

Was 1st Quarter growth in the UK understated? Bank of England predicts steady growth in business investment

Some have made much of the slowing in UK growth to 0.2% in the first quarter of 2017. It picked up a bit thereafter.

In the Bank of England's Inflation Report for August we find the following interesting quote:

Quarter 1 growth "slowed sharply to 0.2%. The GDP backcast, which takes into account the revision properties of the official data and information surveys, suggests that growth in Quarter 1 was higher, at 0.4%".

The Inflation Report also reveals a worse balance of payments position in the first quarter than the Bank expected, with more imports than in their forecast. This meant international trade subtracted 0.4% from our GDP, given the continued high level of imports. This puts a different slant on the picture from the loss of confidence myths.

Contrary to some comments on the current position, the Bank was relatively positive on business investment, though would like it to rise faster. They said " Business investment is estimated to have risen by 0.6% in Quarter One... Investment is projected to continue to grow at a steady pace in the near term".

The UK economy could clearly benefit from more investment in capacity, both to replace imports and to meet export demand. The rising profitability of business in general and the availability of low cost credit should encourage more such investment.

How the Bank of England and the government can cut UK debt

I agree with the government that UK gross state debt is on the high side. It makes a significant contribution to total UK debt.

There is a simple way to bring it down. The Bank of England should announce that from next month it is going to reduce the stock of government debt it owns by £7bn a month. Over a five year period this would eliminate the £435 bn of government debt the Bank of England owns on our behalf. It would reduce state debt by around one quarter and would reduce our total indebtedness as a nation by a little over one fifth of National Income.

There is a precedent for this. The USA has announced its plan to start to cut the US state debt the Fed owns.

How can this be done? At the moment every time a government bond owned by the Bank is repaid they go out and buy another bond to replace it. Basically they can stop doing this and accept the repayment, which cancels the debt. They would need to switch bonds of varying maturities from time to time to ensure a smooth pattern of debt reduction.

What is the downside? The danger is such action tightens money too much. As an offset the Bank should relax its some of its strictures against new mortgage and car loan borrowing, whilst still policing proper evaluation of individual credit worthiness. It should keep interest rates low whilst reducing the stock of debt in this way. It should be ready to abort the programme of debt reduction if money tightens too much.

If instead money grows too quickly for other reasons then of course it can take other action to avoid any inflationary threat.

What's stopping them getting on with this? We should be taking strides towards a more normal monetary policy now.

[Why does the Bank of England have it in for young people?](#)

Debt is a young person's game. In most free enterprise societies older people own most of the wealth. Young people borrow to get started as homeowners and business people. This happens naturally, as it takes time to save, to accumulate assets, to buy a home and to benefit from it going up in value. Most of us start out with no assets, receive no inheritance, and have to save for our old age as we work and earn. Even those who can draw on the bank of Mum and Dad usually need to borrow commercially as well to fulfil their ambitions.

It is the job of the banking system to lend the money older people save and deposit to their collective children and grandchildren who need it to buy homes, cars and other expensive assets, and to businesses who need it to increase capacity and to supply new goods and services.

Today the Bank of England is arguing that there is too much mortgage and car loan debt in our country, and this needs to be controlled. They are instructing the commercial banks to lend less. It is difficult to understand why.

The commercial banks now have much more cash and capital by way of reserves than they had during the banking crisis of the last decade. They are also

more profitable again. These buffers can take care of any bad debts they do incur. Employment is expanding. As people get jobs so they can afford to borrow to buy a car or a home. The banks should be allowed to meet their aspirations. The invention of the 3 year car loan/lease allowed many more people to have a new car. The banks would be able to foreclose on the vehicle if someone fails to make the payments, so there is reasonable security.

Of course banks need to examine each loan application. The individual has to demonstrate they have the income claimed and show they are likely to keep a job. The bank lending money does need to make a judgement that the person concerned will not behave irresponsibly. Most people do take their debt obligations seriously.

Current levels of mortgage and car loans would only be unsustainable if the Bank decided once again as it has in the past to withdraw liquidity from the markets too quickly and push up interest rates too far too fast. It assures us this time it does not wish to do that. There is already considerable protection against rate rises, as many have chosen to take out fixed rate loans. In that case it should allow more young people to borrow to buy a home or a car. More mortgage and car loan debt when the economy is growing and more people have jobs is not something to worry about. Tomorrow I will describe how the Bank and government could do something that would make a real difference to reduce total UK debt that does not require squeezing the young.

