

The Fed rethinks – what about the Bank of England



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The Fed realised late last year it was raising rates too much and tightening the money supply too severely. It backed off and announced a re think. It is currently working its way through how it can change its approach and make it friendlier to economic growth.

The Bank of England needs to do the same., It has been tightening too much for the last two years. Like the Fed, it relies on out of date theory based around the concept of national capacity. It thinks it knows what national capacity is, and argues that there will be inflation when we reach close to that capacity. For an open economy like the UK it is an odd way of thinking about it. We import goods and services and we import labour so our capacity is not constrained by UK resources, whilst world products, services and labour keep prices and wages down as a result of global competitive pressures.

The Bank seems to want to prove a point about its errant pessimistic forecasts over Brexit. It should listen to what the Fed is saying, and back off from its current over tightening. The UK economy needs a bit more Bank flexibility at a time of slowing world growth and little inflationary pressure. They need to revise their views on how to settle interest rates, in line with the Governor's lecture explaining how the Phillips curve was now flat . Given this there is little need to raise rates as unemployment falls unless there are other signs of overheating or too much credit.

Flood risks

The Environment Agency have contacted me to say they are keeping the Emm, Loddon and other water courses under careful review for flood risk. From time to time they issue flood alerts which they tell me are available on the Environment Agency pages of the Gov.uk website.

Speech at 40th anniversary conference on Margaret Thatcher

I spoke on Saturday at the Anniversary Conference at the Thatcher Centre, Somerville College Oxford.

I spoke about wider ownership policies, about the poor economic background to the start of her premierships and about the impact difference on European policy had on her period in office. I am asking for a copy of the video of the speech to be available here for those interested.

Carbon dioxide levels keep rising



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The more the UK cuts emissions of CO₂ the more the rest of the world increases them. Someone sent me the 2018 latest figures from the BP Energy Review. Since 2010 world CO₂ emissions are up 9% whilst the UK has been cutting. Last year there was a 2% global rise, with only the UK and Europe down. The increases were led by China, India and the rest of the world excluding the USA and Europe.

China still uses coal for more than half her energy demands, whilst the UK has eliminated coal in its generation mix. Last year an additional 280 million barrels of oil equivalent of gas, oil and coal was consumed, compared to just 100 m barrel equivalent increase in non carbon renewables and nuclear. Renewables now account for just 4% of world energy, with hydro and nuclear 11%, whilst coal represents 27% and oil and gas 54%.

Those who see rising carbon dioxide as a major threat need to answer the simple question what are they going to do about the huge increases in fossil fuel use outside the UK and Europe. The figures show even if the UK succeeded in eliminating net carbon usage world use and output of CO₂ would continue upwards with no visible impact of the UK on the world graph. It will

take major changes of behaviour and investment in China, India and the other large carbon users to shift the numbers in the way climate campaigners want.

A parallel currency?

The Economic Adviser to the Lega party, the larger of the two governing coalition partners in Italy, has come up with a scheme for mini BOTs or low denomination Treasury Bills. The Italian Parliament recently passed a motion in favour, though this is not binding and the Treasury is not yet printing and issuing these bonds.

The Italian state like others issues Treasury Bills to institutional investors. These are usually short term loans to help finance public spending. They can be traded against their electronic certificates.

This new scheme is to issue so called Treasury Bills or bonds with no repayment date and no rate of interest payable. They would be issued with physical certificates or notes in 10, 20, 50 etc Euro denominations. Individuals could pay tax bills with them, or buy any goods or services from the state like petrol from a state owned filling station.

The European Central Bank has been asked about this. They have said if this is a parallel currency it is under the rules of the Euro scheme illegal. If these are debt instruments they have to be under the overall budget deficit and borrowing controls that apply in a single currency.

The mini BOTs look much like banknotes and would give the Italian state the effective right to print a money substitute to get round some of the controls on their economy from the Euro scheme. It is a provocative idea. So far they have put the idea into circulation but not the notes. If they did start to issue them it would be a major challenge to the Euro.