

What does a Growth policy look like?

Yesterday I looked at targets and controls to ensure prudence. I recommended the existing targets for inflation and debt interest. Today I want to look at an additional target to replace the Maastricht requirements and to provide some balance to the controls. There should be a growth target to remind Whitehall and the Bank that growth brings higher living standards and brings the state deficit down more quickly than austerity.

Choosing a growth target is not easy for an economy that has been like many others so badly bruised by lockdowns and other anti covid policies. The pre financial crash economy could have sustained a growth rate of 2.5%. The post banking crash economy struggled to sustain 1.5%. With much better financed banks now and with plenty of cash around in the banking sector it should be possible to sustain a 2% growth rate for the next five years. That would make a sensible target, with symmetry around 2% inflation and 2% growth. That would mean typically wages rising 4% a year and real incomes 2%.

What actions should a government take to seek to sustain such a target? Just asking the question would be refreshing after years of asking how we meet the Maastricht lower debt and deficit targets with an implied emphasis on doing and spending less. I have set out in past blogs some of the components of a successful growth strategy. We need more and cheaper energy, we need more domestically produced energy, industrial products and food. We need a policy aimed at cutting the large balance of trade deficit, with opportunities to replace imported energy, food, timber vehicles and much else besides. We need more intelligent use of government purchasing to back competitive UK products. We need lower taxes and easier rules on the self employed and businesses as they take on their first employees. The UK economy needs a larger small business and self employed sector, with more competition for the large businesses with strong market positions.

Bring on the new economic recovery

The UK economy is recovering from the big hit initial lockdown brought. The Chancellor did well with his generous furlough and business schemes which cushioned unemployment and limited bankruptcies. A combination of looser money policy and a large public deficit sustained activity somewhat at a time when public policy to curb the virus led to a sharp decline in output in all sectors needing social contact between customers.

Today the Bank of England thinks the sharp rise in wage and price inflation that we are witnessing will be short lived. They nonetheless aim to end their Quantitative Easing programme of new purchases of bonds by the end of this year, before the USA and the ECB. They have pencilled in the need for some

modest further tightening in the following two years, which could take the form both of small increases in interest rates and an ending of purchases of government bonds when old ones are repaid. They may be optimistic in thinking we will have restored all lost output by the end of this year, and need to be careful not to dampen confidence too much too soon before recovery is well embedded.

The central task of keeping inflation down to around 2% remains a crucial target for policy. The Bank thinks inflation will be back a little below 2% in two years time, after first hitting 4%. That is possible, and I have no quibbles with them running at current settings whilst monitoring carefully wage and other cost pressures. I think the USA which has administered around twice as much monetary stimulus as the UK relative to its size and is planning to continue with a large bond buying and money creation programme has a more serious inflation threat. The USA should be doing at least as much as the Bank of England to move back to a more prudent policy given its much larger injection of cash.

Meanwhile we await the government's decision on what targets if any the Treasury needs to impose on itself. I wish to see the end to the state debt as a percentage of GDP targets continued from the Maastricht Treaty. The relevant issue is net debt interest as a percentage of GDP or of public spending. The state debt figure they use appears very high because they look at the gross figure which includes all the debt the state now owns. What matters is the debt they owe to others and the cost of servicing that debt. Despite the big increase in gross debt the position has improved since the pandemic hit, both because they have been able to buy up large quantities of the debt, and because they have forced interest rates down lowering the additional cost of new debt or of refinancing old debt.

Japan has been doing this on a colossal scale for years and has got away with it because it is a low inflation economy with a high propensity to save. The UK has a lower average age with more private sector propensity to spend and borrow so we should not assume we can continue doing this without awakening the inflationary dragon. A sensible target for debt interest and a well paced monetary tightening sensitive to growth rates is what is needed. The UK already has a debt interest target which is fine. We do not need an austerity policy brought on by a wish to get gross debt down as a percentage of GDP. That would slow growth and make it more difficult to remove the deficit. The new policy must be growth oriented. The Bank needs to watch carefully possible inflationary transmission into wages and or excessive credit creation by commercial banks which would warrant earlier corrective action.

[The state of play on the virus](#)

worldwide

The worldometer shows us the official figures for virus cases, deaths and population numbers. It seems best to compare cases and deaths per million to get some kind of impression on how countries have fared.

The UK is 29th on the list of cases per million at 87,188. The USA, Brazil, France, Spain, Netherlands, Czechia, Belgium and many others are higher. The UK is 20th in the list of deaths per million, just nine deaths per million more than the USA and well below Peru, Hungary, many of the Balkan countries, Italy, Brazil, Poland and Belgium.

It would be good to hear from the experts why countries like Hungary, Peru and Belgium had such a bad time, whilst Japan at 121 and South Korea at 41 deaths per million have contained it better so far, not to say Taiwan at 33 deaths. Nearer to home how did Luxembourg have such a high figure of 116,000 cases per 1 million, yet with 1293 deaths per million had a low end death rate of 1.1% compared to Poland where it was 2.6% and Hungary 3.7%.

