

Shadow Justice Minister makes gaff on the economy. At Beaconsfield School answering a question on National Debt Mr Grieve said that payments have to balance, but we have had National Debt since before the Napoleonic War so this is not true. We do not call debt, payments as the stock of debt is called the National Debt and the flow of Debt the PSBR. The term payments normally refers to the Balance of Payments, the external position of the Economy and this has responded to movements in the currency and can be balanced by movements in the capital account.

In response to Mr Grieve, Dr John Hunter who is an Economist reminded the audience that as Gordon Brown has stated in a number of recent interviews, the UK National Debt position is better than that of Germany, France and Japan. The measure for international comparison is Debt to National Income (or GNP):

Japan	192%
France	78.7%
Germany	77.1%
UK	63%

The UK figure is for the year ending 2009 and is from the Institute of Fiscal Studies (IFS), the figures for the other countries are prepared by the CIA and when we consider non-bank debt the figure is below the world average at 54%. Further comparison relates to the historic debt position and the following picture shows this for the UK since 1900:

Figure 3. National debt as a percentage of GDP over the twentieth century



Source: Bank of England Statistical Abstract, Part 1, 2000 edition, Table 15.2 (cited in HM Treasury, Public Finances Databank, October 2001).

The National Debt does not seem so high at the moment as the above picture shows that we have coped with much higher Debt levels in the past. The highest figure relates to 1950 when it was 250% while after WWI it went up to 150%.

The current crisis relates to the banks and assets that were developed in the US (Mortgage Backed Securities -MBS). In fact 9% of the UK Debt relates to the UK Government's support program for the Banks. This is broken down into Bank Assets and provision for bad debts. If support is given to help the Economy to recover such assets will increase in value (Barclays shares were worth 40p last year and 365p last week). A component for bad debts will also fall with the recovery as house prices rise and much of the assets held in MBSs have recovered their AAA status (see Alistair Milne, "The Fall of the House of Credit"). The support package for the banks is 49.7 Billion that is 28% an even larger component of PSBR that is currently 163 Billion. These assets can be used as surety for some loans and the need to service the debt falls as such assets are sold.

The UK has also been compared with Greece, but this is not correct as:

- i) Greek National Debt to GDP ratio is 113%
- ii) The Greek Economy is uncompetitive, because their prices are denominated in Euros.
- iii) 18 % of Greek debt does not relate to Bank assets.

One key fact is that any policy for the next 18 months should not risk recovery as we want national income to increase. 6Billion in cuts will lead to a larger decline in income and employment that will further affect government debt and recovery. The increase in National Insurance (NI) payments is tied to supporting the Health Service and Family Tax Credits. They will also not affect a significant number of employees as they only bite at £20000 and this is only due to happen next year. Also when employers were surveyed about the introduction of the minimum wage, they said that demand for their products was a far more significant determinant of employment intentions than wage costs of which NI is a part.

In previous recessions, taxes on wealth have been an important factor in paying for the recovery. The Tory proposal to increase Death Duty is not only unfair, but seems perverse as it reduces our primary Wealth Tax at what might be seen as the wrong time. Further, many of us have gained significantly from increases in housing assets and it would not seem unreasonable for these windfall gains to share this burden. Also bankers bonuses have often been used to pay off mortgage debt and hence rather than penalising bonuses the Tories are giving them a subsidy.