

State borrowing

In the year to March 2021, the pandemic year, the UK state borrowed an extra £298bn. This was well down on the original forecasts that the state would borrow almost £400 bn extra, and well down on the budget forecasts just four months before the year end of an extra £354bn. State debt as a percentage of GDP has hit 100%, a level breached in many other advanced countries. I would normally be concerned about such a level of borrowing. On this occasion there are two large offsets which means so far it has been fine. The first is interest rates remain near zero, so the cost of servicing the debt has actually fallen despite the rise in the amount borrowed. Second, the state is busily buying up £875bn of it. In practice therefore the state debt to GDP ratio has actually fallen to around 60%, a level which the EU and many Central Banks think is just fine.

The way out forecasts by the Treasury of much higher borrowing numbers over the last year than happened show how difficult it has proved to forecast how the UK economy would respond to the extreme damage of the pandemic policies on various sectors. It also shows the tendency to pessimism by officials. From here assuming we press on with a proper recovery and do not lapse back into closures and restrictions on business the deficit should tumble. Spending will plunge as furlough and social business schemes end, and revenues will surge as more money is spent and flows through business tills. The best way of getting the deficit down is faster recovery. That needs tax rate cuts, not rises.

As the economy recovers we should look to private business and families spending more and to public intervention less. More state spending cannot be on sufficient scale or wide ranging enough to level up most people and areas. It will take strong private sector growth in better paid jobs and more business success to achieve that. The richer parts of the country are the ones where there are more businesses and more better paid private sector jobs.

Funny money

During the pandemic a Conservative government presided over a major expansion of state debt offset by a major purchase programme of that debt by the Bank of England, itself owned by the same state. This mirrored a similar exercise by Labour and the Coalition 2008-12 to overcome the banking crash the authorities engineered in 2007-8.

It looks as if on both occasions the state has got away with it. By the end of this year The Bank of England will own £875bn of UK government debt which is therefore no longer a debt the state owes to overseas investors or to UK

savers, but to itself. Normally states cannot get away with effectively just printing money to spend because it is inflationary. In the conditions of collapsed demand both brought on by the banking induced recession and then by pandemic closures creating so much fiat money was not inflationary. Whilst the Bank observed the nicety of buying up second hand government bonds instead of just giving the new money to the government to spend, it underwrote the government borrowing at close to zero interest and has removed the need to repay the debt to third parties.

Some say the pandemic printing may yet prove inflationary. It is true that like the Great Recession printing it has proved inflationary for financial assets and houses but so far general inflation stays around target. It could get more inflationary if wrong decisions are now taken about carrying on printing and borrowing too much. This is happening in the USA where inflation is already at 5% but the Bank of England has wisely announced an end to money printing this year. There still needs to be a stronger recovery before undue monetary tightening.

[A return to Conservative values](#)

The government response to the pandemic here and in most countries around the world damaged the free enterprise parts of economies, boosted state spending and borrowing and greatly increased state control. In the next few blogs I am going to look at where this is now unhelpful and how it can be reversed as economic recovery advances and as pandemic controls are dismantled. I am conscious that some officials in government posts and most MPs in Opposition parties will see the special measures for countering the pandemic as desirable in themselves and an advance they wish to consolidate and extend . The Opposition parties have been ever keen to vote for more restrictions and more state spending, and reluctant to countenance relaxation or tapering of special financial support. There have been few voices speaking up for the many small businesses that supply so many of our needs.

Whilst people were prepared to accept direction of where they worked or whether they worked, when and where they could go out and which if any friends and family they could meet in order to defeat a killer disease, there is no reason to carry on with such draconian controls with the death rate massively down thanks to vaccines. Government should expect increasing opposition to lockdown and growing resistance to the advice on how to lead our lives. We cannot still claim to be a free society if we carry on with the very detailed controls and regulations we experienced during the various lockdowns. The first necessity is for government to reassure us we will not be going back to lockdown if cases rise again of a disease that usually now remains mild thanks to vaccinations.

The economic cost of lockdown must remain a one off for 2020-21, not a

recurring scarring of our economy matched by a progressive build up of state debt. The sooner furlough is no longer needed, the sooner the labour market finds the people to fill the many vacancies there now are, the better. The remarkable thing is how many businesses are ready to go and wish to recover quickly despite all the obstacles of lockdown and the long delay in removing controls.

Getting on with the neighbours

The EU Treaty contains the following:

Article 8.1 The Union shall develop a special relationship with neighbouring countries, aiming to establish an area of prosperity and good neighbourliness, founded on the values of the Union and characterised by close and peaceful relations based on cooperation.

2. For the purposes of paragraph 1, the Union may conclude specific agreements with the countries concerned. These agreements may contain reciprocal rights and obligations as well as the possibility of undertaking activities jointly. Their implementation shall be the subject of periodic consultation.”

The EU is very bad at getting on with its neighbours. This is despite the clear legal requirements it has imposed on itself through the Treaties to have good relations with neighbouring countries and to advance free trade with them. The EU has led Turkey and Ukraine to believe they could become full members, enticing them into signing up to very restrictive Association Agreements that have caused them problems. The EU has allowed a lot of fences and walls to be put up from Ceuta in the west to Hungary in the east to try to stem the flow of migrants as it struggles to control its own borders.

Since the UK left the EU and its single market the EU has gone out of its way to try to drag the UK back into membership by its excessive and unfair interpretation of the Northern Ireland Protocol. France has taken UK money to assist in stemming the people smuggling across the Channel but delivered limited results. The EU as a whole keeps sending large bills which it claims we still owe even though we are no longer members and no longer receive any money back from their general budget. Many other countries around the world have found it difficult or impossible to negotiate a free trade agreement with the EU.

The UK has been too tolerant of EU behaviour, and needs to be more independent to deliver the Brexit the majority voted for.

My question during the Statement on Cyber-attack: Microsoft

Sir John Redwood (Wokingham) (Con): The success or failure of the COP26 rests heavily on whether the UK, as chairman, can persuade China—the world’s largest emitter of carbon dioxide—to set tough targets to cut its output. Is this affecting the Government’s response to this issue? What is the UK’s strategy to influence China across the piece, as there are many areas where it needs to do so?

The Minister of State (Mr James Cleverly): I can assure my right hon. Friend that the actions of the UK Government in response to this cyber-attack are driven by this cyber-attack and our complete unwillingness to accept it as a pattern of behaviour.

He does make an incredibly important point though, and it reflects the point that I have made that we cannot simply ignore China. A previous question this morning highlighted the fact that China is still heavily reliant on coal as an energy production source, and we know the climate change implications of that. We want China to behave better on the international stage both on things such as cyber-security, intellectual property and human rights, but also on the incredibly important agenda that will affect our children, our grandchildren and our great-grandchildren, which is the protection of the environment and a move towards greener energy generation.