

Foreign travel and the dangers of overseas infection

There has been much criticism both ways of world and UK policy towards international travel. All those who like travel or need to travel across frontiers have been very critical of the big hit airline travel has taken, as many countries have closed their borders or greatly restricted flying. Meanwhile many others have been very critical of countries including the UK who have not closed enough air borders quickly enough with signs that a major source of infection could come from overseas, as CV 19 did originally from China. Surely people ask, isn't a quick and full close down of air and shipping routes the best way of stopping spread, and wouldn't such a lockdown allow much less internal damage through internal closures?

We have ended up globally with a prolonged closure of much of the international travel system. It has not proved possible to reach global agreement, so sometimes your country allows you to travel to another but the other country does not want you to, or vice versa. Rules change rapidly and often, making it a very unappetising idea to go on a foreign holiday as you may get stranded there, or you may be forced into a long sojourn at your expense in a non holiday hotel in your return. All this implies that maybe being tough on global travel for any individual country is sensible, as travel patterns will be disrupted anyway by other countries and most of the new virus strains originate elsewhere and need to travel to your country.

In order to save the rest of the hospitality and travel sector the market did need to adjust to the idea that this year many more UK people would take holidays in the UK and foreign visitors would not. The industry needed to show flexibility to offer sufficiently attractive UK holidays to locals to replace the type of tourism they sold to foreign visitors. I wish the UK industry well in serving the many UK holidaymakers keen to have a domestic holiday. Maybe it will win more people over to UK holidays in future.

Restoring our freedoms

After many months of looking to the state to guide or control our actions we need to rebuild individual and family responsibility quickly and comprehensively. We should not need to ask the state permission to go to a cafe or entertainment. There should not be special rules about trips to the supermarket. Public sector facilities from libraries to toilets should be reopened fully and available for use. Social distancing and mask wearing should be a matter for individual decision.

Of course people will still value medical advice, and many will want to

listen to experts about how they can keep themselves and their families safe. We all might learn more about cleaning, airflows and exposure to possibly infected groups of people to the benefit of our health. It would be good if we pressed on with an airflow revolution in health settings and public places as it is not just CV 19 we can pick up from such exposure. It is a good idea to keep hands and home surfaces clean to cut our risk of catching something.

What surely we now wish to avoid is missing out on so much normal life, particularly the things we do with friends and family and for our entertainment. These are the things that makes life worthwhile and more enjoyable.

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 policies 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.

Funny money

During the pandemic a Conservative government presided over a major expansion of state debt offset by a major purchase programme of that debt by the Bank of England, itself owned by the same state. This mirrored a similar exercise by Labour and the Coalition 2008-12 to overcome the banking crash the authorities engineered in 2007-8.

It looks as if on both occasions the state has got away with it. By the end of this year The Bank of England will own £875bn of UK government debt which is therefore no longer a debt the state owes to overseas investors or to UK savers, but to itself. Normally states cannot get away with effectively just printing money to spend because it is inflationary. In the conditions of collapsed demand both brought on by the banking induced recession and then by pandemic closures creating so much fiat money was not inflationary. Whilst the Bank observed the nicety of buying up second hand government bonds instead of just giving the new money to the government to spend, it underwrote the government borrowing at close to zero interest and has removed the need to repay the debt to third parties.

Some say the pandemic printing may yet prove inflationary. It is true that like the Great Recession printing it has proved inflationary for financial assets and houses but so far general inflation stays around target. It could get more inflationary if wrong decisions are now taken about carrying on printing and borrowing too much. This is happening in the USA where inflation is already at 5% but the Bank of England has wisely announced an end to money printing this year. There still needs to be a stronger recovery before undue monetary tightening.

A return to Conservative values

The government response to the pandemic here and in most countries around the world damaged the free enterprise parts of economies, boosted state spending and borrowing and greatly increased state control. In the next few blogs I am going to look at where this is now unhelpful and how it can be reversed as economic recovery advances and as pandemic controls are dismantled. I am conscious that some officials in government posts and most MPs in Opposition parties will see the special measures for countering the pandemic as desirable in themselves and an advance they wish to consolidate and extend. The Opposition parties have been ever keen to vote for more restrictions and more state spending, and reluctant to countenance relaxation or tapering of special financial support. There have been few voices speaking up for the

many small businesses that supply so many of our needs.

Whilst people were prepared to accept direction of where they worked or whether they worked, when and where they could go out and which if any friends and family they could meet in order to defeat a killer disease, there is no reason to carry on with such draconian controls with the death rate massively down thanks to vaccines. Government should expect increasing opposition to lockdown and growing resistance to the advice on how to lead our lives. We cannot still claim to be a free society if we carry on with the very detailed controls and regulations we experienced during the various lockdowns. The first necessity is for government to reassure us we will not be going back to lockdown if cases rise again of a disease that usually now remains mild thanks to vaccinations.

The economic cost of lockdown must remain a one off for 2020-21, not a recurring scarring of our economy matched by a progressive build up of state debt. The sooner furlough is no longer needed, the sooner the labour market finds the people to fill the many vacancies there now are, the better. The remarkable thing is how many businesses are ready to go and wish to recover quickly despite all the obstacles of lockdown and the long delay in removing controls.