A new framework for our economy

The UK economy has been steered for twenty years by the Maastricht requirements. The UK has sought to keep state debt down to 60% or to get it moving towards that total, and to keep the budget deficit down to below 3% of GDP. The inherited targets are to record state borrowing below 2% of GDP this year and to see net debt declining as a percentage of GDP. Overall borrowing should be at or below zero by 2025-6. These targets of course were blown away by the measures to tackle the pandemic.

The government needs to consider new rules. Of course it needs to control pubic spending and taxation to affordable levels. Maybe it should go over to a target of not normally allowing borrowing for current spending, but allow borrowing for capital spending. That capital spending should continue to need a value for money and rate of return test ,preferably better estimated and policed than prior capital projects have often been.

I dislike the Maastricht rules for a variety of reasons. Now most advanced countries are borrowing around 100% of GDP the idea that anytime soon can see them back to 60% is silly. The usually automatic 3% running deficit control can cause austerity or undesirable tax rises and cuts. I have no wish to advise the EU on what to do about their rules, and understand that they are trying to avoid the free rider problem. When countries share a currency with a common official interest rate a country which had borrowed too much could seek to take advantage of the better credit rating of leading members of the zone and carry on borrowing excessively. The fact that the criteria are recorded in the Treaties makes changing them very problematic.

For the UK we now need rules which keep our finances in good order and take advantage of a good credit rating and low rates to allow productive investment. The Maastricht figures do not adjust the state debt figures for all that debt now owned by the Bank of England as agents of the Treasury which also seems strange.