

Debts and deficits

As expected the U.K. state borrowings for February and for the year to date came in well below the official forecasts of the OPBR in November, and probably below the sharply revised down Budget forecast. The Budget said £354bn for the year. The first eleven months totalled £278bn. Even allowing for some possible losses on government loans to business it seems unlikely they will borrow £76bn in March. Tax revenues were little down despite the obvious hit to VAT, Business rates and other activity related taxes thanks to CV 19 restrictions. Spending was well up, but much of that was the extra costs of CV 19 tests and vaccines, furlough and the large losses on a little used public transport system. Practically all the extra borrowing was matched by Bank of England buying of government debt, leaving the state without an unmanageable interest burden or repayment schedule. Indeed, interest charges as a percentage of spending and of GDP went down last year. Rolling over debt as governments do is serving to lower the average interest rate on the debt as today's rates are below the historic rates incurred on earlier borrowing.

This all means I stick by my view that a one off surge in borrowing to carry the special costs of the pandemic and the economic damage lock down brings is affordable. I also stick to my view that we need to get back to work soon. Recovery will bring the deficit tumbling down as pandemic related spending falls away as tax revenues on business and VAT on consumer services pick up. The government does need to review its spending priorities and avoid wasteful spending. Any sense that there is plenty of money and that borrowing is almost without cost is an unhealthy one ,encouraging bad or needless spending and removing pressures to improve efficiency and quality and to root out unnecessary costs.

The review of spending should encompass an early set of decisions over how large a railway and bus service network we need post pandemic. How will patterns of travel demand shift? Will the post pandemic world solve the expensive peaking problem for buses and trains by removing much of the bulge in demand at peaks which requires much more expensive capacity than a more balanced pattern of travel demand? As the government seeks its infrastructure revolution it should look for more private finance both to cut public borrowing needs and to provide a stronger market test on the wisdom of each investment. I remember as Margaret Thatcher's adviser facing strong lobbies within and outside government for the taxpayer to pay for the UK share of the Channel tunnel. The PM agreed we should insist on private capital which we did. This turned out to be a wise move as the project did go bankrupt and needed refinancing, but the taxpayer was spared the costs. The proposals I have put forward to make more use of government purchasing to buy products and services made in the UK will also cut the deficit. Of course there must be competition with a choice of suppliers wherever possible to ensure a fair price for the taxpayer. Everything bought by the government which is made in the UK means more tax revenue from the incomes and profits made on the work, and less public spending as more people will have decent jobs.

President Biden wants more made in America

One of the interesting continuities between President Trump and President Biden is revealed by an important Executive Order issued from the Oval Office on 24 February. This pledges to use the full powers of the state to subsidise, grant, buy and regulate to ensure that more things are made in the USA. Both Presidents wanted or want to onshore more activity, help create more better paid jobs and strengthen US resilience. How can the USA defend herself, they argue, if she does not control crucial raw materials and technologies important to her defence?

Let's take the case of rare earths. These products are needed for the digital revolution. Too much of the world's output has been concentrated in Chinese hands or in the territories of countries China finances and allies with. The USA is now scrambling to re open old mines and put in new capacity at home to remedy this problem, for fear of China using her strong position in this market to push up prices or deny supply to the USA and her allies.

Let's consider semiconductors, currently in world shortage. US car plants may have to go slow for want of semiconductors to complete their assemblies. Asia produces most of them and has found an abundant and growing market in smartphones and other digital devices at a time when the motor industry needs more of these items to handle some recovery in volumes and the increase in semiconductor use in modern vehicles. The US with help from Taiwan is increasing its capacity.

Or let us consider large battery production. Now the USA has joined Europe in a combined wish to bury the diesel and petrol cars and replace them all as soon as possible with electric vehicles, there will be a colossal demand for batteries. The USA is short of such capacity and of the raw materials needed to produce them. The hunt is on to remedy these shortfalls.

The Biden Plan goes well beyond these targeted areas. The US wish to cut their imports and expand domestic production in a wide range of areas where government purchasing and government policy can make a difference and tip more in favour of competitive home product. The huge trade surpluses in goods of China and Germany are in their sights, as they seek to restore some balance to the large trade deficits they inherited.

