

# Central Banks fight recession- where is the Bank of England?

The Bank of Japan has promised “ample liquidity” whilst the US Fed says “We will use our tools and act as appropriately to support the economy” .

---

## Relations with the civil service

The theory is straightforward. Ministers decide on policies they wish to see implemented, or identify problems that need government solutions. Civil servants advise on the best ways of implementing a policy or solving a problem. Ministers decide between these options and civil servants get on, implement and administer the policy.

Civil servants can refuse to implement only if the Minister is wanting to do something illegal or contrary to the agreed view of the government. They are not meant to let their own personal preferences and political views get in the way of carrying out a governing party Manifesto or the agreed wishes of the Cabinet or of a Minister with devolved power.

It is further agreed that only Ministers speak to the public and Parliament to explain and defend the policies and actions of the government, with the exceptions that civil servants may be employed as spokesmen and women to put across the agreed government policy in off the record briefings or occasionally as nominated experts on the record. Ministers do not reveal what advice they were given and civil servants do not brief out their views on the advice and on how the Minister took the decision.

This system sometimes breaks down. Ministers can let fly about civil servants and civil servants can brief against Ministers. Throughout our period in the EU our membership of the EU has created a substantial tension between Ministers wanting to govern the country and a civil service keen to maximise the constraints the EU imposes on self government.

The civil service as a whole admires the EU and likes the behind closed doors approach to legislating. Ministers are often told they cannot carry out their promises or meet the wishes of many UK voters because to do so would violate some EU Directive or regulation or Treaty requirement. When I was a Minister and since the civil service preferred method of dealing with the EU is to find out what it wants to do next and tell Ministers they should welcome it or go along with it.

The current rows between Ministers and officials are related to the wish of the majority of the public to “take back control”. The paradox is the civil

service does not wish to do this, but has used every opportunity in the last three and half years to try to recreate many features of current EU governance once we have “left”. Instead of preparing us for the opportunities of exit they have run a Remain based Project Fear machine. We have seen the results in some published statements and reviews, and in leaks. Much of it is shoddy and alarmist, unrelated to the reality of what is likely to happen.

So we have the Home Office trying to dilute the borders policy to recreate free movement of people. We have the Treasury trying to bake Maastricht debt controls, the austerity policy, back into a domestic version. We have some in the Environment Department trying to perpetuate EU fishing and farming policies. We have some Defence and Foreign office officials wanting to bind the UK into common defence procurement and more common operations with EU forces to make a European army more feasible. We have Trade and FCO officials not wanting a US trade deal for fear of it annoying the EU.

It is this culture of EU best and EU first that some good Ministers are trying to change. Expect more sparks to fly. I know which side I am on.

---

## [The need for new thinking at the Treasury and Bank](#)

I have written many times before about the way the UK economic establishment has been wedded to the EU rule that we must bring state debt down to 60% of GDP. This has been the main constraint and guide on economic policy for the last decade. We need instead a new central aim of promoting faster economic growth whilst keeping inflation low.

I have also drawn attention to the Establishment’s unhelpful use of two pieces of economic theory, the Phillips curve and the Laffer curve. The Phillips curve which says inflation rises when unemployment falls has not been adjusted for the global economy we live in, failing to understand how inflation has been kept down by large inward movements of low wage labour and by importing substantial quantities of cheaper goods and services. As a result money policy has been tighter than needed.

The Treasury used to deny the Laffer curve, which states that if you raise a tax rate above an optimum level revenue falls. Now they accept the theory but choose to assume the optimum rate is much higher than experience tells us it is. As a result they have had bad shortfalls on taxes like Stamp Duty and have failed to maximise tax on higher incomes.

Since the 2016 referendum the Establishment wrongly forecast an immediate recession, and then has gone on and on about an alleged hit were we to leave without a trade deal. Meanwhile they have continued to tighten the fiscal policy of the UK and keep money tight , which has predictably slowed our

performance whilst still in the EU single market.

