The EU never gives up power easily

I am disappointed but not surprised that the EU is still trying to impede and damage Brexit. There is not a shred of democracy in them as they look at several strategies to undermine the clearly expressed wishes of UK electors to be self governing again.

Their preferred route is to try to turn the ambiguous and scarcely agreed Northern Irish Protocol into a device to keep the whole of the UK under EU rules and regulations. They forget their signature to Clause 13.8 of the Protocol which makes clear it can be clarified, superseded or dropped. That was put in there because the Protocol as drafted is contradictory and did not represent a final settlement of the issues it tried to cover. They want to bury Clause 16 which allows the UK to make unilateral changes to enforce the parts of the Protocol the EU does not like – the measures to prevent diversion of GB trade and the measures to ensure the freedom of the UK internal market including NI. The EU refuses to adopt any negotiating mandate which could produce an answer or compromise. Instead they deliver idle threats and seem to delight in the damage they have done to Northern Ireland politics and the Good Friday Agreement. The UK has tabled proposals which protect the EU's single market, their alleged worry, whilst restoring UK trade to NI. The EU refuses to budge.

The EU sought to disrupt the UK's independent vaccine policy when early investment and great research reached a good answer. They regularly threaten retaliation if we adopt any policy that they do not like which deviates from EU practice. They have allies and friends in the UK civil service and on the Opposition benches in Parliament who are looking for ways to thwart the government when it wants to change regulations, remove taxes or make other changes that could help UK prosperity and growth. The Treasury fights against any proposed VAT cut and delights in accepting the very dubious EU view that we could not cut VAT in Northern Ireland. All the time we were in the EU we were allowed to set different VAT impositions from the Republic and to fix different excise arrangements. The sums owing were not settled at a border post but by electronic transfers away from the borders.

The EU's little helpers try to stop any repeal or amendment of EU laws and would like to smuggle some of the latest efforts of the EU legislative machine into UK law by arguing they are necessary or desirable in their own right. The EU doubtless want to invent a new circle of EU control for states falling short of being full members, or it may just wish to lock the UK back in via an Association Agreement.

Ministers who want to get on with improving the UK economy tell me they encounter plenty of official resistance as they seek to amend and repeal. They need to overrule and get on with it. The pro EU forces say we have to accept when we leave there will be downsides, and accept we need to follow EU rules to trade with them. I say there can be plenty of upsides if we cut free properly. You can always trade with them as many other countries do that are not members, through the World Trade Organisation's most favoured nations rules. There is so much to win if we get on with setting our own laws and taxes. It is a strange institution that shows more flexibility towards Mr Putin over buying and paying for Russian gas than it does to the UK, a friend and ally, over internal trade within our own country.

Inflation

I reproduce below my recent Conservative Home article

When I asked the Chancellor following his statement what advice he had received about the possible inflationary consequences of printing lots of money last year, he did not answer. He asserted yet again that the Bank of England is independent.

The Treasury regularly tells us the Bank of England is responsible for controlling inflation. They need to ask themselves why inflation has hit nine per cent, against a two per cent target, and why they think it could even go higher this autumn before falling away.

I cannot understand why Rishi Sunak claims the Bank is independent. The Chancellor chooses the Governor and has influence directly and indirectly over forecasts and policy at the Bank through joint official working and contacts with the Treasury.

Successive governments, with the backing of Parliament, have made substantial changes to the laws, rules and objectives and powers of the Bank over the last thirty years. When George Osborne selected Mark Carney he chose someone who was willing to use the Bank and its forecasts to support the Remain campaign in the referendum, in line with the Chancellor’s thinking.

Gordon Brown changed the inflation target to direct the Bank,and Alastair Darling forced an interest rate cut during the banking crisis on a reluctant Bank to implement an agreed international Finance Ministers’ strategy.

The Treasury respond by saying that what they mean by the Bank is independent is the narrower claim that it has sole control over money policy.

They accept that the Bank has been buffeted by political change. They lost control over managing the state debts and regulating the commercial banks, once thought to be important parts of central banking that were taken away from them.

Even this narrower claim is wrong. Over the last 14 years the main tool of monetary policy has been the creation of billions of pounds of new money by the Bank to buy up state debt. This has kept interest rates very low and would in normal circumstances be inflationary. Every pound of the £895bn created has been formally approved by successive chancellors.

