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Select Committee on Economic Affairs

Uncorrected oral evidence: Quantitative easing

Tuesday 2 March 2021

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Members present: Lord Forsyth of Drumlean (The Chair); Lord Bridges of Headley; Viscount Chandos; Lord Haskel; Lord King of Lothbury; Baroness Kingsmill; Baroness Kramer; Lord Monks; Lord Skidelsky; Lord Stern of Brentford.

Evidence Session No. 8 Virtual Proceeding Questions 68 - 85

Witness

I: Lord Darling of Roulanish, former Chancellor of the Exchequer, 2007-10.

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Examination of witness

Alistair Darling.

Q68 **The Chair:** Lord Darling, you are now on the other side of the table, having been a member of this committee. We will be gentle with you. Perhaps I could ask the first question. Why do you think QE was seen as the best bet for staving off the financial collapse in 2009? Did you think about alternative tools?

Lord Darling: Thank you for inviting me. As you say, it is nice to be back, albeit sitting on the other side of the table, and the screen for that matter.

I have to disagree with the premise behind your question. Looking back at the origins of quantitative easing, which was announced in January 2009, I saw it very much as an adjunct, an add-on, to what we were already doing. You will remember that in October 2008 we had to spend very substantial sums, essentially shoring up a fractured banking system. Having done that, the Government's priority was to stimulate the economy, to get the economy growing again—a classic Keynesian response, I suppose. To that end, we introduced various measures: a temporary VAT cut, the scrappage scheme and time to pay for taxes. We maintained public expenditure and so on.

The question of quantitative easing arose in the context of how we could get money into the hands of banks and commercial entities to encourage them to start to invest or to continue to invest. That is where quantitative easing came from. Essentially, and this is the important point in the context of the discussions you are having today, we saw it as a short-term measure that should be taken alongside the fiscal stimulus that we had put in place. It was not separate from or unconnected to that, but it was a short-term measure. If you had asked me in 2009 whether it would still be going 11 or 12 years later, I would have said, "Of course not". I remember asking at the time, "Having bought all this stuff, how do you get rid of it again?" The answer was that you do it gradually. We were thinking in terms of two years.

I do not want you to think of it as being the only measure we took, which is completely different in many ways from the discussion you have been having during the last hour, where monetary policy is being used not so much as a temporary aid in time of crisis but perhaps something moving from the unconventional into very much being in with the bricks. It is very different, I think.

Q69 **Lord Skidelsky:** Lord Darling, in your view, did quantitative easing achieve its primacy, because fiscal policy did not go the way you would have liked? In other words, there was a reversal towards retrenchment, which put monetary policy into pole position. It then had to do the heavy lifting, because the Treasury was not prepared to do it. Is that the way the thing worked? Was there any theory behind your position and the shifted position? What do you think was behind the shift?

Lord Darling: You have to include in your analysis what happened afterwards—the fact that there was regime change. As you know, in 2010 we left office and the coalition Government took over. Their fiscal policy, and therefore their monetary policy, was rather different from the one that we had been adopting. In the short term, after the introduction of quantitative easing, it, along with other measures—I emphasise that—meant that the economy was growing by the beginning of 2010. It was not apparent then, because there is always a delay in these things, but it was growing.

The new Government took the view, as you will recall, that the deficit had to be cut and eliminated during the course of that Parliament. My view is that they excessively relied on monetary policy to do the work that fiscal policy would otherwise have done. Frankly, it was not just us; other Governments took their foot off the pedal far too soon after the crisis, with the result that the recovery of the economy, not just in the UK but elsewhere, was much slower. In some cases it petered out, especially in the eurozone.

My answer to your question is, yes, it worked, but it was not there long enough to do the job that you may be alluding to. I would have asked Rupert Harrison to remind me if he had still been here, but I think I am right in saying that, in relation to the years following 2010, George Osborne used to say that he was a fiscal conservative but he believed in monetary expansion.

This is different territory from the one that we were in historically, where you expect government to be the main leader in deciding what the policy ought to be, and its fiscal and monetary policy is there to back that up, to one where you are asking monetary policy to do the work that otherwise fiscal policy would have done. There will always be a balance. It is essential that Governments and central banks work together on these things. I am not against quantitative easing—let me be very clear about that—but you have to understand the limitations of what it can do, both economically and politically.

Lord Skidelsky: Your answer really amounts to the fact that it was a change of politics that decided questions that we are talking about in a rather technical way.

