State borrowing

In the year to March 2021, the pandemic year, the UK state borrowed an extra £298bn. This was well down on the original forecasts that the state would borrow almost £400 bn extra, and well down on the budget forecasts just four months before the year end of an extra £354bn. State debt as a percentage of GDP has hit 100%, a level breached in many other advanced countries. I would normally be concerned about such a level of borrowing. On this occasion there are two large offsets which means so far it has been fine. The first is interest rates remain near zero, so the cost of servicing the debt has actually fallen despite the rise in the amount borrowed. Second ,the state is busily buying up £875bn of it. In practice therefore the state debt to GDP ratio has actually fallen to around 60%, a level which the EU and many Central Banks think is just fine.

The way out forecasts by the Treasury of much higher borrowing numbers over the last year than happened show how difficult it has proved to forecast how the UK economy would respond to the extreme damage of the pandemic polices on various sectors. It also shows the tendency to pessimism by officials. From here assuming we press on with a proper recovery and do not lapse back into closures and restrictions on business the deficit should tumble. Spending will plunge as furlough and social business schemes end, and revenues will surge as more money is spent and flows through business tills. The best way of getting the deficit down is faster recovery. That needs tax rate cuts, not rises.

As the economy recovers we should look to private business and families spending more and to public intervention less. More state spending cannot be on sufficient scale or wide ranging enough to level up most people and areas. It will take strong private sector growth in better paid jobs and more business success to achieve that. The richer parts of the country are the ones where there are more businesses and more better paid private sector jobs.