Going further, every pound of bonds the Bank has bought has been underwritten by the Treasury. Chancellors have signed off to indemnify the Bank against all losses on this pile of assets. The Bank has an agreement from the Treasury that will top up its capital to a minimum level whatever happens.

That does not sound very independent and means chancellors need to watch carefully the liabilities the Bank is piling up.

I found it odd the current Chancellor seemed unwilling to talk about this. It has been on his watch that the Bank has bought £450bn of bonds, more than chancellors Darling, Osborne and Philip Hammond combined. Whilst he has also proposed and approved substantial increases in public spending and borrowing, the £450bn dwarfs everything else he has done.

Prior to the banking crash, people in advanced countries said that printing money and keeping interest rates artificially low was the kind of thing inflation-prone emerging market economies would do. The special circumstances of the banking collapse in 2008 did need these special measures to compensate for the destruction of money and credit taking place in the private sector.

There was also a good case for doing some more in 2020 to offset the collapse of activity brought on by lockdowns. I supported the money creation they proposed.

Continuing this policy throughout the whole of 2021, a year of fast growth and good recovery in the UK, was altogether more questionable.

Some people say inflation results from cost pressures and supply shocks. They blame current inflation on sky-high energy costs and surging food prices brought on by the Ukraine war.

It is true we are living through nasty hits from these forces. It is also true that British inflation was rising well before Russia invaded her neighbour.

China and Japan both rely on a lot of imports of energy but they still have inflation around two per cent, not near ten per cent. They did not allow a surge in money growth in 2020-2021, whereas the UK along with the US and EU did decide on a bulge in money growth, resulting in part from the money creation undertaken by the Bank.

Some people say inflation results from excess demand. If people have too much spending power for the capacity in the economy then prices rise quickly.

We can see some of this at work, as hospitality, travel and leisure businesses struggle to recruit enough labour to meet rising demand and need to pay higher wages and more for supplies.

The Bank points out in its defence to the charge that it has dropped the ball on inflation that there is little it can do if Russia disrupts energy and food markets. The only thing it can do if the economy is running too hot is to jack up interest rates to slow everything down.

There is some truth in these defences. It shows that countering inflation cannot be left to the Bank alone.

We need a supply side strategy from the whole of government to produce more energy, food, and other goods and services here at home to bring demand and supply into better balance. The Chancellor needs to produce policies which promote growth. Constantly hiking taxes and inventing new taxes will stifle investment, not encourage it.

Meanwhile the Bank does need to ask itself some tough questions about money. Why does it not have a target for money growth? Why does it ignore the impact of more created pounds and more credit on demand and prices?

It will be the Chancellor who has to tell us how the huge bond portfolio is doing, now bond prices have fallen markedly.

The local plan and housing numbers

I met leading Councillors and Planning Officers on Friday at the Borough Council offices. I explained why I would like the next local Plan to confirm lower new housing numbers given the past pressures on green spaces, local infrastructure and public services from the rate of development.

The Council said it too would like to slow the growth rate. I suggested that the Council

1. Maximises identified land that should be kept free of development through the various designations of green space, sites of special scientific interest, green belt, green gaps between settlements, recreation space, good quality agricultural land and others

2. Do not identify a large number of marginal or unsuitable sites as possibly suitable for housing as that might make defending decisions later more difficult.

3. Make a proposal for changing the way housing need is calculated, as this is central to calculating how much land needs to be identified for housing. The Secretary of State is currently considering whether and how to change national planning law. I would be happy to put a good working proposal to the Secretary of State.

The Council needs to get on with a new local Plan to cover the period up to 2037. The current Plan is near its end and is too permissive.

No windfall taxes

This is the article the Telegraph asked me for on Friday:

I was happy to vote in support of the government opposing Labour's windfall tax plans when they put them to Parliament. Ministers were right to say then that windfall taxes make the UK a less attractive place for business to invest. They introduce a more unpredictable element into planning a long term business investment.

