

Reviewing the extent of the state

Government activity has expanded massively as a result of the decision to lock down the country to combat the virus. It is time to roll back many of these areas to bring budgets back towards balance after a huge borrowing splurge.

9 million people are now effectively additional employees of the state thanks to the Furlough scheme. Most of their wages are paid by taxpayers with the express requirement that they must not work for their employers whilst being so paid. It is important as the government has indicated that rapid progress is now made with getting these people back into full time or part time working with their employer, to save the jobs and slash the costs to government.

The state has paid to control the workload and actions of the private health sector. During the height of the crisis there was an understandable surge in NHS spending, but there was also a drop in health output. Most private sector medicine stopped altogether, and most non urgent treatments stopped in the NHS. As a result health GDP fell. We need to get health output up to at least the levels it was at in January, and return to a system where private money as well as public comes in to cover the costs.

There are also an number of other areas where the state procured resources and capacity by contract to deal with the emergency, where it could now review those contracts, save some money and free capacity for others.

The state has taken upon itself paying to sustain the full level of costs of public transport when it was carrying three or four times as many people as it is today. There needs to be some thought of what demand for the next two or three years is likely to be and what level of fare revenue is likely. It would be unrealistic to carry on recruiting people to the railway for example when the forecast demand is going to be so much lower than last year. Current loss levels are unsustainable for any length of time, and thought needs to be given to a pathway for winning back lost passengers.

Back to work and beating the virus

The government doesn't have a choice of either controlling the virus or promoting jobs and growth. It has to do both. So far anti virus policies have dominated, with ruinous effects on the travel, leisure and hospitality industries. The PM is now looking at options to avoid a new national lockdown to control the virus.

Policy has to centre on

1 More intense medical discussion and analysis drawing on worldwide experience of which drugs and treatments can cut the death rate of serious hospital cases.

2 Help with continued shielding of those most vulnerable to serious forms of the disease.

3. Good trace and test systems so more carriers can isolate.

To generate economic recovery we need further relaxation of general restrictions on economic activity. I pointed to the way green policy is damaging large industrial and energy sectors yesterday. Today I highlight the travel, leisure and hospitality sectors.

Some leisure and hospitality businesses think there is no point in opening at all under current regulations, and some are still banned from opening. Some have re opened but face turnover well down owing to the need for social distancing and new methods of working which raise costs. A minority have adapted their business model to new conditions and are trading well. Given current levels of demand and the nature of the government interruptions the majority are unlikely to be able to do this.

On the plus side for the U.K. industry are some of the quarantine restrictions and bans on foreign travel. The decision on Spain in particular gives the U.K. holiday industry a real boost as you would expect many more people to holiday in the U.K. These same regulations undermine foreign tourist serving businesses like Bicester Village and central London.

Talking to some of the affected businesses I encountered one which saw a market opening for top end take away prepared dinners delivered to time share accommodation and is doing well. I found a travel business that has a back up contract for the NHS who as a result has abandoned the traditional visitor travel they offered. I have seen several shuttered businesses, often with older owner managers who wish to avoid social contact with the public. I have seen varied interpretations of the rules by hotels and restaurants prepared to run with lower occupancy and fewer covers.

Waves of destruction

It was Schumpeter who said capitalism was characterised by waves of creative destruction. The constant search for improvement throws out the old and welcomes the new.

In the last century out went the businesses shoeing horses, and supplying coaches and carts for the horse drawn age. In came the petrol car and van, and the garages and filling stations they needed. The transition happened rapidly, as people found the new vehicles more convenient, easier to keep and

faster. Farriers and carriage makers had to retrain and change jobs. Mews properties were adapted to new use.

Today we have a new phenomenon. We have governments launching a huge wave of capital and job destruction. The Green revolution aims to remove the entire oil and gas industry, transform the electricity generation industry, and force change in the way we travel and power our homes and workplaces.

The extent of the planned closures and write offs is large . The mighty oil and gas companies of the last century have to plan the demise of their own main assets. The car companies have to close down all their diesel and petrol making capacity and replace it with very different production lines making very different vehicles, centred around the entirely new technology for them of a large floorplate battery. The home heating industry has to completely change its product range, weaning people off oil and gas boilers.

