

Borrowing and printing money

When the government decided on a lock down of the economy which was bound to produce the biggest fall in output and incomes any of us had seen, I argued that the government did need to take big and quick action to offset the worst consequences of the collapse in activity.

I argued here and elsewhere for generous furlough and income support schemes for those who were prevented from working by laws and guidance. I supported the idea of a big surge in public borrowing , and a further programme of Quantitative easing to make sure the government could borrow a large sum at low interest rates. These policies were adopted, unemployment stayed low, and many people got through lock down with help from government support schemes.

I also argued that you can only do this once, for a few months. There is no magic money tree to pay millions of people wages for doing nothing. There is no magic money tree to pay any losses any nationalised activity like railways runs up, year after year. The more features of economic life the government controls and interferes with, the more likely we are to suffer shortages, falling productivity, and financial problems.

If we look at an extreme example of Magic Money tree thinking we turn to modern Venezuela. Their resort to excessive and continuous printing of money has given them a massive inflation and chronic shortages of basics, with a domestic currency that has little value to buy imports. This country with the world's largest oil reserves decided nationalising their golden goose would finance their governments wild excess. Instead under government control their output has slumped from a fairly poor 2.5 million barrels a day five years ago to a bare 400,000 barrels a day now. Their wells are run down or do not flow, and their oil transport system is in decay. Without the private sector to invest, produce and market they have almost lost their entire oil industry. The UK government understands western governments including itself need to stay well clear of such thinking and actions, as they wish to maintain the relatively high living standards people have worked hard to achieve.

From here the government is right to say we need to get back to work and avoid any further general lock down. They are right to ask the NHS to offer a full range of services, treatments and consultations again now the CV 19 numbers are much reduced. They are right to say we need all the schools back this September. They also need to start to rein in public spending and therefore borrowing. I have set out some of the ways of doing this, and will talk of others in the days ahead. The way to run a prosperous country is to allow people and companies the freedoms to make choices and supply needs given the demand and technology available.