The EU plans to build back better

The President of the Commission has supported Italy in banning exports of the Astra vaccine to Australia and said she will approve more of the same if she continues to disagree with Astra's actions. She has confirmed her view that the EU is right to control the vaccine supply and regulation, on the grounds that small countries would otherwise have lost out. She is not happy that Hungary has approved a Russian vaccine and that Slovakia and the Czech Republic are also keen to allow Sputnik. The European Agency is currently evaluating the Russian product but needs more data. She has drawn attention to the way the anti pandemic measures have hit female employment and income more, and promised policies to help redress this as the EU moves into the recovery phase.

The EU wants to help refashion EU economies coming out of lockdown and moving to rise from the damage done by anti virus policies. The EU has published the details of its new 7 year multi annual budgets and added the Euro 750 bn booster package of loans and grants called Next Generation EU from the additional EU level borrowing arrangement. The central feature of the new money is a large cohesion and resilience fund offering loans and grants to countries for projects which will mitigate the damage done by CV 19 and will encourage more sustainable and resilient development. 30% of all the money to be spent over the next seven years by the EU will be related to climate change policies.

The Next Generation fund will allow Euro 338 billion of direct grants to member states. Italy and Spain will get the most at around Euro 69 bn each, with Poland, France and Germany also receiving some of the bigger totals, though more modest in relation to the size of their populations and economies. It will be interesting to see what these grants will be spent on and how they operate under state aid rules.

Global commentaries and forecasts imply a disappointing rate of growth and recovery for many parts of the EU economy compared to Asia or the Americas. Germany, the motor of the whole, has to adjust to a large transition from its very successful diesel and petrol cars to electric vehicles. The EU is considering hydrogen technology for both vehicles and heating as well as electric systems. As more biting targets for fossil fuel reduction loom into view there needs to be decisions on which will b e the key technologies to drive the change so they can be scaled up to meet the size of the challenge.

Levelling up

The government is launching a £4.8bn Levelling up Fund. Councils and Transport Authorities can bid for money to help pay for projects that can boost jobs,investment and the local economy in their areas.

When I was Local Government Minister I was asked by the Secretary of State to run a City Challenge Fund. This was similar to features of this wider Levelling up fund, seeking as it did to stiumulate investment, jobs, prosperity and improved environments in urban areas that needed a boost. I was keen to ensure that any public money spent was geared to attracting substantial private sector investment in new facilities, jobs and people. I thought the plans could often be most useful where they concentrated on doing those things that the state had to do. Very often it helped bring derelict or disused public sector land back into better use. It could provide better roads into areas that could then be good destinations for new businesses or homes. It helped train local people to be able to take on new jobs that the investors were providing. It could improve the quality and appearance of the public realm in the local area to make it a more desirable place for the private sector and new residents to flourish in. The idea was to use government money to help and harness local efforts and private enterprise. You can only help create a great city or a flourishing town if you have a vibrant private commercial sector, and a range of voluntary and community groups and institutions alongside Council and government services.

I assume these features will be built into the Levelling up Fund.It will be more capital grant than revenue costs, so bidders will need to choose schemes which provide that backdrop to a successful lift off in private and community activity, drawing on a wide range of investors and companies. I suggest this fund could assist with the task of increasing the UK’s capacity to make things for ourselves. Local and national government could bring better roads and rail links, cleaned up land, permissions and potential public sector orders for items the new and expanding businesses can make. Requiring substantial local and private sector involvement and effort is essential to continuing success. It is no good doing a place up with public ownership and money without allowing a much wider rage of activities and investors to enrich the local area and provide a broader base and more stability for future jobs and incomes.

Public sector pay and the NHS

The government on 25th November announced a pay pause for the public sector for 2021-22, excluding the NHS. The eight Pay review Boards that make independent recommendations on pay for almost half of the 5.5m workers in the public sector will be guided by this Ministerial policy. The thinking was influenced by the hit to earnings experienced by large sections of the private sector from lockdowns and closures, the cost bulge incurred by the public sector to offset some of the pandemic damage, and the fact that at April 2020 median weekly earnings were at £647 in the public sector compared to £567 in the private sector. The skill, training and ages of public sector employees are not the same as the private sector average which partly explains this divergence. The government said the lowest paid should be exempted from the freeze and get some rise. Local government will need to make its own judgement about what is appropriate and affordable for their own staff.