Lord Darling: You cannot leave politics out of it, because every five years or so the British people get to elect a new Government. The policy of the new Government, the coalition Government, was different from the policy of the Labour Government. There is no getting away from that fact, just as the policy of today's Government is different from the one that the coalition was following, but for rather different reasons, obviously.

Q70 **The Chair:** Lord Darling, going back to the origins of QE, was it the Bank or the Treasury that was principally responsible for the process of creating QE? Could you tell us what the rationale for indemnifying the Bank for any losses through the APF was? Was there concern at the time that it could be seen as one arm of the state paying another?

Lord Darling: First, the origins of the policy came from the Bank, because quantitative easing is a Bank policy, but it had to work hand in hand with the Treasury, so my officials and the Bank's officials, throughout the whole 2008-09 period, were in daily contact and were working together. One of the conditions the Bank insisted on was that, if it went ahead with it, we would have to indemnify the Bank for any losses it made. That remains the position today. Her Majesty's Government are there to indemnify the Bank if it makes losses when it sells the bonds back.

You asked whether we spent much time on the theology of it. I have to be honest. Remember that it was within six weeks of the largest bank in the world coming within three hours of total collapse, which would have brought down the rest of the financial system. For a lot of the things we put in place at that time—perhaps in this company I should not be hesitant about saying this—we probably spent less time on the theology and more time on the practicality of getting things done, because we were in a very precarious state at that stage. In January, we discovered that RBS had massive losses, way beyond even what we thought a couple of months earlier. I was satisfied with the efficacy of the policy and that it was appropriate to do it. The deal was that the Bank was going to do it, but obviously at the end of the day the Government are the lender of last resort, as well as the indemnifier of last resort.

The Chair: I think we all feel considerable sympathy for the situation you were in. Viscount Chandos, you want to come in on the APF point.

Q71 **Viscount Chandos:** Yes. It certainly seemed to me that an indemnification for the Bank was necessary, but the effect of it over the period of QE, particularly in the last year, is that the Government have entered into a massive interest-rate swap. Their debt issuance is, in effect, not at a fixed rate but, because of the purchases and their funding through short-term deposits, at a floating rate. All the commentary about the risk of rising rates on the Government's finances focuses, from what I have seen, on an effect for future borrowing, whereas in fact, through the APF indemnification, there is a very substantial cost for historical borrowing. Do you worry that that is not widely appreciated, and what do you think the consequences are?

Lord Darling: You raise a number of things. If, in effect, what you are doing is moving from a situation where the British Government tend to borrow on a much longer term than most other Governments, and at the moment can do so at very low rates, and swap that for Bank of England quantitative easing, you run the risk that when interest rates go up—they must go up at some stage, but nobody knows when or by how much—of course, your cost of borrowing can go up. Borrowing costs for government are quite substantial. You have that risk.

The indemnification risk is slightly different. The Bank of England will, as this process comes to an end, take years before it can divest itself of all the bonds that it bought. I see it in the same way as the UK debt at the end of the Second World War. As you know, it was a very large sum. I think it was paid off finally at the beginning of this century, many years later. Whether you need to indemnify depends on the price at which the bonds are eventually sold.

Having said that, and you are dead right to identify those as risks, if I were in government now I would think that the Bank of England's action, which complemented everything the Government have done fiscally to support the economy, was absolutely right. Frankly, they had no alternative. Last March, when, effectively, people all over the world were shutting down economies, the consequences of immediate liquidity, and how people would react to that, would have been colossal. I do not see that we had any alternative but to do that.

As a final point, I noticed that Andrew Bailey, in a speech to his fellow central bank governors in Jackson Hole last August, talked about headroom. He said that the Bank of England had headroom to do more if required, but he had to make sure that there was headroom. That is an interesting argument, and perhaps we will come on to what the Bank might do in the future. The time has come for us to look at what the policy is.

What is monetary policy now? It is different from when we set up the present regime in 1997, because you are asking it to do quite a different job. You can, of course, link it back to the Bank of England's objectives now, which are about stability in prices and inflation, and about supporting the economy: one of its objectives is supporting the Government's policy for growth and employment. You can argue that you can get quantitative easing in line with just about anything if you look at it for long enough, but it is rather different, and at some point we should recognise that and reflect on it.

Q72 **Lord Stern of Brentford:** Thank you for coming back, Alistair, and talking to us. In a sense, you have already answered a major part of my question, when you said that you saw QE as a temporary measure initially, and that it was clearly in the context of financial instability with the hope of bringing some contribution to the restoration of financial stability. How far, at the time, did you see it as something that could play an important part in stimulating employment and growth as well as contributing to solving financial instability problems?