It is particularly strange to single out the production of oil and gas from domestic sources for such a tax. After all surely the government want to cut carbon dioxide output which we do by collecting and using our gas instead of importing foreign gas in LNG tankers from abroad. LNG imports means twice as much carbon dioxide for each unit burned. We already tax producing energy at home at double the rate of other business activities so it has an inbuilt windfall tax for the government. That should be another reason why we want to maximise home production and cut out imports. Why pay all that production tax away to Russia or Qatar when we could have it to pay for the NHS? If we produce more energy here we also have more better paid jobs, a further source of extra ` tax revenue as the Treasury taxes the salaries and then taxes the spending of those who earn the money. The government should actively be speeding and licencing more North Sea output and new fields to replace imports for green reasons, to raise more revenue and create more good jobs.

There is a wider point of political importance. Conservatives believe that free enterprise and the market place are the right answer for the supply of many of our needs from bread and water to energy and clothes. The private sector innovates, offers great customer service, gets rid of unsuccessful or poor quality ventures and finances itself without recourse to tax revenue. In 2020 the large oil companies lost huge sums as demand for their products collapsed with lockdown. None of us thought the taxpayer should subsidise them. Shareholders took the hit. Two years later those same oil companies are making high profits on oil and gas production in the UK which will smooth the shareholder returns a bit after the bad year. The Treasury will take 40% of those profits. Those same companies like BP that also had big interests in Russia have just lost far more on their Russian write offs than they are making on the North Sea output. BP's first quarter figures were a huge reported loss overall. It's a reminder of what a risky business it is.

I urged the Chancellor to have a second package of measures this spring. I am glad he came to the view that he had not done enough to offset

the recessionary forces unleashed by such a large hit to real incomes. I urged him to give back the extra tax revenue he is collecting on oil, gas and electricity. His Vat receipts on energy bills will rise 50%, his taxes at the petrol and diesel pumps are well up, and his North Sea oil corporate tax is surging. This windfall tax rise should be given back to help people afford the dearer food and energy. I also urged him to give it back by a combination of increased Universal credit to help those hardest hit, and to offer some tax cuts. If he had cut the taxes we pay on domestic energy and at the pumps his measures would have nudged inflation down a bit. The higher inflation goes, the bigger the future costs to the government as they index payments to the new rate. Instead he chose to give it back through one off payments which will not reduce the cost of living at all.

The more of the money he claws back in extra tax payments elsewhere the less impact the givebacks will have on helping growth and avoiding too sharp a slowdown. The Bank of England expected the economy to stall next year before the measures based on the impact of the income squeeze and their own monetary tightening with dearer mortgages. The Chancellor needs to bear down on inflation more whilst at the same time assisting growth. Growth means revenue grows faster and the deficit comes down. Past governments that have caused or allowed recessions have had ballooning deficits as revenue falls and public spending rises in a slump. There needs to be a big investment led boost to the economy as we need more capacity of many kinds – more home produced energy, more home growth food, more home landed fish, more home manufactured technology. This requires low corporate taxes, a stable approach to taxing profits, and government regulatory, procurement and licensing policies which assist capacity building at home. Putting in better first year allowances for making an investment does not offset the damage of higher rates of tax on all the years the investment is working, and does not compensate for the threat of windfall taxes if you are successful. The Chancellor should live his brand as the low tax enthusiast.

The U.K. needs an investment revolution

I agree with the Chancellor when he says we need to boost investment to boost productivity. I would add we need to increase capacity in many areas to curb inflation and improve the balance of payments.

Which brings me to my disagreements with the Chancellor. His high tax and new taxes policy makes the U.K. a less desirable place to invest. His stupid proposal to increase corporation tax substantially will deter investment.

Windfall taxes also put people off. Why invest if you could face a supertax should your investment suddenly do well?

The Chancellor thinks if you give businesses a good allowance for the initial costs of the investment that will overcome higher and variable rates of tax once the investment is up and running. Instead the investor is likely to do a long term cash flow and DCF calculations which will demonstrate that the big increase in tax on the profits of the venture will overwhelm the tax cut on the original cost.

The Chancellor needs to overcome negative Treasury orthodoxy and explain to them that lower tax rates produce more investment and more growth which in turn yields more revenue. He also needs to mend the mess he is making of oil and gas investment. We need to open up new gas and oil fields now. When will Cambo, Jackdaw and the others get the go ahead? How much more tax will he burden them with?