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.