Lord Darling: As I think I said earlier, I had some doubts as to what it would do about stimulating growth. The hope was that, if you bought corporate bonds, it would encourage corporates to go out and invest.

To be realistic, if a company is taking a decision about whether it should invest or not, it looks at broader things than the availability and the price of money. It looks at the prospects: "If I make something, can I sell it? What sort of environment am I moving into?" For quantitative easing to have worked as a stimulus in that way would also have required a feeling that the economy was generally growing. As I said, it started to grow at the beginning of 2010, but, as you know, it takes some time after the event for people to realise that the economy is growing.

I am not for one minute downplaying the important part it played, because it was useful for people to see right across the world what Governments were doing, through their own fiscal measures, to stimulate the economy. Central banks were doing things that complemented all that. The feeling that we were all doing much the same thing at the same time made a huge difference to whether the policy worked. If there had not been the perception that we were all doing the same thing, I have grave doubts as to whether it would have worked. We could have been facing an even worse catastrophe than we faced at the time.

Lord Stern of Brentford: Your primary perception of its role was the stability story rather than the employment and growth story, recognising, of course, that instability itself is bad for growth.

Lord Darling: It was there. It helped. That is why we were prepared to do it. At the time—bringing the politics back—the policy was attacked virulently by, I may say, people who then went on to practise it with a great deal of rigour themselves in the years that followed.

Lord Stern of Brentford: Would it be your view that, essentially, responsibilities for employment and growth, which should have been at the Treasury primarily, were passed on to the Bank?

Lord Darling: I do not think that happened in 2009. I do not think anyone has ever sat down and said, "Let's pass the responsibility for all this to the Bank of England". If you are pursuing what is now known as austerity, a fairly strict fiscal policy, but you are saying, "Let monetary policy help", you are, de facto, asking the Bank to do things that in other circumstances you would expect the Government to do through fiscal policy. That may be central to the things that you will be considering.

You have to distinguish Europe, where clearly the ECB is doing things partly because you cannot have fiscal transfers within the European Union. It is shoring up smaller economies, particularly Mediterranean economies, which would otherwise be in dire straits if Mario Draghi had not done what he did. Equally, on the US side, the US Fed is different from the US Government. It has its own mandate, its roots are different, it is jealous of its independence. As you know, the US Government can take some time to reach a decision as to whether or not to stimulate the economy, as we have seen in the past few weeks.

In the UK, the primary driver of these things is the UK Government. In support of that, they have an independent Bank of England that ensures that inflation is kept low. It has other aims as well, because it is responsible for financial stability. Of course, it can discharge its functions, which include supporting the Government's policies in relation to growth and employment, through various means. Quantitative easing is one of them.

If you move to a world where there are two actors on the stage, one of which is an independent bank that is, I suppose, loosely accountable to Parliament, and the other is the elected Government of the day, who are accountable to the people every four or five years or so, that is quite a substantial change in concept. Do not get me wrong: I think that the Bank of England should remain independent and you should think long and hard before you start changing its mandate, and on quantitative easing, both when we did it and when it was done in 2020, I fully support what they are doing. But if it is being suggested in some quarters that, in steady state, you have a central bank doing things that normally you would expect fiscal policy to achieve, that is quite a big change. It is at that stage when it would be an idea for someone to write down exactly what they propose and we can judge accordingly.

Q73 **Lord Bridges of Headley:** Can I pick you up on that point? You said "at that stage". Are we at the stage now where we have gone beyond the tipping point? Last month, you said to Liam Halligan in the *Telegraph* that "it's obviously easier to use QE than stand up in the House of Commons and say you are raising taxes", and that the Chancellor "can't just carry on effectively borrowing from the Bank of England to maintain high spending". To be clear, are you saying that you feel that we are beyond the tipping point, and that we have reached the stage where we need to get clarity back into the system?

Lord Darling: No, I am not saying that.

Q74 **Lord Bridges of Headley:** Great. To follow up my last question to the previous panel, can you explain a bit more about what you think the inflationary dangers are of where we are now? Do you think we are going to run into a sustained period of inflation, or do you think it will just be a blip? I see that you also talked to Liam Halligan of inflationary dangers. I am very interested to know what you think of that.

Lord Darling: The prospects of inflation largely depend on just how scarred the economy is. Inflation happens, as you well know, when there is more demand than there is supply. We do not know that yet, in good part because we do not know when the economy will get going again. The hope is that by the summer things are improving, but 12 months ago, or at least during 2020, there was a premature expectation that things were going back to normal. We simply do not know that.

