

# My Intervention on the Charter for Budget Responsibility Debate

John Redwood  
(Wokingham) (Con)

My right hon. Friend the Member for North West Hampshire (Kit Malthouse) makes some powerful points. He is right that if we cut certain tax rates, we collect more revenue, not less. The historical evidence is very clear on that, but OBR and Treasury models do not capture that. He is right that if we try to guide our economy by a debt-to-GDP ratio and we go into recession, the ratio gets worse. We are then advised to take exactly the wrong action, and intensify the downturn by trying to chase the ratio with tax rises that will push the economy lower; it is an extremely foolish thing to do.

My right hon. Friend is right that the Treasury needs its own independent forecasting, and needs to be able to say sometimes that the independent OBR forecast may be wrong. If it is genuinely independent, why should the Chancellor have to defend it? When it is as wrong as it has been at points in the last three years—for example, as wrong as it was on the deficit—it would be extremely helpful if the Chancellor was encouraged to disagree with it, because it is sending him exactly the wrong signals. For two years running, it grossly exaggerated the deficit and debt at a time when we could have done more to promote growth. This year, predictably—indeed, I did again predict it—it got it wrong; it understated what would happen, because it did not understand that its other policies would slow the economy so much. My right hon. Friend is right about the longer-term issues, but time does not permit me to go into that, as people apparently want to go home this evening.

On the control framework, I will be the one person who says that I do not think that this control framework is good. It clearly has not worked in the past, and it is fairly unlikely to work in the future. We have one extremely important control, which is not mentioned in this document: the 2% inflation target. That should be even stronger and better enforced. It is very worrying that the Bank of England, which seems to have the main responsibility for it, allowed inflation to reach over 10% when it had a clear target of 2%. It would not listen to those of us who said that if it carries on printing too much money and buying too many bonds at ever higher prices, it is very likely to have inflation. I hope that it does not cause the reverse problem, and put everything into reverse, giving us a bigger recession than we need. We do not want any recession at all, but clearly a slowdown was needed to correct the extra inflation as the Bank tried to correct its past mistakes.

It would be good to complement the 2% inflation target, which should apply to the Government as well as to the Bank of England, with a 2% growth target. We would then have the balanced model that the Federal Reserve is wisely given by our American friends and colleagues. The Fed is told both that it must keep inflation to around 2% as a priority, and that it must maximise employment in doing so. A balanced mandate of 2% inflation—it would be nice

if we could do 2% growth, but the current official forecasts are way below that—would provide the right kind of signals, and give us more chance of a sensible economic policy.

This is our one chance to remind ourselves of the big issue of how we manage this enormous debt, bearing in mind that about a third of state debt is owned in accounts by the Bank of England, which means that it is owned by the taxpayers and by the Government. When I last looked, the Bank of England was 100% owned by taxpayers and the Government. Every pound of that debt that was bought up, was bought up on the signature of Labour, coalition and Conservative Chancellors, with this House agreeing that we would indemnify the Bank against all losses. Indeed, the Bank of England understandably put on its website that the whole of the bond portfolio is held with it acting as an agent for the state. These are joint control decisions, and the Government are clearly the senior partner, because they have to pay the bills.

It is quite wrong that we should have this uniquely difficult treatment when it comes to handling the rundown and the losses, when the European Central Bank and the Fed made exactly the same mistake of buying too many expensive bonds. There is a lot to be said for the ECB idea that the rundown should take place as the bonds naturally repay. One does not go charging into the market to undermine one's own bond prices by selling even more of them at a loss. If we want to be ultra-tough on money, like the Fed—it probably has more of an inflation problem than we did—then if we sell the bonds into the market, why send the bill to the taxpayer? Why does the bill not rest with the central bank, which can actually stand that kind of thing? As the Fed constantly points out, the fact that it is sitting on a lot of losses does not matter, because it can always print dollars to pay its bills—it is not like a normal company. We should look again at this particularly hairshirt treatment, whereby the Bank of England expects taxpayers to send it money every time it sells a bond at a loss—and it wants to sell a lot of bonds at a loss, when there is probably no need to do so for the sake of the conduct of monetary policy.

I hope that the Government look again at those issues, because we have a very difficult nexus between decisions taken jointly, decisions taken by the Government, and decisions taken by the Bank of England. The treatment of this debt is having a big impact on the Budget judgments that the Chancellor comes to.

My final point is on the strange treatment of debt interest. As the Minister pointed out, the debt interest programme has shot through the roof to extremely high levels, but the bulk of that is, of course, the indexation provisions on the index debt, which in the UK is a rather high proportion of the total debt. None of that requires cash payments, so it is not a bill that we have to pay today. In practice, it will wash through by our simply rolling over the debt when the bonds fall due. We will re-borrow the real amount rather than the nominal amount, so we will not actually feel it. It is very odd that we put that as a cost against the accounts. The great news, however, is that as a result of that strange accounting treatment, we will have a great bonanza, apparently, because I think the forecasts are right, and that inflation will come down quite sharply over the next two years—indeed, the

Bank of England thinks it will go well below 2%. The debt interest programme will absolutely disappear through the floor, given all this so-called debt interest throwing out the figures. I hope some of the proceeds will be used for a sensible policy to promote growth.

8.29pm

John Glen

It is a privilege to close this debate on behalf of the Government. I thank those who contributed to the debate, including the distinguished Chair of the Select Committee, who highlighted some of the issues and presumptions of Government policy. I cannot comment on what will happen with fuel duty, as that will be the Chancellor's decision. I thank the right hon. Member for Dundee East (Stewart Hosie) for his contribution, in which he seemed to suggest more targets and a poverty of ambition on behalf of the Government, and I can assure him that that is not the case.

I would like to respond to my right hon. Friend the Member for North West Hampshire (Kit Malthouse), who made a number of observations about the independence of the OBR; its certification and validation role; and the iterative process and whether that compromised the apparent independence of the Treasury. He described economics as not just an art or a science but even psychology. I can confirm that the OBR's remit is unchanged: it is the Government's official forecaster. But—as he notes and I am pleased to confirm—the Treasury maintains considerable analytical capability to support the policy advice to Ministers, and it does a very good job of it too. There is a clear separation between the OBR and policymaking, but it is a matter of securing credibility for those policies, and I think he would agree with me that that is a very important point.