[My speech in response to the Budget, 4 March]

I welcome the extension of help to individuals and companies. All the time people cannot go to work or businesses cannot trade and all the time that there are pandemic regulations and social distancing that impede people going about their normal business, it is vital that the Government offer alternative income and support. I am pleased that the Government came up with a big response originally, and it is necessary to carry it on for as long as these restrictive measures remain in place.

I also welcome the fact that the OBR has decided that we will be borrowing £39 billion less in the current year than in its recent November forecast. I think that serves as a reminder or a warning to all those trying to debate the economy based on a set of figures; these are very uncertain times. It is difficult for the official forecasters to come up with accurate figures, and we should be especially suspicious of ideas based on what the deficit might be in a couple of years' time. This deficit will fall very rapidly.

Assuming the great success of the vaccines continues, and assuming that we can relax and get people back to normal work and normal business within a few weeks or months, we will then see the deficit come down because so much of the deficit has been caused by the special pandemic measures.

The figures confirm that around £250 billion of extra spending in 2020-21 was the direct result of the special pandemic measures, and that there will be another large figure in the first part of 2021-22. We want to see the end of all those special expenditures—because people have better-paid jobs to go back to, businesses are trading successfully, and there is turnover and profit coming back to our small and large businesses—and so much of that expenditure was a poor substitute for being able to do the thing itself.

There was of course some loss of tax revenue, and again, we would expect to see tax revenue rise quite rapidly as soon as people can trade properly again, as soon as there are more transactions in the economy, and as soon as we are making more goods and providing more services to each other, as I am sure we will. So the Chancellor is right to say that the crucial step to getting the economy back to health, the deficit down and the numbers back into shape is to promote a recovery. He is right to want more investment in our economy.

The public sector numbers show public sector investment going up, and it is very important that good projects are chosen that will have a good payback. It is very important, too, that the tax incentives are correctly honed so that we get the boost in private sector investment that we want. The Chancellor is also right not to rush out any new fiscal rules.

We will need a new set of rules in due course, however, and they must be geared to a faster growth policy and a policy about levelling up and investing in great projects around the United Kingdom.

That must be linked to sensible discipline on public finances and, above all, to keeping the good control of inflation that we have had for a number of years now. It is reassuring that the OBR and the Bank of England are very confident that inflation will remain low, which gives us a bit more flexibility, but we need to watch that inflation situation.

I note that the OBR thinks the balance of payments is going to be weak for two or three years, and that provides an opportunity. In the post-Brexit world there are huge opportunities that we can exploit more easily in import substitution. Why do we not, for example, with our great green policies, plant many more trees and make sure there is much more sustainable husbandry of trees so that we replace many of the timber imports?

And while we are about it, can we replace the pelleted timber coming in to produce power at Drax with home-produced sustainable timber? We should also put in sufficient electricity capacity, because if we want an electrical revolution we will need a lot more capacity, and while we are doing that we should get rid of the imported electricity through the interconnector, which we rely on more and more for no particular reason.

We used to be able to have all our own power provided in the UK with a decent margin and I suggest we return to that. We can do a lot more on food and fish, too. I urge the relevant Ministers and Departments to promote food and fish, and also to make sure that the grant schemes and regulations that are now under our control are used to increase our capacity so that we start to substitute many of the items that are coming in.

A recovery needs more orders and more investment in capacity; it requires excitement over new products and services and the restoration of old products and services. That must be the single thing that most motivates all the relevant Ministries and Government policy, because the only way to get this very big deficit down is to have more revenue and less expenditure, and the only legitimate expenditure to cut is all the spending we have been doing as a poor substitute for a decent economy with well-paid jobs and successful businesses.

So I say, let’s go for growth; let’s do everything we can to promote more things being made and grown and sold within the United Kingdom. There are huge opportunities, and that will be good economics.

EU rules for debts and deficits

The Chancellor is calling for ideas on what new fiscal rules should be applied to the UK economy as it seeks to recover from the pandemic shock.

One of the surprises in the official figures released with the budget was to see the traditional table showing the next five years figures against the targets of the EU's Growth and Stability Pact, with reference to the Maastricht Treaty levels. Whilst we were in the EU the limitation of state debt to 60% of GDP and the annual deficit to 3% of GDP applied to us, though we did not face the same enforcement penalties as members of the Eurozone could face. Some people argued the Stability and Growth policy did not apply to us, yet we reported on it annually at the budget, sent in the necessary figures to the EU to monitor our budget and its conformity and had an annual debate about it in Parliament. I did not expect to see the report of these numbers to continue after we had left the EU. Previous Chancellors did guide the economy by seeking to get the deficit down so that state debt fell as a proportion of GDP, as the EU said.