Whether we get inflation or not depends on what capacity there is in the economy. It also depends, to a very large extent, on how many people currently on furlough, for example, are going to go back to work. How many businesses are going to survive all this? It is by no means certain that we are bound to have higher inflation. Indeed, the Bank's forecast is that that will not be the case.

At the moment, my strong advice would be to concentrate on getting the economy recovering. If we need to take action, we need to take action. I am more on the side of Dr El-Erian on this, when he said that there may be an inflationary pressure, but it would be a mistake to think that suddenly we will go back to where we were 20 or 30 years ago, when structural problems caused very high levels of inflation. I do not think we are at that stage, but you have to be mindful of it. It is in that context, but inevitably when you are doing an interview for television not everything gets included.

Q75 **Viscount Chandos:** Do you think the widespread perception that the Bank is practising deficit financing risks discrediting QE as much as it would discredit the Bank?

Lord Darling: No, I do not think so. I have seen all the things that have been said. Equally, I have read various speeches. I mentioned Andrew Bailey's, and you can look at Dave Ramsden's a couple of weeks ago. He was chief economic adviser in the Treasury when I was there. You can perfectly argue that what the Bank is doing now is entirely in keeping with the mandate that it has at present.

It will take some time, obviously, to wind down quantitative easing, but if people really do expect the Bank to be doing more than exceptional interventions, you are asking the Bank to let monetary policy play a greater part. Just as the Chancellor tomorrow will presumably set out his view of what the fiscal landscape will look like during the next period and what his fiscal rules are, so too you would have to think about doing something similar in relation to monetary policy. Inasmuch as people look at these things—I am talking about people generally—the Bank of England is there to keep inflation down, and it does that largely through interest rate policy. Obviously, that is slightly different just now.

If you are actually changing the Bank of England's mandate, either openly or in a more closeted way, you need to think about whether we should write something down. I do not think you should be legislating on it, but it would be helpful to get a statement of how we see monetary policy and, therefore, in what context we see quantitative easing. I am very happy that it should be used in the way it is being used at the moment and the way it was used 10 years ago, but, looking at the various things that have been said at different times and in different places, it would be quite useful to get a handle on what we expect to happen and what the risks are. You have to remember that quantitative easing is a blunt instrument in many ways. Fiscal policy can be more precise.

Viscount Chandos: Do you think that the public at large think about financial discipline differently as a result of 12 years of QE, and the idea that you could not print money without stoking inflation, and that somehow people are now saying, "Look, you can do it on an unlimited basis and there are no ill effects"?

Lord Darling: You would need to ask a pollster the answer to that question, in some ways. When you talk about quantitative easing, it sounds more like a medical remedy, and a rather unpleasant one at that, than some sort of financial measure. My generation, and I suspect the generation you all belong to, knows what inflation is because we lived through very high levels of inflation. If you asked a millennial, or someone in their 20s or 30s now, inflation would be a pretty distant memory. I do not think people readily relate to that.

On the other hand, people know, because they talk about it, that our debt is massively increasing due to Covid. People understand various concepts, but, if you are talking about the public as a whole, an awful lot depends on how it impacts on them or someone they know. A lot of the debate is being conducted at an academic or policy-making level and, to some extent, a political level. That is not to say that it is not very important; it is very important, but there are people better qualified than me to tell you about the cut-through to the public. We are not allowed out now anyway, but if we were allowed out and we stopped the first hundred people, who also are not allowed out, and asked them what quantitative easing was and what they think, I suspect we would get a robust answer.

Q76 **Lord Haskel:** It is good to see you, Alistair. Lord Bridges reminded us that in a recent interview you were concerned that the Government are using quantitative easing as an alternative to general taxation. This casts doubt on the independence of the Bank of England. Has the recent large expansion of quantitative easing during the pandemic brought further doubt on the principle of operational independence which the Labour Government introduced in 1998?

Lord Darling: In relation to what the Government are doing at present, I was making the general observation that standing up and announcing tax increases is quite difficult, but clearly it is one of the side-effects of what is going on through quantitative easing. It means that you are able to spend more, and politically that is easier. I was not levelling a general charge as far as that is concerned. As I told you, I think what the Government are doing at the moment is something that I would support.

If you ask me today whether the perception of Bank of England independence is any less than it was, I would say no, I do not think there is that perception. I think people see the Bank of England as independent. Where I worry is that, in normal times, if you were using monetary policy as a major economic tool, or if you were to get into a situation where the Bank was making decisions that I would argue were properly for the elected Chancellor of the Exchequer, you would be starting to get into a different ball game. We are not there yet. All I am saying to you is that, in the context of your inquiry, you might like to think about that.

