2020 Christmas Arrangements

Dear John,

Further to yesterday's announcement by the Prime Minister and the COVID-19 Winter Plan, we have reached agreement between the UK Government and the devolved administrations in Scotland, Wales, and Northern Ireland on arrangements for the Christmas period. Christmas is an important time of year for many people in the UK, regardless of their faith.

COVID-19 continues, however, to pose a very real and ongoing threat. It will not be possible to take full advantage of the winter holiday season and to celebrate Christmas in the normal way.

We recognise that there will be some hard choices for families and friends, and that there will be situations where it is not possible to gather in the way many usually would. In this context, we have reached agreement on a single set of UK-wide measures to help people come together with their loved ones in a way that is as safe as possible.

- Between 23 and 27 December, up to three households will be able to join together to form an exclusive Christmas bubble.
- Everyone can be in one bubble only, and cannot change bubble during this time period (an exemption to this is children, aged under 18, of separated parents).
- People (e.g. nannies, cleaners, tradespeople) can continue to work in someone's home where necessary during this period. To reduce risk, they should observe social distancing wherever possible, and where it can be avoided should not go into homes that are hosting Christmas bubbles.
- A Christmas bubble will be able to spend time together in private homes, to attend places of worship, or meet in a public outdoor place.
- Travel restrictions across the UK will be lifted to allow people to travel to and from their bubble. But beyond this, people should follow local restrictions in the area in which they are staying.

Even where it is within the rules, meeting with friends and family over Christmas will be a matter of personal judgement for individuals, mindful of the risks to themselves and others.

People should as much as possible reduce unnecessary social contact with those with whom they do not live in the two weeks before forming their Christmas bubble. We need everyone to think carefully about what they do during this period, balancing some increased social contact with the need to keep risk of increased virus transmission as low as possible. This is particularly important when considering those who are vulnerable and elderly.

The clinically extremely vulnerable can form part of a Christmas bubble, but this would be a personal choice and should be balanced against the increased risk of infection for those people.

Given the additional risks, visits out of care homes should only be considered for care home residents of working age, where the home is in agreement, and has completed an individual risk assessment.

Parents should continue to send their children to school and students should continue to attend college, in line with local guidance. The UK's four Chief Medical Officers continue to advise that the best place for children and young people is in education. There is no need for children to be taken out of school early.

It is essential that everyone follows the rules applicable to where they are in the UK. In England, that means continuing to follow the local tiers that will apply from 2 December. It will be particularly important for everyone to follow the social distancing guidelines early in the new year. Historically, this period is when the NHS sees the greatest pressure on services such as Accident & Emergency, and the highest rates of bed occupancy, and this year the NHS is dealing with COVID-19 as well.

Further information and guidance can be found on gov.uk:

While this will not be a normal Christmas, we hope that this UK-wide agreement will offer hope for families and friends who have made many sacrifices over this difficult year.

With every good wish,

Rt Hon Michael Gove MP

Chancellor of the Duchy of Lancaster and

Minister for the Cabinet Office

[State debt and money printing]

Time was when I and many other economic commentators would have rightly warned that a country cannot take on too much debt as it has to pay the interest and pay it back one day. It needs to live within its means. I would also have confirmed that any attempt to simply print more money to spend in the public sector or to use to buy up the debt would lead to high inflation, and would come to create a deep recession as hyper inflation undermines normal activity.

There are plenty of examples from history and current economies to show what goes wrong if a government tries to borrow and print its way out of economic troubles. Call it the Weimar model, from 1920s Germany, or the Zimbabwe model from that country in the first decade of this century. Or call it the

Venezuela model, still living through the disastrous consequences of borrowing and spending too much in the public sector and trying to print its way out of the debts. A government that prided itself on generous handouts to the poor ended up leaving the poor hungry and roaming supermarkets with little food. Hyperinflation set in. That clears the shelves of goods, drives imports sky high in price as the currency plunges, and undermines investment and business. Venezuela, the country with the world's largest oil reserves has been unable to pump much oil, as the oil wells go without maintenance and the transport fails.

But today I need to report that the Euro area, the USA and the UK have embarked this year on a major programme of expanding state debt, and their Central banks have printed a large amount of new money, politely called Quantitative easing. Indeed, to save the world economy the Fed created an extra $3trillion this spring. We should be grateful, as it was needed.

I will call this the Japanese model. For 30 years now since her huge credit crunch and asset price crash, Japan has followed a policy of greatly expanding its public debt, and buying in large quantities of it with money created by its Central Bank. State debt in Japan is now around a remarkable 250% of GDP. It stands at 1,328,000,000,000,000 yen. Despite this Japan suffers from practically no inflation, output is fairly stable, investment continues and the currency is behaving well against others.

So far the actions taken by the USA, UK and the Euro area during the pandemic have shown that we can at least temporarily follow the Japanese model. We should not ,however, assume we will be able to do this indefinitely or will need to do what Japan has done for some 30 years. We cannot assume our economies will remain immune to inflation, that our currencies will remain relatively stable against others, were we to persevere with too much debt and too much money printing.