Some are writing in to say there should be a higher rise for NHS workers than the 1% the government is suggesting as the uplift for the various NHS pay rates. I agree that those NHS staff who responded with so much energy and dedication to the demands of treating CV 19 and handling the dangers of the pandemic deserve more than the nation’s thanks and applause at a time of general pay restraint. The right way to resolve this is for the Pay review Bodies for the NHS and for doctors to review the evidence. The Unions are putting in submissions for higher rises than the government has suggested for the Pay review bodies to consider.

The Pay Review Bodies provide independent advice based on a fuller understanding of current pay, the rewards for different categories of staff and the national context of pay for comparable activities. They will know the details of the junior doctor’s four year settlement in 2019. They will have before them the system of increments for experience that many health staff can enjoy, and the general context of promotion and training opportunities. NHS pay for any individual year on year is not just reliant on a percentage increase in the basic rates. I wish them well in coming to a good judgement on this difficult question. Whilst the government does not have to accept a Pay Body’s recommendations I would expect this government to give very serious consideration to the conclusions of these Pay reviews, given their sensitivity and the public mood. Anyone who feels strongly about this issue can of course write in to the Review Body if they think they have something useful to assist them in coming to their conclusion.

Time to consider controlling public spending?

The government is right to spend substantially to offset the lockdowns and other anti pandemic measures, all the time they stop people working or prevent businesses trading. Once they do at last remove the regulations which damage jobs and the economy there should be a sharp fall in public spending and a large rise in tax revenues as the economy bounces back. The measures to help offset the anti virus actions are costed at a whopping £ 250 bn this year. There has also been a substantial revenue loss. Correcting both these adverse moves in the accounts will slash the deficit.

Given my worries about the balance of payments the government would be wise to reduce spending in foreign currencies.It is now seeking to reduce the overseas aid budget. Mrs May’s deal against my advice was weak on contributions to the EU so next year the UK is still budgeted in the Red Book to send £10 bn to them. This needs review, as it seems far too high given we have left. The government should review all public purchasing to see where there can be import substitution.If more the Public sector’s needs can be met from domestic supply it will Generate more jobs and offsetting tax revenue at home. Defence procurement, purchase of all trains and vehicles, food for public sector institutions and many other items could be shifted to more U.K. sourcing now are out of the EU.

Within the fast growing public capital spending plans rests the very expensive HS2 which remains a bad investment. The state also needs to grips with the huge railway subsidies and set out new timetables and service plans geared to our changed And reduced needs for train travel.

[The two deficits]

Let me have an other go at explaining why I think we should be more worried about the balance of payments deficit than about the state deficit which seems to attract all the attention.

The state deficit will be financed primarily by UK savers. It means the state can spend a bit more and individuals choose to spend a bit less as they save. The state can always repay the state debt as it is issued in pounds and the state through its Central Bank decides how many pounds to create. Usually the state just rolls the state debt over when it matures. Of course I wish to see good value for money spending on national priorities, and to leave plenty of room for personal and business consumption and investment. There is always a political argument to be had over the total tax take, tax rates, and the growth rate of personal real incomes. There are important arguments over how much the state can and should do, and how much is best done through a competitive private sector.

The OBR forecasts a large balance of payments deficit of 6% of GDP. This will also need financing. It needs paying for in foreign currency, as it represents the excess of imports of goods and services over exports and the excess of payments abroad to incoming payments of dividends and interest. The two main ways in which it is paid for is through the sale of UK assets to foreign buyers, and the assumption of foreign debt by UK businesses and individuals. These foreign debts cannot be repaid by the Bank of England creating the necessary foreign currency as it can only create pounds. The debts can only be rolled over if the lenders agree. If we sell too many of of our productive assets we may see an outflow of jobs and activity from the UK, as some of the foreign buyers want to buy UK capacity to reduce it or relocate it elsewhere. They may also wish to acquire great intellectual property in order to earn the rents and licence fees on that in some other jurisdiction.

The government has passed legislation giving it stronger powers to resist foreign takeovers of companies with important technology and capacity in the UK that we should wish to keep. The best way to keep more capacity and good ideas in the UK is to narrow the payments gap to reduce the need to sell assets to overseas buyers. It is an important part of national security and defence to have sufficient capability at home. This capability should not just be in weapons manufacture, but also in food and basic materials necessary during a time of crisis to be easily accessible. The US is scrambling to restore rare earths capacity given the troubles with trade with China, reminding us there are things you need to do for yourself.