

Why I am not worried about UK state debt levels

The UK government has put in a new control on UK state debt. It is a sensible one. The interest on the debt should not be more than 6% of total public spending. This appears to be quite a tough target, as very year bar one from 1945 to 2000 saw interest higher than 6% of spending.

Today debt interest is around 4% of public spending, or under 2% of GDP. It is down at this level mainly because UK interest rates are so low and look likely to stay low. UK rates remain higher than the Euro area and Japan though below the US.

State debt at the end of last financial year was £1.82bn or a quite high 85% of National Income. This was a gross figure. The Bank of England, 100% owned by the state on behalf of taxpayers, owned £435 bn of that. If you deduct that, state debt was a more realistic £1.39tn or 67% of GDP, a low figure by contemporary standards.

Refinancing UK state net debt today at rates under 1% for up to 30 year borrowing would leave the state with an net interest bill to pay of under £13.9bn or under 2% of state spending. There is every reason to get on with funding the debt longer and refinancing . It is clearly affordable. It is, however, as some will rightly point out, no reason to waste money. Tax cuts are a particularly good idea.