Governments who favour these changes argue that there will be lots of new green jobs. It is true it will take people to make electric cars and environmentally friendly heating systems. It requires new jobs to build windfarms and put in hydro power. The worry is the pace of this, and meanwhile how difficult will be the transition with massive job losses in the products and services the state wishes to close down.

At the moment there are many more people put off buying a new diesel or petrol car than there are people wanting to buy new electric vehicles. There are more people pausing over replacing their domestic heating system than there are people ripping out the old and spending on the new. The anti Covid Policy inspired recession adds to the dislocation and slashes spending power just when governments want people to buy new heating and transport.

Governments did not need to offer subsidy and incentives to get people to buy the motor car or the smartphone. People wanted them. Industry improved designs, generated economies of scale and cut prices until more or most could afford the products. This top down revolution is different. Government has demanded the electric car. It has to subsidise it and wait for industry to improve it so more people will willingly buy it. People want better performance on range, recharge times and battery life, and much lower prices.

People are happy with their gas boilers and will run them until they break down, unless the government forces them to change. One intervention in a market leads to another and another. The danger is this will all prove very expensive for the public purse and will entail substantial direction and intervention in people's lives to get it done. Too much government intervention will mean lower incomes and living standards as well as less freedom.

Civil service working

The government is asking the question again, should more of the civil service work outside London? It is a good time to review this, given the larger changes being discussed about the balance to be struck between working in an office and working from home.

The case for more civil servants in future working away from the capital is based on the proposition that it would be fairer to spend more of the pay bill around the country, and better for taxpayers to employ fewer people in very expensive central London accommodation. Change of course should be carried out at a pace and in a manner which respects the needs of existing staff who have based their lives around the current pattern of office provision. The large size of the service and the turnover of staff means there is considerable scope for change.

There is also a case for recognising the wish of many to have more time working from home to save the travel cost and time it takes to get into big cities, especially London. The modern computer allows people to be set up with good means of carrying out many tasks. Some worry that some might abuse the privilege and not work as much as they do when supervised in an office. Modern computers can be tougher managers than a person in the office, as they know exactly how many emails a person has done, how many page views they have managed, how long they have been active on their machine. The civil service could move more towards an output oriented approach to working. Sitting for 40 hours in an office is not a particularly useful skill unless you are there to provide cover for client and customer enquiries. Getting specified work done is.

The number of civil servants who need to be in central London is quite limited. Minister's private offices can best support the Minister in person. Senior officials who mainly advise Ministers might well find it more convenient to be in the heritage buildings at the core of the central London public estate. Any Central London based public service of course needs to be there. Otherwise many officials can be based around the country, with good computer, email and video conference links to the centre.

There is considerable scope for a better balance around the country, with economies on office costs. The government can also now consider how much work can be done without an office at all.

Housing costs

Many people who rent would prefer to own their own home but cannot afford to. Anyone who owns a home is free to rent if they wish, but most do not want to

do so.

Over the long term owning is cheaper than renting. Paying the interest and making the repayments of a 20 or 25 year mortgage may be a bit dearer than renting a similar property. After the mortgage is repaid there are no rent or mortgage payments for the rest of your life. It becomes a much cheaper option, even allowing for the high Council taxes and the repair bills which will still catch you. Best still, the time of least cost is your retirement after you have paid off the mortgage. If you rent the period of highest rents will be in your old age, as house rents trend remorselessly upwards.

Encouraging and helping people to own their own home makes sense for the government too. If more people own their own home the government does not have to spend so much on building and owning extra homes for rent. Part of the large state debt is a massive collective mortgage on a big estate of Council houses and debts to finance grants and loans to Housing Associations to own property. During the heydays of Council house sales some of the receipts went to reduce Council and therefore wider state debt, and some went to build new homes.

Home owners have greater freedoms to improve and decorate their homes as they please. As the value of the property rises, as it often has in the past, so the family have an appreciating asset. They can borrow against it to set up a business or meet other one off costs or investments.

The government wishes to expand home ownership. It is worth doing so . It chimes with the wishes of many people, builds prosperity and can lead on to reduced state debts. State subsidised housing is a dear way of providing homes when many of the tenants would prefer help to buy anyway. Clearing more of the costs and obstacles to home ownership should be a priority. Recent Stamp duty reductions are a good start.