My contribution to the debate on Leaving the EU: Impact on the UK, 17 March 2021

I welcome the opportunity to debate the many opportunities that Brexit presents. It was always the case that, once we had achieved Brexit, the Government needed to use the freedoms it brings to promote the greater health and prosperity of United Kingdom citizens. We meet today with a success already as a result of these freedoms. The United Kingdom Government decided last year not to join the common vaccine procurement system of the European Union. They went their own way. They had confidence in British science and in British medicine, and they had confidence in great companies based in the United Kingdom and in our great universities.

It is tremendous news that, as a result, the United Kingdom helped pioneer one of the first successful vaccines. The United Kingdom pre-ordered a very large number of vaccines for United Kingdom people on the basis that some of these vaccines would be good and would be available for use, and that put the United Kingdom in the position to vaccinate much earlier, saving more lives than those countries can that were not in the happy position of having early supplies of vaccine. Even our regulators were quicker and more agile. Our regulators gave regulatory approval to the first vaccines some weeks before the European regulator, though the European regulator came to the same view in due course.

I think this is a model for how we can use our freedoms more widely to promote our health and better prosperity. I would draw the Government's attention to a very important policy initiative from President Biden. They may find it surprising to see me recommending something from a Democrat President, but I think his 24 February Executive order—looking at America's supply chains, and saying that America can do much better at developing its own technology, putting in its own industrial capacity and creating many better-paid jobs by having more capacity in the United States—is a model we should follow. Indeed, it is the model we have been following with the development of the vaccine, which has led to more good jobs in the United Kingdom and more United Kingdom productive capacity.

The Biden initiative starts with a very rapid—100-day—attempt to fix the need for the United States of America to have a much bigger presence in pharmaceuticals, batteries, rare earths and minerals, and semiconductors. There is then an annual programme, involving all the relevant Departments of Government, of going through the supply chains and asking what can be done to use innovation funding, Government procurement and Government regulation to encourage more onshoring and more exciting technical developments. Of course, a country needs to have strong competition law and not to abuse state aids, but many good things can be done with the massive procurement programmes of the British Government, like those of the American Government, to encourage competitive responses in the United Kingdom and to encourage that increasing

capacity.

I hope the Government will do more on both the Northern Ireland border issue, where I think we need to be firm—and I support their recent action—and on the fishing industry, where I think we need more rapid progress to build up our fleet and to take back control of more of our fish. That was the promise and that is clearly the intended journey, but I wish the Government would be firmer, because I do not think that at the moment we have the right deal to promote that industry. If we wish to develop our green policies, as we do, we need to do more at home, cut the food miles, cut the fish miles and have more value added in the United Kingdom.

SNP debate on independence

Listening to the two Opposition day debates yesterday led by the SNP I was struck by the endless contradictions and negativity.

Here is a party which says it wants a referendum that spends most of its energy complaining about the two big referendums it lost recently. It only likes referendums if it wins. Otherwise it is undemocratic, denying their result.

Here is a party which says it wants an independent Scotland. Its idea of independence is to seek to rejoin the EU and not create its own currency or independent money policy.

Here is a party which says leaving the single market of the EU is damaging but leaving the U.K. single market which accounts for four times the trade the EU handles with Scotland would be fine.

Here is a party which complains about the loss of the EU Erasmus scheme whilst failing to accept that the U.K. replacement, the Turing Scheme, will help more U.K. students.

Government consults on whether to use vaccine/test certificates in relaxing CV 19 controls

I reproduce below the government's words on its consultation. Knowing there are strong views here I recommend you reply to the government directly.

“Consultation description

The government is reviewing whether COVID-status certification could play a role in reopening our economy, reducing restrictions on social contact and improving safety.

COVID-status certification refers to the use of testing or vaccination data to confirm in different settings that individuals have a lower risk of getting sick with or transmitting COVID-19 to others. Such certification would be available both to vaccinated people and to unvaccinated people who have been tested.

The government will assess to what extent certification would be effective in reducing risk, and its potential uses in enabling access to settings or relaxing COVID-secure mitigations.

The government is looking to consider the ethical, equalities, privacy, legal and operational aspects of a potential certification scheme, and what limits, if any, should be placed on organisations using certification.

We are issuing this call for evidence to inform this review into COVID-status certification, to ensure that the recommendations reflect a broad range of interests and concerns. We welcome views from all respondents.

Documents

COVID-Status Certification Review – Call for evidence
HTML”