Frankly, quantitative easing is one of those things that has simply grown and developed at both the academic and the political level. It is rather like those years of debate before we decided to make the Bank of England independent in 1997. It did not come from nothing; there was a lot of debate at the time about how to keep inflation down. Perhaps the time has come for us to have mature consideration. As I said, I am not against quantitative easing. I am not against it at all, especially at a time like this, but in the longer term, if things develop in the ways that have been talked about, it might be an idea to think carefully about what the limitations might be, what the accountability is and so on.

Lord Haskel: Bearing operational independence in mind, how far do you think the Bank ought to go in reflecting contemporary economic challenges, such as climate change, sustainable growth and technological disruption, or is that best left to the Government, and the Bank should keep out of it?

Lord Darling: Who is going to argue against the Bank being very mindful of the implications of climate change and what it is doing? Where you get into difficulties is if the Government ask it to make decisions to lend to one person or one group of people or others when it does not really have the means of assessing whether something is carbon neutral or what it is going to do. Again, it is not something I am dismissing out of hand. You just need to think of the practicalities of how it is going to work and what it means. What should the central bank be doing or not doing?

It is easier to see that with commercial banks and say that they should not be lending to fund a coal mine, and they should be encouraged to lend for an offshore wind farm. When it comes to a central bank, you have to ask what instruments are available and what would be appropriate. I would not want to see the Bank of England politicised, in the sense of picking winners and losers, or deciding to invest or to make funds available in one part of the country rather than another. That is properly for the Government and for people who, at the end of the day, can be held accountable for the success or failure of their policies.

Q77 **The Chair:** I was struck by what you said about the responsibilities for the Chancellor of the Exchequer and the Bank. If inflation comes into the system and the Bank carries out its mandate and raises interest rates, with all the implications that will have for people's ability to pay their mortgages, house prices and so on, how realistic do you think it is to sustain the idea of independence, as a practical politician?

Lord Darling: The Government need to have in mind what they are doing with the economy and what that will do to inflation. The minute you have a situation where the Chancellor rings up the Governor of the Bank of England and says, "Don't put up interest rates", or does his level best to lean on him, the independence has gone. If that is what you want, go back to the old days when the Chancellor of the Exchequer decided interest rates, which is what used to happen up to 1997.

The Chair: I am not questioning that. I am thinking of circumstances where there is very substantial expansion. If, as some of our witnesses have suggested—people like Tim Congdon—it is going to result in inflation, and if the Bank is carrying out its mandate, it will put up interest rates. With your experience, you can see the impact that would have, given what has happened to house prices and the size of people's mortgages and so on. I wonder how sustainable that is.

Lord Darling: We made the Bank of England independent. It was the right decision and I would not interfere with that at all. It means that the Government have to think about what they happen to be doing themselves. I appreciate, before you say it, that this is a longer-term thing. One of the ways of avoiding inflationary pressure is to look at the capacity in the economy. Therefore, you ask yourself about investment in infrastructure, people's training and skills, the vexed question of productivity and so on. None of those things is easy.

If you are scared of increased inflation, you have to remember that it is not just interest rates that are a problem; if inflation takes hold in the way it did in the 1970s and 1980s, it means that every time you go to the shops, prices have gone up, and noticeably up, not just by a penny or two. Inflation is a tax on people, a point that one or two of your witnesses have made. It is like all these things; when you are looking at making political judgments on the economy, it is not as if you press three or four buttons and everything falls into place.

There are all sorts of moving parts. One of the things you would think about is, "If we do this and there is inflation, the Bank of England will put up interest rates, and perhaps those rates will start going up at an extremely awkward point in the electoral timetable". Once you get into a situation where you start to reverse independence, with an attempt to do it either informally or formally, that would be a sea change and deeply regrettable. The Government who did it would badly undermine confidence in themselves.

Q78 **Lord King of Lothbury:** Alistair, it is very nice to be able to discuss these issues in an environment somewhat less frenetic than when we introduced QE. You talk very compellingly about the importance of the Bank not taking decisions that are properly those of the elected Government. The other side of that coin, of course, is the question of accountability of the Bank. Can you comment both about whether you think the accountability of the Bank in general is appropriate, and about whether there is a particular issue in respect of QE?

Lord Darling: It is nice to see you as well, Mervyn. I thought you were going to sit there and go through a long list of things that I got wrong.

Lord King of Lothbury: Certainly not. Thank you for defending central bank independence.

Lord Darling: Don't say I didn't do something for you.

