Buying more at home

As we exit the EU we will have more scope to decide what items should be matters for national security or resilience. Under EU rules we were allowed to favour UK suppliers of defence equipment, though even here the UK ended up buying support naval vessels from abroad and only confining the warship programme to UK yards. In future we should encourage competitive UK based companies or UK based subsidiaries of world companies to compete for crucial business.

We also need to make sure we have title or rights to use crucial intellectual property in complex systems and equipment. The Covid 19 crisis showed our vulnerability through relying for some medical equipment and protective clothing on world markets instead of having a domestic capability which it would be easy to scale up.

Arranged well this need not be dearer. It will mean more UK tax revenue and budget savings, as the work will be done by UK employees and profits will accrue in the UK. During our years in the EU we came to rely for more and more of our goods and supplies on imports.

We could grow more of our own timber, generate more of our own power and grow more of our own food. I will be exploring these opportunities in future blogs. They all will help bring down the twin deficits we face- the government budget deficit and the balance of trade deficit.

Getting the railway budget on track

The UK spends a very high proportion of its total government transport budget on railways. It is embarking on a mega project to put in HS2. It could get more railway capacity much more quickly at a much lower price if it made some changes and stopped HS2.

There are overloaded lines – assuming we return in due course to something like previous levels of train travel. They can handle more trains if the government accelerates its plans for digital signalling, which can raise the capacity of track by at least 25%.

If you look down on the UK at rush hour without virus effects, you will see a pattern of crowded roads with cars bumper to bumper trying to get in or out of the cities. Nearby you will see brilliant straight line railways into the heart of the city with nothing on them. The reason the tracks are so empty is the need to enforce 2 mile or more gaps between trains, given poor braking, the heavy weight of the typical train and the inadequacies of older signal systems. If every train was linked in real time to a network control system and had complete visibility of the track ahead more trains per hour could be run safely on the underutilised track. Station capacity needs to be raised in some cases particularly at terminals to accommodate. Lighter trains with better brakes would also help.

Putting in more short sections of by pass track would also assist. Too often in the congested system a fast train gets stuck behind a stopper and cannot keep to timetable as a result.

Railway management needs to answer some Important questions about the current state of the railways. How will demand pick up? What is the new safe level of use? What action can be taken to get costs closer to revenue? Do the railways think they will now lose permanently a portion of the crucial commuting traffic into main cities which is such a large proportion of revenue? They have depended for many years on charging high prices for peak hours season tickets from people who had no choice but to use trains.

Managing the overseas aid budget

This year the government has said it will reduce the aid budget in line with the fall in GDP, as the promise on aid is based on spending 0.7% of GDP. As we do so it is important to be generous with grant money and direct assistance for famine relief and humanitarian help for those in crisis. Stopping aid to countries with space programmes would be a good start. Seeking better value for money and better targeted assistance would be a good idea.

As it adjusts the budget it should also make other changes. The UK wishes to help the poorest countries. It can offer a lot in areas like better water provision, health care and communications. In some cases what the developing country needs is a good technical partner with the ability to design and deliver the projects required, and equity investment to carry the risks. The aim should not be to offer massive projects based around debt with all kinds of future ties. If we combined grants and shares, we would then have some investment which would reward us in due course if successful, and bind us into the same interest as the developing country to make sure the project worked as planned.

Over the years we could build a sovereign help fund, and decide what to do with any payments from success. The important thing is the UK would not be trying to extract interest payments from schemes which were not working but there would be a market test of the wisdom of the investment. Grant aid can miscarry, encouraging projects that do not help as much as they should.

Of course all our humanitarian help, famine and poverty relief and medical interventions should be offered free to those in need.

Mountains of debt

As we count the cost of the response to the virus, it is time to sketch out what future plans for public spending might look like.

As one who thought the government had to spend whatever it took to combat the virus and to keep jobs and companies afloat once the government decided on a national lock down I am not in a panic about current levels of debt. All the time interest rates are kept so low this is affordable. It is a one off cost which can be repaid gradually in years ahead.

It has, however, to be a one off, with a substantial reduction in new borrowing next year and beyond as a result of the ending of the expensive special measures and the restoration of more normal levels of revenue and employment.

Over the next few days I want to explore how the government might bring its budget back into a better balance. So far interest rates have been kept low thanks to official action by the Bank of England. They have both lowered interest rates and bought large quantities of UK state debt up to keep its price high and the interest rates low as a result. Last month debt interest fell owing to lower inflation and the cost of index linked debt, despite the large increase in total borrowings. Again this is feasible for a period dealing with a one off collapse in demand brought on by regulations to stop activity for health reasons. It is not a policy for the future that can be sustained indefinitely, as it would then lead to higher inflation and the need for higher interest rates.

One thing the authorities can do today is to borrow longer. The UK debt management team have done a better job than many countries, so the average maturity of our debt is a lot longer than continental countries on average. Given how low rates are, why not issue some debt with no repayment debt, and more ultra long debt at these tiny rates?

The best way to bring the deficit down and start to limit the debt is to get a good recovery underway. State debt is rarely repaid. It is usually rolled over or extended. As growth returns the aim must be to reduce the debt as a proportion of a growing economy. There are some easy and obvious reductions in spending that can be made which I will discuss again in future posts. Let’s start by ending EU contributions, which went up again in June.

1 million charger points

Let us look in more detail at the example of a suitable Green Project as proposed by the EU. Creating a network of charger points is certainly an important idea to persuade more car buyers they would like an electric vehicle. It is range worry that puts lot of people off.

It will not be easy to carry this out. To have sufficient points in the densely populated area of the Franco German border lands with the Netherlands. Belgium and Luxembourg, for example, five countries will need to submit plans to the EU for funding for these charger centres. They will need to ensure they provide fast chargers. They also need to make sure they can accommodate all makes of electric car equally with the right cables and plugs. Payment systems need to be easy and not dependent on prior sign up or monthly payments.

The aim of 1 million sounds ambitious until you think about the realities of the vehicle stock in the EU. There are some 230 million passenger cars in the EU (x UK). Providing charger points for 1 million spread over such a vast area may not be that much. . There will of course be charging at homes and work places to take some of the strain. There are a large number of vans, smaller trucks and other vehicles as well to cater for.

The issue is should government be supplying these facilities? Should they be grant financed, when diesel and petrol stations are provided commercially? If they become government assets, what charging policy will be applied for the supply of electricity? Is the aim to generate a return on the capital invested?