

Maastricht should no longer rule our economy

Since 2008 the Maastricht EU Treaty rule that state debt should not exceed 60% of GDP has governed our economic policy. It did not do so before Labour's big build up of debt because we were below the ceiling.

Three Chancellors of very different views and ambitions, Messrs Darling, Osborne and Hammond all accepted Treasury and legal advice that state debt as a percentage of GDP had to drive policy. They battled first to get the annual deficit down to the Treaty ceiling of 3%, and then took it down more to get debt as proportion of GDP down.

Pro EU people often argue the UK did not have to do this because we were not Euro members. This is untrue. It is true we did not face fines for non compliance, but we were bound by Treaty rules and the UK state always accepted the discipline. Every year Parliament held a debate on our compliance. Every Red Book and OBR report included a report on progress with hitting the debt targets as a central part of economic policy.

It was bizarre to hear Opposition MPs condemn the budget stance as austere whilst insisting we stayed in the EU and obeyed its Treaties, as the Maastricht rules were at the centre of the policy.

Now we are out the new PM and Chancellor are right to expunge the state debt rule from our economic policy. Current levels of UK state debt are not too high. The UK can borrow at 0.6% for ten years, showing markets have no worries about debt levels. They supply affordable debt.

The Maastricht rules did not allow us to use the true figures of state indebtedness which should be net of the one quarter of outstanding state debt which the state has bought in and owes to itself. Adjusted for this our debt to GDP ratio is around 67%. This is low by international standards, well below Japan, Italy, Germany, France etc. The Maastricht rules are right to make Euro area states include State debt the ECB has bought in, because of course a Euro state does still owe that debt to an outside party, the ECB. The UK owes money to the Bank of England which it wholly owns.

UK Economic policy should be geared to growth and low inflation, not to state debt levels as the main target.