What is national security

Yesterday I joined the debate on the government's bill to give Ministers powers to block foreign acquisitions of companies, technology and other property that could be damaging to to our national security.

The Bill attracted cross party support. Much of the debate was about the detail. Two main questions arose. How can the system be set up to act smoothly and quickly for all the many foreign acquisitions that do not entail any threat to national security, as there is the danger that many buyers will feel the need to get clearance before proceeding. How do we define national security?

I pointed out that the UK has a high level of acquisition of our companies and assets because we run a large balance of trade deficit with the EU and now run a deficit on investment income thanks to all the past sales of assets to pay the import bills. I urged Ministers to develop policies that encourage more UK investors to invest in our future, and to invest in import substitution.

Many people define the national security phrase narrowly, to encompass specialist technologies for defence and Intelligence. I raised the issue of strategic weaknesses. In the two world wars of the last century – which we do not wish to repeat- one of the UK's worst strategic weaknesses was the need to import food, fuel and other essentials through dangerous shipping lanes subject to sustained submarine and bomber attack.

Today we are very dependent on imported food and to a lesser extent on imported electricity. Shouldn't our strategic audit encompass doing something to correct these weaknesses just in case? The continent is too dependent on Russian gas.

A new energy policy

The UK used to set two main goals for energy policy. The first was to ensure competitive supply to keep prices down. The second was to ensure the UK could cover all her own electricity needs from home generation, with a sufficient margin of capacity to handle cold dark days and failures in part of the generating system. Some diversification of sources of power was always built in.

These policies were important to combat fuel poverty and to assist industry. If you want to have a strong industrial presence in everything from steel to ceramics and from chemicals to aluminium you need plenty of cheap energy. It is also a good idea to have electricity self sufficiency for strategic reasons. The low price was produced by a merit order system, where the cheapest power was produced all the time and dearer power was only added when demand rose to high levels.

In the 1980s major changes were made to allow more competition. These changes drove electricity prices down, whilst still ensuring something like a 20% capacity margin to allow for problems and demand peaks. The industry transformed itself from substantial reliance on coal to gas, and in so doing greatly increased its fuel efficiency, lowered its carbon output , cut polluting emissions and reduced prices.

In recent decades government has placed much more weight on two additional policies. The first is to decarbonise, forcing changes to close down fossil fuel stations. The second has been to accept the framework of an integrated European energy system, with more dependence on interconnectors deliberately put in. It is no surprise that the EU which pushed this is now using it as a threat against our exit. These two policies have led to higher prices.

As we leave the EU we need to change policy. We should discard the integrated EU policy, and reset UK independence of supply. We should seek to use competition again to drive down prices, and to ensure that where renewables are being added to the mix they are good value, taking into account their full cost. Wind energy, for example, is intermittent so allowance needs to be made for back up facilities. Water based renewable systems should have an advantage from being always available and that needs to be reflected accurately in comparative costings.

It will be more difficult for the UK to enjoy an industrial revival without cheaper power or without plenty of capacity and no interruptions to supply .

The twin deficits

The UK is currently running a large state deficit, with the government spending maybe £350 bn more than its tax income this year. Last year we also ran a £100bn balance of payments deficit. Whilst this fell sharply during the global lockdown and big hit to world trade, it is picking up again as world trade recovers.

Allowing a huge deficit for just this year by the state is affordable, as interest rates are near zero and at the same time the Bank of England is buying up £250 bn of the state debt for taxpayers. The US, the Euro area and Japan are all doing the same. It’s still not a good idea to waste any of the money so borrowed, nor to think this is a long term answer to our economic challenges.

More serious is the balance of payments deficit. This now stems from two main causes. The first is the persistent large trade deficit with the EU. Our surplus with the rest of the world does not manage to get anywhere near offsetting all of this.

The second is the now persistent deficit on investment income account. Because for the last few decades we have imported so much more than we exported to the continent, we have had to sell companies, properties and shares to foreign buyers to raise the foreign exchange we need to pay for all the European imports. As a result we have changed from a country with a large surplus on our overseas investments prior to joining the EEC/EU into a country with a large deficit in investments, owing overseas investors much larger sums in interest payments and dividends than they owe us.

In future blogs I am going to return to the question of how once out of the single market and customs union we can reduce our trade deficit with the EU and stem the need to keep making our investment position worse by having to sell our assets. It is not a good economic model to be dependent on the goodwill of foreigners to buy your food or electricity, relying on foreign supply and on foreign finance to do so. The balance of payments has to balance, so if we import too much we have to sell off the country's assets to pay the bills.

New advisers

As the Prime Minister looks for new advisers he needs a select cast who will help him develop and communicate his strategic vision of our country and our future as we leave the single market and customs union and learn to live with the virus.

He needs help to build more bridges with Ministers and backbench MPs and to shape the resources and powers of government for a distinctive and positive approach to the future. There is plenty of talent and experience on the backbenches which needs enthusing and mobilising in many ways.

There are three immediate priorities, which have to be tackled together and are critically interlinked. The first is the secure a clean exit from the EU, with or without the preferred free trade deal, with no more slippage. Indeed, there will not be a free trade deal of an acceptable kind unless the clear resolution of the UK to just leave is believed by the EU.

The second is to put in place a full range of approaches to the virus as we await further breakthroughs from medical science, so we can live more normal lives and get the economy back to work whilst protecting the vulnerable and limiting the spread of the disease. I have often commented here on the initiatives we need to extend or develop to winnow down the impact of this virus.

The third is to do everything we can to promote and sustain recovery. We need more and better paid jobs, more and more profitable small businesses, more home grown food and home produced goods.

The Prime Minister needs to appoint those advisers who he thinks best meet his needs. He also needs to continue to take advice from leading members of the Cabinet who should also enjoy his trust .

UK GDP up 15.5%

The third quarter figures for UK growth were a record – up 15.5%. So far so good.

That was not nearly enough. It was the direct result of the large collapse the previous quarter under lockdown, and the efforts of the Treasury to get the housing market moving with a Stamp Duty cut and the restaurant trade working with generous special incentives.

If we look at the IMF forecasts for 2020 growth around the world we see a much better outlook for the USA, at minus 3.5% for the whole year, compared to the main European countries clustered either side of 10% down for the year. Their forecasts are not going to be that wide of the mark, looking at the latest third quarter figures. They see Spain down 12.8%, Italy 10.6%, France and the UK both down 9.8% and Germany down 6%. All but Germany have been very badly damaged by the virus and by the economic measures taken to counter it.

So why has the USA done so much better? After all its own virus death rate is similar to the UK’s and considerably higher than Germany’s. Large parts of the USA escaped full lock down, which helped. More importantly the Fed put in a much bigger boost than the Bank of England or the ECB which helped a lot. The US has many more of the large and successful tec corporations which boomed on the back of us all moving to an on line world for so many things. Old shops in Europe closed temporarily or permanently whilst people went shopping with Amazon.

The UK government needs to learn from the US experience. President Trump’s tax cuts helped. The deregulations helped. The technology clusters helped. Above all a very responsive Central Bank that promised to do whatever it needed to save the US economy and the world turned things round from their decisive interventions at the end of March.