The documents imply that some parts of official thinking believe this is still a good way to guide an economy. There is a concern to see state debt as a percentage of GDP falling again, which is what we should do to comply with the Pact. I agree there should be some debt control as part of a sensible strategy but there is no reason to think the 60% percentage of GDP figure for debt and the 3% deficit figure are the best or right ways to steer. There is an argument to say you should treat capital spending differently from day to day spending on public services. If the state is investing in an asset which will generate a positive return that exceeds the government's cost of borrowing there is less reason to restrict such spending. I think we need new fiscal rules based around boosting the growth rate and productivity, and distinguishing between worthwhile investments and other public spending. I will return to this issue soon.

The UK government backs UK fish

I was sent this from the Fishing Minister:

Love Seafood Campaign
The Trade and Cooperation Agreement has set a new relationship with the EU on fisheries. This marks an important step in the right direction. Over the course of the last year we've taken our independent seat at the Regional Fisheries Management Organisations, and reached a partnership agreement with Norway, our most important partner on fishing interests and with whom we have responsibility for shared stocks in the North Sea.
As we move forward, we are determined to do all that we can to support our coastal communities. As a nation, we should be eating more of the fish that we catch.
In the coming weeks, Defra and Seafish (the public body that supports the UK seafood industry) will be working together to deliver a UK-wide 'Love Seafood' campaign, featuring UK fish and shellfish.
The campaign will focus on increasing domestic consumption of UK seafood. It

will promote species including: langoustines, crab, lobster, scallops, oysters, clams, mussels, squid, cuttlefish, turbot, plaice, sole and monkfish.
The campaign will run throughout March, and will feature in national and regional press titles. We see this as a first step, and part of our wider ambition to ensure greater domestic consumption of UK-caught seafood.

[Invest in import substitution]

The OBR forecasts yesterday do not show a sufficiently sustained investment boost from the private sector. They also show a continuing high balance of payments deficit. The forecasts may be too pessimistic, but it does highlight an opportunity which the government could grasp.

The Chancellor rightly wants to lead a big investment revival. He is also making large sums available in public sector capital, and hybrid capital through joint financings. There are obvious opportunities in putting in more electricity capacity to cut our use of the interconnectors, substituting U.K. timber for imports for many uses, growing and catching more of our food and ensuring our defence orders are supplied from U.K. yards and factories. These are all areas where government intervenes and spends a lot giving it influence.

[The Budget – this year's borrowing down £39bn from last forecast]

As expected the OBR cut their forecast of borrowing in the year to March 2021. They have lopped £39bn off the total compared to the November forecast and may still find their figure a bit high with only one month left to go. In contrast they have raised their borrowing forecast for 2021-22, partly to reflect the extension of measures announced in the budget to cushion some of the effects of continuing lock downs and social distancing policies. They wisely stress the difficulties of forecasting given the big impact lock down policies have on jobs and business. They rightly draw attention to the fall in debt interest thanks to low interest rates and the purchase of state debt by the state owned Bank of England. It seems to me premature to form a view of what might be needed to control the deficit in a few years time when it is so clear that the deficit is massively swelled by the impact of anti pandemic spending and some loss of tax revenue from less output and income. As their figures confirm it will take a vigorous recovery to get the deficit down, but only a good recovery can straighten out the public finances.

So the budget needs to be judged by how big an impact will it have on that recovery? My questions include

1. When will the Freeports be up and running? Will the areas demarked be substantial? How generous will the tax and tariff reductions be? I strongly support a Freeport led recovery but to be effective they need to be available soon, to be given good incentives and cover substantial areas.
2. How will the supercharged investment allowances work? What is the net effect on a potential inward investor of the improved allowance against the higher CT rate stated to come in in 2023?
3. What more will the government do to back the self employed and small business, as they will be crucial to recovery given their flexibility and enterprise?
4. What plans does the government have to address the issue of productivity performance, which affects the longer term growth rate?

I will develop these and related themes tomorrow as part of the budget debate.