

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.