

I wonder what is the point of Local Enterprise partnerships. They involve themselves in parts of the transport and training budgets in particular, but there is overlap with Councils who make local transport decisions and central government responsible for the national networks. There is an argument for having just two levels of decision making an budgets, under elected supervision, at central and local government levels.

The costs of government can be reduced. The preparations for Brexit can be achieved more cheaply. We need no more wasteful preparations for Brexits that Parliament blocks nor over the top preparations for eventualities that are not going to take place. Whitehall was gripped with unrealistic pessimism which cost us needless spending.

Government should stop borrowings by Councils that want to acquire portfolios of commercial properties that they buy off the private sector outside their areas. We do not need Councils to become portfolio investors, often buying shops the private sector thinks will fall in value. There may be a case for Councils being involved in new property development investments in their own area, but again there need to be controls over the extent and the wisdom of the investment.

Budgets for Wokingham and West Berkshire schools

We now know the sums per pupil for each of our local schools for 2020-21.

The secondary schools all receive an average increase of 4.8%, well ahead of inflation, as they need. It takes them all to £5000 per pupil or higher, with the exception of Bohunt. As the Secretary of State has promised that all schools would receive the minimum of £5000 I am querying this figure.

Controlling spending

The new fiscal rules require the government to only spend what it collects in taxes, with the exception of capital investment. Given the increases promised for schools, the NHS and the police, this means that the government does need to be careful with its spending. If it has other priorities for additional money, it will need to improve the efficiency of the spend elsewhere or identify programmes that are no longer needed.

It is anyway necessary to regularly review spending and to challenge public sector managers over how well it is being spent. Today I invite contributors to send in their best ideas for things that could be cancelled or trimmed from the present large budgets.

My own list includes some large items. I would cancel HS2, and spend some of the savings on more immediate and necessary improvements on rail routes into cities and towns, especially in the North and Midlands. London is currently receiving money for Crossrail and for tube improvements.

I would transfer some of the money required to be spent on Overseas Aid to housing, NHS capital and new school provision to represent the first year costs of refugees and economic migrants who need homes, access to surgeries and school places for their children. These are allowable costs under the overseas aid definitions.

I would toughen and spell out the terms of any future payments to the EU, as we do not wish to be paying more to them once we have properly left at the end of this year. The EU will have benefitted from an additional 21 months of our budget contributions thanks to the delays imposed on our exit by the last Parliament anyway.

I would promote faster growth in the ways set out on this blog, which will reduce the numbers out of work and so lower the benefit bills for a good reason.

UK economy slowed too much by domestic policy

As forecast here the latest figures for GDP growth show that the combined fiscal and monetary squeeze administered by Mr Hammond and the Bank of England have had their predicted effect. The economy has not been growing for the last quarter and the overall annual growth rate has tumbled towards German and Italian levels.

The USA is still growing considerably faster thanks to big tax cuts, a fiscal stimulus and active encouragement of growth and sensible lending by the Fed, their central bank. Never has UK policy been so much at variance with global policy as today, with the rest of the world's central banks fighting recession and the UK one fostering slowdown.

The delay in the budget until March means the cavalry of some fiscal stimulus does not arrive until April. Meanwhile some Monetary Policy Committee members openly muse about a quarter point cut in interest rates, though with no great sense of urgency. What the Bank should be doing is renewing its old scheme for Funding for lending, reversing its most recent decision about capital buffers for commercial banks, and changing its advice on lending for home and car purchase and for small business lending where there is adequate income and capital cover for the loans.

The Treasury needs to lift the IR35 tax changes which are damaging small contractors. All branches of government need to engage with the need for faster growth and join the international consensus that we need to fight slowdown now.