In relation to accountability, the Bank is accountable, inasmuch as you are accountable, to Parliament. The Governor is subject to confirmation. The Governor appears before the House of Commons and House of Lords Select Committees and so on. Beyond that, it is not accountable to the ordinary man or woman in the sense that they cannot directly do anything about it. It is different from the Chancellor of the Exchequer or the Government of the day who are clearly accountable; when it comes to an election, if people do not like them, they can vote them out and get somebody else in.

I do not think, for all the reasons I have stated, that QE has made any difference for the moment. That is partly because most people do not wake up in the morning and think about quantitative easing. It would be different if we got ourselves into a situation, and we are not there yet, where the Bank decided to follow a particular policy because, say, it wanted to see employment levels go up or something like that, and it did something where people said, "Hold on. You're doing things and I don't like it". Then they might say, "How do we express our opposition to this?" They cannot do it directly. They can do it indirectly through their Member of Parliament, but they cannot do it directly.

To answer your question, I do not think that quantitative easing in itself has made any difference at all. It is broadly accepted that the Bank of England is independent. As I said earlier, I would not want to change that or put it at risk. One of my arguments for looking at QE, and perhaps writing down what it actually means, in the same way as the Government from time to time announce their fiscal policy, is that it would add greatly to transparency so that people knew what the Bank was about. If they looked at it, they would support what the Bank was doing. If you do not set these things out, it allows people to say, "Ah, they're really up to something different".

Q79 **Lord King of Lothbury:** That leads on to the question of communication, because part of the accountability is that the central bank does not have to be elected by the people but it has to explain things.

Lord Darling: Yes.

Lord King of Lothbury: Do you think communications have been adequate during the period of QE?

Lord Darling: If people care to read them, yes. I mentioned that I read Andrew Bailey's speech last August, which I do not think was particularly widely reported. Reading it, I was reassured by what he had to say. You can also look at Dave Ramsden's speech, which I referred to. Frankly, at the moment, the only message that is coming across is about Covid. Like all of us, I am spending an awful lot more time at home. I see television far more than I have done in the last 30 years, and there is only one story in town.

That said, you can never reach a situation where communication is perfect and cannot be improved. I find that the more you explain something, why you are doing something and what effect it might have, the better your chance of getting it across. You cannot explain too much, not because there is a paucity of explanation, but because you are reminding people. You did that when you were the Governor. Your successors and your predecessors did that. It is important to try to explain succinctly, clearly and in as plain language as possible what you are trying to do. That is the best way of explaining it.

Q80 **Baroness Kingsmill:** Alistair, thank you for all your answers, which were very clear, and for thinking about it all. As the last question of the day, what action do you think the Bank should take going forward? What is the future of QE? What is the Bank's likely programme, or what would you counsel that it should be?

Lord Darling: Quantitative easing has some time to run yet, until it is clear that the economy is starting to recover. It is exactly the same in relation to fiscal policy. We will see what the Chancellor has to say tomorrow. We are not out of the woods yet. The critical time, to me, will come this autumn when the support systems—the furlough scheme and the other support schemes—start to be taken away. We will then get a better idea of what is going on in the economy.

As I said to you earlier, quantitative easing must be seen as something for its time, and the time is seeing us through this crisis, rather than something that runs on indefinitely. I am not saying that you stop or abolish it or anything like that. If we have a resurgence of the virus, or if there is another economic downturn, you need to have tools available. Looking at its stock, the bonds that it has acquired, as I said earlier, will take years to run off, absolutely years.

Baroness Kingsmill: Yes. It will take some time to unwind it all.

Lord Darling: To do it in a hurry would be disastrous. You really would get into trouble then. I regard it as a necessity. The Bank of England should always be there. It has a duty so far as inflation targeting is concerned; it is the lender of last resort, it can provide liquidity in the system, and it can do QE as and when required. I would be concerned if it became seen as an alternative to government taking the appropriate fiscal action, because that creates a whole bunch of difficulties.

Baroness Kingsmill: But that is the risk, is it not? It is politically easier to do something like that, which is complicated and not something that everybody understands but has an impact in some sense, than it is to announce fiscal measures. It is very tempting for a Government to rely on it.

Lord Darling: Yes, I suppose you can argue that. In my experience, people who do complicated things and think they are being too clever by half often get found out. Anyone who is thinking about it should bear that in mind.

The Chair: Your answers have been commendably precise. We have a few more minutes. Lord Skidelsky wants to come back on an earlier point.

Q81 **Lord Skidelsky:** Thank you very much. Lord Darling, you gave a historical account of how QE came to overshadow fiscal policy in the 2009-11 period. There is a more fundamental question, which I would very much like your views on.