[The importance of property to a democracy](#)

Free societies allow individuals to buy and own property. Communist and authoritarian societies claim all property for the state.

Making everyone a tenant of the state gives a state much more control over its citizens. It also usually leads to a crony system, where those who toe the line and are in with those in power, get favourable access to property. Corruption normally follows the concentration of power in the hands of the state, and often is practised surrounding state property or trading assets. The privileged regard state property and nationalised industries as personal fiefdoms, earning rent from them at the expense of everyone else.

Largely free societies do need to impose some restrictions on the freedom to own and use property as individuals and families wish. It is common to discourage anyone seeking on death seek to freeze a property which the dying person liked, to prevent a mausoleum community developing full of empty properties. It is usual to require permits to change the use or develop a site which someone owns, in the interests of protecting the neighbours and creating some order over infrastructure and service provision. It is very

common to impose taxes on property ownership. Whilst this is mainly for the state to have more revenue, the taxes may be designed to influence use of the property.

The drift in free societies is to more and more state intervention in the buying, selling, use and enjoyment of property. Taxing property related activities can be easier than taxing income or spending, as the property has a fixed address and a registered owner. What begins as a legitimate interest in orderly development of a neighbourhood can become a large experiment in social engineering, with the state granting huge windfall gains to some who are allowed to build on their land, and denying others any scope for modest self improvement of their property.

In the UK today the argument about rich people owning homes they do not live in for much of the time has become an issue. It is difficult solving the problem without very intrusive regulation and policing. How many nights should a person stay in a given home to qualify as reasonable? What do you do about someone starting up a relationship with a new partner and then spending the nights with them rather than in their own home? How do you capture the complexity of family life with grown up children spending more time in their parents' homes? You could have a law which discriminated against foreign owners, with suitable definitions of who is foreign. This would not be a very welcoming approach, and could have side effects like putting rich individuals off investing in the UK or considering moving more permanently here. It might cut total tax revenue considerably.

I am suspicious of the idea that the state should tell people how much property they need or are allowed. The state can and does affect the pricing of property which will of course influence the decisions of property buyers and users.

Top people's pay – the case of Mr Neymar

The Qatari owners of Paris St Germain think footballer Mr Neymar is worth £775,000 a week, according to media reports. They also think it worth paying a lump sum transfer fee of £198 m to secure his services for six years.

I suppose they might be right. He would need to stay at the top of his game and help his new club to win major trophies. He has already bought PSG a lot of publicity. Maybe more tickets will be sold at higher prices now for their games, and in due course maybe the value of their games to the media will go up. Or maybe this is not about making a profit, but is about making a statement. There is a long tradition of rich people and institutions spending large sums on football clubs and footballers. It can just be a way of recycling some of the money they have made from more successful ventures.

The downside of the spending are obvious. If Mr Neymar was injured, or if his form fell away, it will prove an expensive problem for the club. Top performance requires extraordinary levels of commitment, concentration, practise, fitness. Sustaining these for six years when you are paid so much anyway must require huge self discipline. Being a top sporting performer requires a person to regulate the whole of the rest of their lives. Too little sleep, too much alcohol, wrong diet, too many emotional distractions could throw the peak condition needed to perform well.

I raise all this not because I am concerned about the financial health and sporting performance of PSG but because it is an extreme case in the debate we are having about high pay. Some argue that it is never justified to pay individuals so many times the Minimum wage of those who help sustain their activities. What do the cleaners, caterers and security personnel at football grounds where Mr Neymar plays think of the differentials? Clearly Mr Neymar does not need that much money to live to a very high standard of comfort. He can also earn huge sums in addition to his wages through sponsorship deals and activities based on his fame.

Others argue that sporting or cultural stars are different to senior executives in large companies who negotiate large pay packets. It is true that sporting stars do have to perform to get their large money, whereas some business executives get large salaries or guaranteed bonuses without needing to perform in an exceptional way. In some ways sports people are more like entrepreneurs, who can earn huge sums by selling what the public wants at a price the public can afford and is willing to pay. All the time people pay their sporting tv subscriptions and the ticket prices, the stars can claim they are "worth it".

Yesterday's news that FTSE top pay had fallen does reflect the feeling of many that the pay of corporate executives in large quoted companies needs to be more strongly policed by shareholders, taking more interest in ensuring performance is required to justify multi million sums. That is something which shareholders need to do in a free society, on a case by case basis.