

A new economic policy?

It's time to hear from the government a new economic policy. As we leave the EU we should abandon an economic policy based on the twin requirements of EU policy, the reduction of the running deficit of government and the reduction of state debt as percentage of GDP.

I know when I have mentioned in the past the importance of the Maastricht debt and deficit controls to UK policy some have written in to deny this. Let me remind you of the extent of the EU requirements on the UK since 2008.

The UK was under EU budget control from 2008 when Decision 2008/713 stated the UK was running an excessive deficit and had to take action to reduce it. The deficit worsened thanks to the great recession, so they reinforced the requirement. They required us to make spending cuts and tax rises worth 1.75% of GDP a year (£38.5bn a year at current values) from 2010/11 to 2014/15. In 2015 they reviewed the position and renewed the requirement to cut spending or raise taxes as they remained concerned about the level of state debt to GDP. They set specific reducing deficit targets of 4.1% of GDP for 2015-16 and 2.7% of GDP for 2016/17. The UK government always filed the relevant figures and submitted to the discipline imposed, as it is required to do by Treaty .

In 2017 they decided the UK had complied and lifted the excessive deficit plan after a nine year programme of cuts. They however said "As from 2017-18 the UK is subject to the preventive arm of the Stability and Growth Pact and should progress towards the minimum medium term objective at an appropriate pace...and comply with the debt criteria in accordance with Article 2(1a) of Regulation EC No 1467/97." (i.e. the aim of economic policy had to be to get state borrowing down to 60% of GDP from around 87% over the medium term).

As we come out of the EU this ceases to apply. The UK needs a new fiscal framework which helps us promote growth, jobs and higher real incomes. We need a purpose and guides to economic policy based on these good outcomes for people, not a policy based on getting state debt down as a percentage of GDP.

Of course there needs to be a prudent control on extra debt incurred. There is nothing unstable or unaffordable about current levels of state debt, especially taking in to account around one quarter of the state debt is owned by the Bank of England which in turn is owned by the state!

A sensible rule could be that additional state borrowing should not exceed the levels of public sector investment. The government will ensure the current account of the government is in surplus or balance. On 2020-21 figures from the last Red Book this gives the state the opportunity to borrow 3% of GDP, the forecast level of investment, which would allow a sensible fiscal expansion. Tax cuts of around £10bn on top of the spending increases announced should be possible. There could be a recession override allowing fiscal stabilisers i.e. a bigger deficit to apply were there to be a nasty downturn at some time in the future. I am not currently forecasting a UK

recession

references

European Council Decision 2008/713/EC

2009/409/EC Council decision

2015/1098 Council decision

14852/17 Council decision