

Coronavirus

This blog raises some questions and seeks your thoughts. Contrary to the assertions of a couple of my recent correspondents I do not have a view of what is the right course of action for the UK authorities to take, and this piece does not offer a solution to the problems posed.

Let's begin with the way the government is proposing to handle this. Chris Whitty, England's Chief Medical Officer is an epidemiologist who has studied contagious diseases. He will lead for the government in keeping us informed of how many cases there are, what the current state of knowledge is concerning the virus and its transmission, and progress with diagnosis, testing and a possible vaccination in due course. He will also give advice on how government and private sector should respond to contain and defeat the virus.

Most of us who are not medical experts will listen carefully to him. I have also taken advice from two doctors so far on this issue, and have talked to my local NHS General Hospital about their response.

To yesterday Chris Whitty has reported 19 cases in the UK, all thought to have been caught outside the UK. The latest four come from Italy, Tenerife and Iran, showing the spread of the disease worldwide.

The Secretary of State will announce governmental decisions based on the advice, and will be responsible for informing Parliament, passing any necessary legislation and ensuring the NHS has the resources needed for its role. The Chief Executives of the NHS in England and the devolved Administrations will be responsible for planning for contingencies, providing sufficient capacity for patients, and balancing resources should numbers escalate substantially.

Whilst the politicians will lean heavily on the professional advice, they ultimately will have to make crucial and difficult judgements. As Chris Whitty has said recently, a policy like closing all schools or cancelling lots of sporting events and entertainments might be needed, but they do not yet know they would be a good idea. As the CMO said "We do not know yet. We need to find that out. ... How likely are they to work? What's the evidence? What's the cost?"

The problem for both the experts and the politicians is that they do not know enough about the virus. Will higher temperatures kill it off as they do many flu strains? How long does it rest in someone without symptoms, and how catching is it from that person? Is it true it little affects young people? Can we believe the Chinese numbers implying they are gradually getting in control of it in Wuhan at the centre of its genesis? Is the death rate the same or lower than conventional flu, or is it worse?

Current advice is to self isolate and to ring 111. It is also to wash hands thoroughly and frequently as a likely route for infection. Are there

additional measures which could usefully be taken to try to prevent further transmission?

How far should a free society go in banning flights from affected locations or requiring people who may have been in contact to be isolated for 14 days?

Current policy also hinges on tracking contacts of anyone confirmed as having the virus. What happens when someone with it has been on the tube or attended a football match?

All this shows that the response is a matter of judgement. Currently governments and experts seem to be relying to a considerable degree on the World Health Organisation, who are spreading information and helping co-ordinate work on this infection. I wish them all well in researching it more thoroughly so we do know exactly how it is transmitted, and can produce a vaccination to ward it off.

Meanwhile the government will also need to weigh the practical consequences of any advice or regulations they bring in. Closing all schools means many parents having to stay at home to look after children. Imposing more movement restrictions and flight cancellations has an economic cost. If safety clearly requires it then it should be done, but Chris Whitty's questions about efficacy and cost need answering before any such decision. There is also the issue of fairness related to efficacy. Is banning a play or sporting event fair if we are not banning conferences or demonstrations? Parliament itself could be a good way to spread the virus but presumably we wish to keep it meeting.

[Meeting with Transport Secretary](#)

I met with Grant Schapps to discuss short term and longer term ways of cutting road congestion. He is working on schemes to let Councils bid for more funds to improve junctions, provide bypasses and resurface roads. He was interested in my proposals to get more utilities away from under a main road, to flex light timings to traffic needs and to strengthen local strategic networks.

[More market warnings of recession and](#)

slowdowns.

The UK 10 year state borrowing rate fell to 0.43% today. Meanwhile the German share index was one of the worst performers, falling another 4.6% as some in the markets pencilled in a German recession.

Still no new economic actions from western governments or Central Banks.

The Economic establishment's errors

During my adult life so far I have witnessed three major UK recessions which did great damage to businesses and individuals, all from predictable policy errors. I have also lived through the false forecasts of a large rise in unemployment and fall in activity in the first two years after a Leave vote, where despite unhelpful policy the UK economy did not fall into a recession in those two years.

So we need to ask why has the UK economic establishment at the Treasury and Bank had such a bad time of it?

One of the recessions occurred under a Conservative government and two under a Labour government. Clearly none of the Chancellors and PMs involved set a policy to have a recession, and in each case they relied on the professional advice at the time. They were told right up until the recession had started that there would be no recession.

It is the case the Labour Ministers made the 1975-6 crisis worse by insisting on very high levels of spending and borrowing, which led to the run on the pound and the visit to the IMF to force a change of economic policy. In 2007-9 Labour Ministers seemed to be in lock step with official opinion, with both arguing for the wrong approach to managing banks cash and capital at a time of overextended balance sheets. Conservative Ministers willingly implemented the European Exchange Rate Mechanism policy which led to the humiliation of sterling, basing their case on the official and business advice in favour of membership. Ironically they called the ERM "the golden scenario", stating it would bring low inflation and growth. Instead it brought an expensive spike in inflation and recession.

So we do need to ask if senior officials specialising in economies should be under any pressure to get their forecasts right and to correct their positions if they are going wrong? I do not recall anyone in the Treasury or Bank apart from Ministers losing their job as a result of the disasters which hit the UK economy, though many hundreds of thousands of other people lost their jobs as a result of bad policy.

In each case the errors were mainly monetary. In the 1970s the UK lurched from too fast a build up of credit and bank lending to too hard a landing, leading to a property crash and a general recession. In the ERM again as I predicted the mechanism encouraged too rapid a build up of credit, triggering inflation, and then forced too rapid a correction, bringing the economy down. In the banking crash the same thing happened. Bank policy was too accommodating in the run up, as the Parliamentary opposition and various commentators warned. Then the authorities switched to too fast a correction, causing a great recession as I feared.

Tomorrow I will look at more recent Treasury and Bank thinking on the economy and ask if it is fit for purpose, and question why we have cut ourselves off from what Central Banks in the rest of the world are doing. Meanwhile we are looking at another Establishment error, as they watch and do nothing about the current problems.

UK state debt levels are fine

Some people tell me UK state debt is too high and we need to take tougher and more urgent action to bring it down. I disagree.

According to the ONS at the end of the last financial year UK state borrowing was £1821bn or 84% of GDP. This is well below Japan, Italy, Belgium and some other advanced countries and not very different from the USA and France.

It is not, however, a very meaningful figure. The Bank of England has bought up £435bn of the debt. As the UK state owns the Bank of England and receives dividends from its interest receipts we should deduct this part of the state debt from the total. That brings it down to £1387bn or 64% of GDP actually owed to people and institutions outside the state. This is a perfectly manageable figure.

Today the UK government can borrow at 0.5% for 10 year money and at below 1% for 30 year money. These are very low rates, showing markets think there is little risk in lending to the UK state. In the 1970s when the Labour government was spending and borrowing too much they had to pay more than 15% to borrow. They ignored these warnings and ended up at the IMF begging for a loan. The IMF demanded spending cuts and a lower deficit.

Today's problem worldwide in advanced countries is fighting deflation and economic slowdown. Markets are telling governments, companies and individuals they can borrow more for decent projects. There is too much saving and not enough investment going on.

It would be quite wrong as the rest of the world fights recession and the economic impact of the virus for the UK to tighten fiscal policy hastening a bigger downturn. Yesterday we learned that Hong Kong is offering helicopter

money. Every adult citizen will be given HK\$10,000 to spend, to try to fight recession. That is how bad it is in Asia.