There needs to be analysis of which countries had most success in avoiding cases, and which were best at treating the virus. All this of course will also need work to be done on the figures themselves, as countries adopted different definitions of a covid death and ran very different levels of testing to try to find the infection

A nationalised industry and pit closures – a past take on an old story

JANUARY 25, 2008 10 COMMENTS

When I was Secretary of State for Wales, the National Coal Board was embarked on a substantial pits closure programme. In each case they reported to the Energy Minister and Secretary of State (DTI) that the particular pit was worked out. They claimed to have surveyed it accurately, and discovered either that there was no more coal to be extracted, or that whatever coal remained could not be worked for a sensible cost.

One of the pits they decided to close was Tower Colliery in South Wales. I was suspicious of the Coal Board's view. Experience had taught me that they were not great managers of our national resource. They had a glittering legacy of losses, subsidy demands, closures, redundancies and poor employee relations to their credit. Their safety, productivity, profitability and social records were far from perfect. I was not inclined to believe them that so many pits had suddenly become uneconomic. Looking at their accounts, the high overheads they imposed on their mines was a striking feature.

I was therefore delighted when I was told by my private office that miners representatives from Tower Colliery wished to come to see me to put the case for keeping open the mine. I was even more delighted to learn that they believed their case so strongly that they were prepared to take the pit over and mine it themselves, if the Coal Board would give them the chance. The bad news was the Coal Board refused consent, and the Energy Ministry backed the Coal Board's judgement.

When the miners arrived in my office, I think they were surprised by my enthusiasm for their cause, and by my explanation that their task was not to persuade me, but to work with me on our joint case to the Energy department and Coal Board to give them the opportunity to run the mine. As it meant being allowed to prove the Coal Board wrong it was not going to be easy, but I felt that between us we could do it.

So was forged a partnership in British politics that none had predicted. I joined forces with Tyrone O Sullivan, the charismatic Lodge Secretary and leader of the buy out team to persuade Coal Board and government they should give the miners a chance. I was the only person who saw nothing strange in the alliance. I had always believed in workers participation and employee ownership. Here was a chance to show its magic in an industry that had been gravely damaged by the them and us mentality of the large nationalised corporation.

After correspondence and conversations tackling the obduracy of the Coal Board position as retailed by the government, our view finally prevailed. What harm could there be, I argued, in letting the men have a try. If they were right the community would be saved and jobs would remain. If the Coal Board were right and the coal was not plentiful a valiant attempt would have to be abandoned. Nothing was lost other than some Coal Board pride – by letting them have a go. I was always supremely confident that they would succeed, because they had impressed me by their enthusiasm for the cause and I was sure the cost structure of the Coal Board was wrong for their pit.

It was joyous day when I learned our view had won. The announcement was made to the Conservative Conference in the autumn, and the miners became the preferred bidders to buy the pit. Much of the consideration was to be deferred, to be payable if they were right and the pit had a future, which seemed fair. The leading miners still had to put up £8000 each for the down payment, which was a substantial sum for them. Their wish to do so was further proof of their belief. I accepted that only because I shared the miners' confidence. By the end of December 1994 the deal was done.

I was delighted for them when they took possession of their mine, improved conditions and wages, and set about demonstrating that there were 13 years of profitable workings left. Today I will be sad that this great enterprise has come to an end, but pleased that they made some better paid jobs and shared in some profits over the later years of that mine.

I like to think it will be a model for the future. One day I hope and expect more mines will be opened again in our country, to produce the coal for clean coal technology uses. I want those mines to be ones where there is more

machinery, more safety protection and a share in the profits for all who venture underground. If that turns out to be the case, I hope people will remember the pioneering work of the Tower miners. They showed grit and determination. They took a personal and financial risk. They proved the Coal Board wrong. They showed you can mine successfully, with miners playing a leading role in the management of their pit.

After the miners' strike, I tried to persuade Margaret Thatcher to allow the sale of pits more generally with substantial free shares for miners so they became co-owners in the project. Whilst I got the support of John Moore, an early leak of the scheme unfortunately led to its demise. Had we gone ahead with co-owned pits in the eighties I think we would have had a much bigger and more successful mining industry.

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[Many pit closures under Labour in the 1960s and 1970s.](#)

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The third of the commanding heights of the 1940s economy to be nationalised alongside steel and rail was the coal industry. It employed 700,000 employees in the later 1940s, producing around 200 million tonnes of coal a year. The number of employees slumped to just 235,000 by 1979 on the first election of Margaret Thatcher. Many of the employees lost their jobs under Labour governments, who accepted a large number of pit closures as the industry struggled with costs and falling demand. More job losses followed in the 1980s and 1990s, along with a bitter strike about whether individual pits could be economic or were exhausted.

Today there is no deep mined coal produced in the UK, and a very small opencast coal industry. We now import most of the reduced amount of coal we do need. An industry employing well over 700,000 at peak has all but disappeared. It was nationalised for most of the post war period, but this did nothing to arrest the long term decline. Indeed, there were occasions when the nationalised management took too pessimistic a view of the economic prospects for individual pits. I remember helping the miners at Tower Colliery take over their mine from the NCB when the NCB said it had to shut for economic reasons, and go on to make a success of mining more coal from it for many years.

The nationalised concern did have substantial investment programmes from time to time, developing a range of new super pits with better machinery and operating at larger scale. None of this arrested the long term decline in coal use and coal output. More recently governments have turned anti coal on environmental grounds.