The government has added to the difficulties by successive Chancellors making a tax raid on property through higher Stamp duties, and on new car purchase through higher VED. This has predictably hit both the housing and car markets, the two largest purchases people make.

It is time to relax policy to promote growth, and to set tax rates that allow enterprise and activity to flourish. The external shock of the virus means the case for tax cuts is even more urgent now. There is both a demand and a supply shock. Tax cuts can help a bit on the demand side. Lower interest rates are less useful. We are getting lower rates for government borrowing anyway.

---

## Visit to Royal Berkshire Hospital

I visited Royal berks recently and held a meeting with the Chief Executive.

I asked him about Coronavirus preparations, where he confirmed the need for people to self isolate and ring 111. There are contingency plans for those needing treatment.

We also discussed the preparation of a business plan for the development of the hospital, as it is listed as hospital for potential substantial capital investment.

---

## Coronavirus

This blog raises some questions and seeks your thoughts. Contrary to the assertions of a couple of my recent correspondents I do not have a view of what is the right course of action for the UK authorities to take, and this piece does not offer a solution to the problems posed.

Let's begin with the way the government is proposing to handle this. Chris Whitty, England's Chief Medical Officer is an epidemiologist who has studied contagious diseases. He will lead for the government in keeping us informed of how many cases there are, what the current state of knowledge is concerning the virus and its transmission, and progress with diagnosis, testing and a possible vaccination in due course. He will also give advice on how government and private sector should respond to contain and defeat the virus.

Most of us who are not medical experts will listen carefully to him. I have also taken advice from two doctors so far on this issue, and have talked to my local NHS General Hospital about their response.

To yesterday Chris Whitty has reported 19 cases in the UK, all thought to have been caught outside the UK. The latest four come from Italy, Tenerife and Iran, showing the spread of the disease worldwide.

The Secretary of State will announce governmental decisions based on the advice, and will be responsible for informing Parliament, passing any necessary legislation and ensuring the NHS has the resources needed for its role. The Chief Executives of the NHS in England and the devolved Administrations will be responsible for planning for contingencies, providing sufficient capacity for patients, and balancing resources should numbers escalate substantially.

Whilst the politicians will lean heavily on the professional advice, they ultimately will have to make crucial and difficult judgements. As Chris Whitty has said recently, a policy like closing all schools or cancelling lots of sporting events and entertainments might be needed, but they do not yet know they would be a good idea. As the CMO said "We do not know yet. We need to find that out. ... How likely are they to work? What's the evidence? What's the cost?"

The problem for both the experts and the politicians is that they do not know enough about the virus. Will higher temperatures kill it off as they do many flu strains? How long does it rest in someone without symptoms, and how catching is it from that person? Is it true it little affects young people? Can we believe the Chinese numbers implying they are gradually getting in control of it in Wuhan at the centre of its genesis? Is the death rate the same or lower than conventional flu, or is it worse?

Current advice is to self isolate and to ring 111. It is also to wash hands thoroughly and frequently as a likely route for infection. Are there additional measures which could usefully be taken to try to prevent further transmission?

How far should a free society go in banning flights from affected locations or requiring people who may have been in contact to be isolated for 14 days?

Current policy also hinges on tracking contacts of anyone confirmed as having the virus. What happens when someone with it has been on the tube or attended a football match?

All this shows that the response is a matter of judgement. Currently governments and experts seem to be relying to a considerable degree on the World Health Organisation, who are spreading information and helping co-ordinate work on this infection. I wish them all well in researching it more thoroughly so we do know exactly how it is transmitted, and can produce a vaccination to ward it off.

Meanwhile the government will also need to weigh the practical consequences

of any advice or regulations they bring in. Closing all schools means many parents having to stay at home to look after children. Imposing more movement restrictions and flight cancellations has an economic cost. If safety clearly requires it then it should be done, but Chris Whitty's questions about efficacy and cost need answering before any such decision. There is also the issue of fairness related to efficacy. Is banning a play or sporting event fair if we are not banning conferences or demonstrations? Parliament itself could be a good way to spread the virus but presumably we wish to keep it meeting.