What institution is best suited to the heavy lifting that any economy will require? The task of a Government, as I see it, is to balance the economy. It is not automatically self-balancing, so balancing has to be done. We heard from an earlier witness, Rupert Harrison, that monetary policy is much better suited to do that than fiscal policy because, first, fiscal policy chops and changes and, secondly, it is hard to get going. You can think of other reasons that might be given.

I gather from what you said that you disagree with that. You think that fiscal policy is a more effective tool for stabilisation and growth. Given that, is it not time we had a new macroeconomic constitution of some kind in which it was openly discussed? You hinted that you would like that because what we are running on is unsound.

Lord Darling: I hesitate, Lord Skidelsky, when you mention the word "constitution", because constitutions are a nightmare. They take a long time to write as well.

Lord Skidelsky: Framework.

Lord Darling: I quite deliberately said that we could look at monetary policy and writing something down in the sense of having something you could look at, not just a speech but something that sets out the aims and objectives of what you are trying to do. It must be capable of being changed from time to time. Constitutions are terribly difficult to change if circumstances change. As you well know, somebody once said, "When the facts change, you should have the ability to change your mind". If we are moving to a different world, we need to start asking ourselves what the mandate is. Is it different from dealing primarily with inflation?

On the balance between fiscal and monetary policy, they are complementary. In your previous session, both witnesses talked about the need for the Treasury and the Bank of England to work closely together, which they do. The Chancellor and the Governor, certainly when I was around, met regularly, as rightly they should. That does not get away from their independence.

I would be surprised at the assertion that monetary policy can move faster than fiscal policy. Fiscal policy can move quite fast at times, especially if you do something dramatic to the tax system. I have not studied in detail what Rupert Harrison was talking about, but the idea of getting a group of central bankers, presumably from different parts of the world, and allocating money to countries, raises formidable difficulties, not least that it would fly in the face of the Government's declared aim of taking back control. It seems to me that they would be handing it straight back to somebody else who was not even an institution.

To be serious, fiscal policy will always be dominant. Monetary policy is an adjunct to it. Basically, the Bank is not there to be the Government of the day, if I can put it that way. It is not equipped to do that. It is not structured to do that. Frankly, it should not be that, because the people who should be in that position are the ones who are directly accountable to the people of this country, and bankers are not.

The Chair: There is considerable quantitative easing in the supply of questions from the number of colleagues who now want to ask supplementaries.

Q82 **Lord King of Lothbury:** I want to follow this up. It is the old phrase "horses for courses". When we introduced QE it was in the context of a situation in which the commercial banking system was trying hard to contract its balance sheet, and the amount of money in the economy was in danger of contracting very sharply. QE offset that. The current context is very different. The commercial banking system is not contracting.

Is there a danger in going into an exercise that tries to set out the respective roles of fiscal and monetary policy in a way that does not take circumstances into account? Is the current framework not flexible enough to deal with changes in circumstances, and that is what people should focus on?

Lord Darling: I agree wholeheartedly that you must cater for the need for horses for particular courses. I agree with what you said. You had a fractured banking system in 2009. Of course, the other big difference was that everybody was trying to get the economy going again immediately after that, whereas now, for all the right reasons, Governments here and across the world have been suppressing economic activity to suppress the virus. As you say, the banking system is capable of lending. Therefore, what you are doing with QE now is different from what you were doing with it 10 years ago. Both of those things are exceptional cases. My concern is the use of QE routinely, as a running policy.

Lord Skidelsky asked me about constitutions and so on. I am not arguing for a change in the statute or writing something in such a way that if something came along you could not react quickly, because you would have to go to Parliament to get it changed and so on. Every Chancellor sets out, usually in the Budget, the fiscal framework and the rules, so that people can see what the Government are trying to do. I imagine the Chancellor's policy will be something along the lines of, "I will do whatever is necessary to support the economy towards a recovery, but after that I will have to take action to get our borrowing, and ultimately our debt, down".

That is broadly similar to what I said 12 years ago. All I am saying is that, if you were to write down your general approach to monetary policy, you could point to something that would refute people who want to argue that the Bank's independence has gone, that it is not independent or that it is doing something completely different.

Knowing that I was appearing before you, I thought about what I should say. At one point, I thought that perhaps you could codify it. Then I thought, no, because codifying suggests that you are taking away the very flexibility that you and I would both value. In terms of explanation and communication, which you asked me about earlier, and having something you can point to, you might argue, "Look at the last speech the Governor made". The great thing about that, as you well know, is that if you want to change it, you just make another speech and so on.

