

Public sector pay and the NHS

The government on 25th November announced a pay pause for the public sector for 2021-22, excluding the NHS. The eight Pay review Boards that make independent recommendations on pay for almost half of the 5.5m workers in the public sector will be guided by this Ministerial policy. The thinking was influenced by the hit to earnings experienced by large sections of the private sector from lockdowns and closures, the cost bulge incurred by the public sector to offset some of the pandemic damage, and the fact that at April 2020 median weekly earnings were at £647 in the public sector compared to £567 in the private sector. The skill, training and ages of public sector employees are not the same as the private sector average which partly explains this divergence. The government said the lowest paid should be exempted from the freeze and get some rise. Local government will need to make its own judgement about what is appropriate and affordable for their own staff.

Some are writing in to say there should be a higher rise for NHS workers than the 1% the government is suggesting as the uplift for the various NHS pay rates. I agree that those NHS staff who responded with so much energy and dedication to the demands of treating CV 19 and handling the dangers of the pandemic deserve more than the nation's thanks and applause at a time of general pay restraint. The right way to resolve this is for the Pay review Bodies for the NHS and for doctors to review the evidence. The Unions are putting in submissions for higher rises than the government has suggested for the Pay review bodies to consider.

The Pay Review Bodies provide independent advice based on a fuller understanding of current pay, the rewards for different categories of staff and the national context of pay for comparable activities. They will know the details of the junior doctor's four year settlement in 2019. They will have before them the system of increments for experience that many health staff can enjoy, and the general context of promotion and training opportunities. NHS pay for any individual year on year is not just reliant on a percentage increase in the basic rates. I wish them well in coming to a good judgement on this difficult question. Whilst the government does not have to accept a Pay Body's recommendations I would expect this government to give very serious consideration to the conclusions of these Pay reviews, given their sensitivity and the public mood. Anyone who feels strongly about this issue can of course write in to the Review Body if they think they have something useful to assist them in coming to their conclusion.

Time to consider controlling public spending?

The government is right to spend substantially to offset the lockdowns and other anti pandemic measures, all the time they stop people working or prevent businesses trading. Once they do at last remove the regulations which damage jobs and the economy there should be a sharp fall in public spending and a large rise in tax revenues as the economy bounces back. The measures to help offset the anti virus actions are costed at a whopping £ 250 bn this year. There has also been a substantial revenue loss. Correcting both these adverse moves in the accounts will slash the deficit.

Given my worries about the balance of payments the government would be wise to reduce spending in foreign currencies. It is now seeking to reduce the overseas aid budget. Mrs May's deal against my advice was weak on contributions to the EU so next year the UK is still budgeted in the Red Book to send £10 bn to them. This needs review, as it seems far too high given we have left. The government should review all public purchasing to see where there can be import substitution. If more the Public sector's needs can be met from domestic supply it will Generate more jobs and offsetting tax revenue at home. Defence procurement, purchase of all trains and vehicles, food for public sector institutions and many other items could be shifted to more U.K. sourcing now are out of the EU.

Within the fast growing public capital spending plans rests the very expensive HS2 which remains a bad investment. The state also needs to grips with the huge railway subsidies and set out new timetables and service plans geared to our changed And reduced needs for train travel.

The two deficits

Let me have an other go at explaining why I think we should be more worried about the balance of payments deficit than about the state deficit which seems to attract all the attention.

The state deficit will be financed primarily by UK savers. It means the state can spend a bit more and individuals choose to spend a bit less as they save. The state can always repay the state debt as it is issued in pounds and the state through its Central Bank decides how many pounds to create. Usually the state just rolls the state debt over when it matures. Of course I wish to see good value for money spending on national priorities, and to leave plenty of room for personal and business consumption and investment. There is always a political argument to be had over the total tax take, tax rates, and the growth rate of personal real incomes. There are important arguments over

how much the state can and should do, and how much is best done through a competitive private sector.

The OBR forecasts a large balance of payments deficit of 6% of GDP. This will also need financing. It needs paying for in foreign currency, as it represents the excess of imports of goods and services over exports and the excess of payments abroad to incoming payments of dividends and interest. The two main ways in which it is paid for is through the sale of UK assets to foreign buyers, and the assumption of foreign debt by UK businesses and individuals. These foreign debts cannot be repaid by the Bank of England creating the necessary foreign currency as it can only create pounds. The debts can only be rolled over if the lenders agree. If we sell too many of our productive assets we may see an outflow of jobs and activity from the UK, as some of the foreign buyers want to buy UK capacity to reduce it or relocate it elsewhere. They may also wish to acquire great intellectual property in order to earn the rents and licence fees on that in some other jurisdiction.

The government has passed legislation giving it stronger powers to resist foreign takeovers of companies with important technology and capacity in the UK that we should wish to keep. The best way to keep more capacity and good ideas in the UK is to narrow the payments gap to reduce the need to sell assets to overseas buyers. It is an important part of national security and defence to have sufficient capability at home. This capability should not just be in weapons manufacture, but also in food and basic materials necessary during a time of crisis to be easily accessible. The US is scrambling to restore rare earths capacity given the troubles with trade with China, reminding us there are things you need to do for yourself.