It has been possible to do it so far because the anti CV19 measures were such a big hit to demand and incomes, that it needed an equally large offset from borrowing more and creating more money. There was no shortage of goods for the money to buy, apart from a few specials like PPE which duly shot up in price. The UK has decided it can afford to expand state debt above 100% of GDP, and has set out on a course of creating an additional £450 billion of new money, on top of the £445bn of QE money inherited from previous governments and the banking crisis. This should be fine, and gives the UK a crucial breathing space to make the unusual and large expenditures caused by the CV 19 response.In effect this newly created money will pay for the excessive one off costs of the pandemic policies. It would be best to assume that as we recover we need to bring the special measures to a well timed end. Too fast and we are back to recession. Too slow and we are on to inflation.

The UK state through the Bank of England will own well over 40% of the large state debt it is building up. The Treasury pays interest to the Bank and the Bank sends it back as a dividend to its government owner. This is why I am less concerned than many about the level of debt. This view is reinforced by the way so far the UK can borrow large sums at near zero interest, removing the normal pressures and constraints on borrowing more.

Confidence remains a precious flower. The government must seek value in all this extra spending, and have plans to get back to something more normal in good time. The Japan model works for Japan, but Japan usually has a balance of payments surplus, an ageing population with a savings habit and years of experience of no price rises. The US and UK with large trade deficits and a history of more inflation are only temporarily able to follow the Japanese model.

Postings to the site

When I moderate the postings I see the name and post as usual. I now see you cannot see all the names on the public version so will ask the webmaster to sort it out.

A better Christmas?

Plenty of people want a Christmas to cheer them up. Sales of trees and decorations are by all accounts good. People are brightening up their living rooms early this year, and planning a family get together. The government was at least wise to relax the rules a bit to allow more people to come together for Christmas meals and conviviality as they wish.

There has been much worry expressed by some government scientific advisers over what all this social contact might do for the spread of the virus, and a wish on their part to have periods of greater restriction before and after. They like the idea of each of us having some sort of limited freedom budget, and if we spend too much of it on meeting people over Christmas we need to rein in before and after.

We need to move on to a more trusting approach, where we all make more of our own decisions based on understanding the messages from the medics and scientists. We can calculate our own risks and the risk we might pose to others, as we do about all other such threats in the normal course of life.

It is not easy making choices for people, weighing the danger from opening non essential shops against the danger of opening hospitality venues. I am glad the discussions some of us have had with Ministers making the case for sports facilities to be open and against the curfew have led to some sensible modifications of the local lockdown schemes. What do you think of the latest proposals? I and my colleagues will study the detail of these new measures as it is published, and will want to see a way forward that minimises damage to business and ,jobs.

[The battle of the EU budgets – and the rule of law]

The EU claimed it had reached agreement on a 7 year budget from 1 January 2021 and on the planned Euro 750 billion CV 19 recovery fund, now known as the Next Generation EU fund. There remains, however, one large obstacle.

Poland and Hungary object to the rule of law proviso. The European Parliament is particularly keen on this part of the deal. It means any country that is said to have infringed the EU's idea of the rule of law will not receive their sums from the fund. Poland and Hungary are presently thought to be in violation over independence of judges. Both countries have said they will veto the financial package as a result, and believe the EU is seeking to change their migration policies to one of open borders by this means.

Mrs Merkel currently chairs the Council as Germany holds the rotating Presidency. She is keen to sit down with the President of the Commission and try to broker a way through. They have to prepare for the crucial meeting on December 10/11 when unanimous agreement is needed, and they need to woo the European Parliament to accept any compromise.

The multi annual 7 year budget is planned at Euro 1.8 trillion. This will require every member state to consent to lifting the current ceiling on the budget. Whilst this sounds like a lot of money, it is under 1.5% of the combined GDPs per annum. Some 30% of the total is said to be to promote green growth.

The Commission plans to use permission for this larger 7 year budget to justify a range of new taxes over the next few years to be levied at EU level. They want an expanded emissions levy, a Financial Transactions levy, a Digital levy, and a couple of proposals to tax company profits. Gradually, step by step, they are building their fiscal union. By offering Hungary and Poland larger shares of the planned Next Generation fund they hoped to rein them in on borders and the rule of law.

It is going to be gripping battle, as this is the one occasion when member states have some individual power as they still have a veto over the 7 year budget and the new fund. Once the new fund is established, assuming consent, an important new principle of the EU borrowing large sums on its own account to promote pan Union policies has been established.

It would be interesting to hear from those who still regret the U.K. decision to leave on the following issues

1 If we had stayed in should we have supported this substantial increase in the EU budget?

2 Should we have accepted part liability for the Next Generation Fund or fought to keep it outside the EU balance sheet somehow? Would we have been happy to be a substantial net contributor through this mechanism?

3. Would we have accepted the new EU taxes which flow naturally from the larger budget or would we have battled to prevent the EU increasing its direct tax raising powers?

4. Does this further move on tax and budgets confirm yet again this EU is much more than a trading arrangement or customs union?