I think it would be helpful. I look forward to the conclusions of your committee. Just letting matters run, there is a risk of unintended consequences, and that would be unfortunate. I agree with the central premise of your question.

The Chair: If we can have some quick questions and quick answers, we might be able to get everybody in.

Q83 **Lord Stern of Brentford:** Thank you again, Alistair, for joining us. You referred earlier to the importance of climate change, and that we all have to take it into account, including the Bank. You also expressed caution about the idea of picking winners. Should the Bank not be concerned with the potential mispricing of risk? We saw with the enormous bubble in housing markets in the United States, but not only in the United States, that risk was mispriced, and that put the economy in real danger. There are also strong arguments for the position that risks are badly mispriced around climate.

Should not the Bank be thinking about the broad question of mispricing of risk and climate? I know we need quick answers, so I am very happy for a short one.

Lord Darling: The short answer is yes, the Bank should be concerned about the mispricing of risk, because that is about financial stability. I raised earlier the question of how, in practice, the Bank should apply a policy of being very aware of climate change and so on. There are some things that it can do, and can properly do. There are some things that it is less equipped to do; I mentioned trying to pick winners. Mispricing of risk falls fairly into the category of financial stability, I would have thought.

Q84 **Lord Monks:** Alistair, you had 14 years or so in government. With quantitative easing, have we not actually eaten the forbidden fruit and lost our innocence? Have we not crossed a Rubicon, to mix my metaphors a bit? I read about the United States Biden stimulus. It is based on the fact that they have looked at what Donald Trump did in giving away more than $1 trillion in tax cuts, without any regard as to where the money was coming from or the amount of the US deficit.

There is huge temptation for Governments now that, when they are in difficulty, they turn to the Bank. Inflation is the only real check. Inflation is the only frightening prospect that might put them off. I notice that you have been warning in recent articles, interviews and so on against making QE a permanent feature. Do you think that position will be maintained by your successors in government over the coming period?

Lord Darling: I cannot tell what my successors in the UK Government will do. As far as the United States is concerned, President Biden is quite right; the country needs a major stimulus. An awful lot of Americans would otherwise be a lot poorer. He is right to do that.

I do not want to repeat what I said earlier. I am making the general point that the major actor on this stage ought to be the Government of the day. Fiscal policy is very important. Monetary policy is supportive of that. I would be concerned if we started looking at monetary policy as a permanent feature, even an alternative to fiscal policy, which I do not think is right or appropriate anyway.

Q85 **Lord Bridges of Headley:** Lord Darling, this may be a layman's question. Given that QE was part of a global response to the crash more than a decade ago, and given, as Baroness Kramer pointed out, how many central banks have now adopted it as a tool, how much room for manoeuvre is there for us unilaterally to start to unwind? What are the consequences, were we to take such unilateral action?

Lord Darling: It would depend on what you did. I think Dr El-Erian made the point that probably, apart from the United States, most countries cannot move in a vacuum. The very fact that at the moment we are borrowing so much and we have such extensive QE is accepted by the world at large because everybody else is doing it. What you do not want to be is the outlier, where people are saying, "Nobody else is doing this. No one else is in that position". There is a sort of solidarity. As I said, even 12 years ago, the fact that everybody did the same thing was one of the reasons it worked.

On the other hand, Dr El-Erian talked about the context of the hand-offs that a central bank would want to see. As you take away the support of QE, what are the Government of the day doing fiscally? In the European Union, that is difficult, because each Government will do separate things fiscally; I made the point that they do not do fiscal transfers. Just as they were late into QE, they may be late out of it as well. The United States constitution is different again, as is what the Fed does, what the US Administration do and what the President happens to be doing.

As to the decision about unwinding QE, my guess is that probably people will be thinking about these things in different parts of the world. It may not happen at exactly the same time. I may be trying to have my cake and eat it, but if the Prime Minister can do it, I can do it, too. We can think independently as to what is in our best interests, but we have to be mindful of the fact that now we are very much a country on our own. As long as what we are doing looks reasonable, and we are in the flow of where people are going anyway, there is no reason why we cannot take the necessary action. As Dr El-Erian said, one advantage we have is that the hand-off between monetary policy and fiscal policy that he talked about is much easier in this country because of our constitutional arrangements.

The Chair: On that optimistic note, that concludes this session of the committee. Thank you, Lord Darling, for having joined us on the other side of the committee and giving such clear answers and helping us. You said that you would look forward to our conclusions. Having listened to the evidence sessions so far, I am looking forward to them as well. This is not an easy subject. We are very grateful to you for bringing your experience to the table. Thank you very much.