[My speech in response to the Budget, 4 March](#)

I welcome the extension of help to individuals and companies. All the time people cannot go to work or businesses cannot trade and all the time that there are pandemic regulations and social distancing that impede people going about their normal business, it is vital that the Government offer alternative income and support. I am pleased that the Government came up with a big response originally, and it is necessary to carry it on for as long as these restrictive measures remain in place.

I also welcome the fact that the OBR has decided that we will be borrowing £39 billion less in the current year than in its recent November forecast. I think that serves as a reminder or a warning to all those trying to debate the economy based on a set of figures; these are very uncertain times. It is difficult for the official forecasters to come up with accurate figures, and

we should be especially suspicious of ideas based on what the deficit might be in a couple of years' time. This deficit will fall very rapidly.

Assuming the great success of the vaccines continues, and assuming that we can relax and get people back to normal work and normal business within a few weeks or months, we will then see the deficit come down because so much of the deficit has been caused by the special pandemic measures.

The figures confirm that around £250 billion of extra spending in 2020-21 was the direct result of the special pandemic measures, and that there will be another large figure in the first part of 2021-22. We want to see the end of all those special expenditures—because people have better-paid jobs to go back to, businesses are trading successfully, and there is turnover and profit coming back to our small and large businesses—and so much of that expenditure was a poor substitute for being able to do the thing itself.

There was of course some loss of tax revenue, and again, we would expect to see tax revenue rise quite rapidly as soon as people can trade properly again, as soon as there are more transactions in the economy, and as soon as we are making more goods and providing more services to each other, as I am sure we will. So the Chancellor is right to say that the crucial step to getting the economy back to health, the deficit down and the numbers back into shape is to promote a recovery. He is right to want more investment in our economy.

The public sector numbers show public sector investment going up, and it is very important that good projects are chosen that will have a good payback. It is very important, too, that the tax incentives are correctly honed so that we get the boost in private sector investment that we want. The Chancellor is also right not to rush out any new fiscal rules.

We will need a new set of rules in due course, however, and they must be geared to a faster growth policy and a policy about levelling up and investing in great projects around the United Kingdom.

That must be linked to sensible discipline on public finances and, above all, to keeping the good control of inflation that we have had for a number of years now. It is reassuring that the OBR and the Bank of England are very confident that inflation will remain low, which gives us a bit more flexibility, but we need to watch that inflation situation.

I note that the OBR thinks the balance of payments is going to be weak for two or three years, and that provides an opportunity. In the post-Brexit world there are huge opportunities that we can exploit more easily in import substitution. Why do we not, for example, with our great green policies, plant many more trees and make sure there is much more sustainable husbandry of trees so that we replace many of the timber imports?

And while we are about it, can we replace the pelleted timber coming in to produce power at Drax with home-produced sustainable timber? We should also put in sufficient electricity capacity, because if we want an electrical revolution we will need a lot more capacity, and while we are doing that we

should get rid of the imported electricity through the interconnector, which we rely on more and more for no particular reason.

We used to be able to have all our own power provided in the UK with a decent margin and I suggest we return to that. We can do a lot more on food and fish, too. I urge the relevant Ministers and Departments to promote food and fish, and also to make sure that the grant schemes and regulations that are now under our control are used to increase our capacity so that we start to substitute many of the items that are coming in.

A recovery needs more orders and more investment in capacity; it requires excitement over new products and services and the restoration of old products and services. That must be the single thing that most motivates all the relevant Ministries and Government policy, because the only way to get this very big deficit down is to have more revenue and less expenditure, and the only legitimate expenditure to cut is all the spending we have been doing as a poor substitute for a decent economy with well-paid jobs and successful businesses.

So I say, let's go for growth; let's do everything we can to promote more things being made and grown and sold within the United Kingdom. There are huge opportunities, and that will be good economics.

EU rules for debts and deficits

The Chancellor is calling for ideas on what new fiscal rules should be applied to the UK economy as it seeks to recover from the pandemic shock.

One of the surprises in the official figures released with the budget was to see the traditional table showing the next five years figures against the targets of the EU's Growth and Stability Pact, with reference to the Maastricht Treaty levels. Whilst we were in the EU the limitation of state debt to 60% of GDP and the annual deficit to 3% of GDP applied to us, though we did not face the same enforcement penalties as members of the Eurozone could face. Some people argued the Stability and Growth policy did not apply to us, yet we reported on it annually at the budget, sent in the necessary figures to the EU to monitor our budget and its conformity and had an annual debate about it in Parliament. I did not expect to see the report of these numbers to continue after we had left the EU. Previous Chancellors did guide the economy by seeking to get the deficit down so that state debt fell as a proportion of GDP, as the EU said.

The documents imply that some parts of official thinking believe this is still a good way to guide an economy. There is a concern to see state debt as a percentage of GDP falling again, which is what we should do to comply with the Pact. I agree there should be some debt control as part of a sensible strategy but there is no reason to think the 60% percentage of GDP figure for

debt and the 3% deficit figure are the best or right ways to steer. There is an argument to say you should treat capital spending differently from day to day spending on public services. If the state is investing in an asset which will generate a positive return that exceeds the government's cost of borrowing there is less reason to restrict such spending. I think we need new fiscal rules based around boosting the growth rate and productivity, and distinguishing between worthwhile investments and other public spending. I will return to this issue soon.