

Leaving with no Withdrawal Agreement will be better for the economy than signing it

I have been puzzling over why so many commentators think a so called No Deal departure would be a heavy negative for the UK economy.

There seem to be a series of specific fears that are unlikely to be realised e.g.

1 "Planes will not fly on 30 March. "

The overfly rights are under the Chicago Convention which will be unaffected by the UK 's departure from the EU. Landing rights are in the gift of member states and will presumably be mutually reaffirmed in time for exit. Airlines continue to sell tickets for post 29 March and do not expect to be grounded.

2. "Just in time supply items will be held up at UK ports, wrecking the factory plans."

UK ports will be entirely under UK control. There are no plans being made that I have read about to hold goods up for longer. The addition of a customs payment to current VAT and Excise payments and currency changes can be done away from the border from existing compliance filings electronically, with or without a tweak to the computer data. Intrastat declarations are already very comprehensive and mandatory for EU trade. Products meeting specifications under contract will not need new inspection systems on 30 March.

3. "Food imports will be detained by the need for longer and more complex inspections at borders."

Again there is no need for the UK to impose damaging delays and extra checks, and on imports it is a matter for the UK authorities. Current contracts contain inspection regimes, usually at the farm or processing plants, and product will also continue to be inspected carefully by the purchaser.

4." Medicine imports will be delayed."

As with food, things that have gained regulatory UK approval and are on the NHS approved list can be imported as before with similar inspection regimes and verification.

5" Calais will operate a go slow or blockade of UK exports to the continent"

The Calais port authorities have categorically denied this and say they wish to keep the business. Belgian and Dutch ports would like to take market share from Calais and see the need to offer a smooth service.

Making all these things work are in the mutual interest of the EU and the UK and are not controlled in the main by the EU authorities. There is every

reason to suppose where they need agreements these can be reached, with a general wish to carry on as before.

There are then the economic arguments.

1" Imposition of customs dues will restrict and damage trade"

If nothing changes but the UK and EU impose EU level tariffs on each other then the EU will collect £5bn of extra customs, and the UK £13bn, given the large imbalance in trade in items that attract tariffs. The UK government could give the £13bn as tax cuts so people on average are not worse off from the higher prices. The high tariffs are almost entirely on food products, where the UK has a balance of trade deficit of £20bn with the rest of the EU. Imposing full EU tariffs is likely to lead to a lot of import substitution from cheaper non EU produce, and to a substantial market share gain by UK farmers. The UK gain in domestic market share should more than make up for losses of exports. There will be a crop cycle of adjustment to new demands. The UK can publish its own tariff schedule once it has left, and has the option of lowering tariffs compared to EU levels, which would mitigate the impact tariffs have on trade. It is difficult to see more than a marginal impact on the UK economy of high tariffs on food. Trade with the rest of the world which has been growing faster than EU trade for the UK would benefit from removing tariffs on products we cannot grow or produce for ourselves, removing small tariffs where the bureaucracy is not worth the trouble, and cutting very high food tariffs somewhat. The UK government has yet to publish a tariff schedule for March 30 for No Deal.

2." There will be a confidence effect"

Presumably most businesses now understand that No Deal is an option, and see that its probability has risen as a result of the poor progress in talks so far and the EU rejection of the Chequers half in approach to the single market and customs union. There was a confidence impact on big business investment plans after the vote, but this did not prevent continued growth at a good rate for the first nine months after June 2016. Brexit voters expressed more consumer confidence after the vote. There were also some large inward investors who went ahead with big commitments, including the purchase of two £1bn plus London office blocks and major commitments to jobs and space in London by the leading US tec companies. If I am right in thinking we will avoid any big problem in the weeks after leaving, confidence should come back quite quickly to those large businesses that are preoccupied by this issue. There has not been the predicted exodus of businesses out of London despite more delay and difficulty in the negotiations than advertised.

3. "The UK authorities will raise taxes and tighten money to deal with the shock"

That would be entirely the wrong reaction and looks unlikely. On exit with no Withdrawal Agreement the UK state has £39bn more to play with over the next three years, and the balance of payments is immediately enhanced by the same amount. The Bank of England actually eased money after the vote, and could do so again were there to be any problems after exit. The Treasury has fire

power to spend more and tax less were the economy to slow further.

The economy will get a bigger boost by leaving without a Withdrawal Agreement and spending the £39bn at home. Prolonging exit for 21 months or more prolongs uncertainty, commits us to large extra payments and does not even guarantee a better trade deal.

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[More money for social care](#)

Councillors and others have told me that Wokingham and West Berkshire need more money to help provide good quality care services. I have regularly put this case to Ministers in public and private.

It is good news that in the budget the government promises an additional £240 m this year for adult social care, and the same again next year. There is in addition an extra £410 m next year for adult and children's social care. We await the distribution of these sums between Councils. There is also an additional £55 m this year for Disabled Facilities grants for children and adults.

The government is also working on a Green (consultative) paper on adult social care to put the funding of this service on a "fairer and more sustainable footing".

[My speech during the debate on the Budget, 29 October 2018](#)

John Redwood (Wokingham) (Con): I have declared my business interests in the register, but I am not going to be talking about them.

I welcome this Budget. I particularly welcome the decision to provide some more money for crucial public services. In Wokingham and West Berkshire, we need more money for social care, and there is some in the Budget. We need more money for our local surgeries and hospitals, and a lot of money will be coming through for the health service in the years ahead. I just urge the Government to ensure that it is well spent and that there a proper prospectus

before the money is finally committed in detail.

We definitely need more money for our roads and local transport. I am pleased to see funds with imaginative ideas to improve flows and safety over junctions and to ensure more roundabout junctions and improvements in strategic local route networks. I will be working with West Berkshire and Wokingham Councils, encouraging them to come forward with schemes that I hope qualify, because these are important to the productivity of my part of the world and, indeed, any part of the United Kingdom. Anyone with customers or clients in their area who goes to work daily in a van or car cannot book as many appointments as they would like and might lose one or two contracts each day because they are spending far too many minutes or even hours in traffic jams, particularly at the busy periods of the day. We therefore need to improve flows, which can also improve safety and lower fuel usage, which would be great benefits.

I also welcome the way that the Chancellor is injecting a bit more money into the economy, because there has been quite a sharp fiscal and monetary squeeze administered to the economy since March 2017. The story so far is one of dreadfully inaccurate forecasting by the OBR and the Treasury. We had the idiotic, wild forecasts about how we would have a recession, falling house prices and a big increase in unemployment if we voted to leave the European Union. They said that that would happen in the winter of 2016-17, whereas I am pleased to say that the economy continued to grow pretty well until March 2017. Jobs and employment went up and house prices did not tumble in the way that was forecast, because Brexit was not bad news. A lot of people thought that Brexit was very good news, and they went out and spent a bit more money because they liked it.

We then had a fiscal and monetary squeeze. The Bank of England has put interest rates up, and it withdrew special lines of credit from the clearing banks and issued instructions to lend less against cars and certain types of houses. That had a visible impact on the car and housing markets. We had a fiscal squeeze, because as we see in today's figures, in this year alone £7.4 billion more has been collected in tax and £4.5 billion less has been spent on public services than was forecast in March. There has therefore been a £12 billion—I presume unplanned—fiscal squeeze on the economy since March, and there was also a squeeze in the previous year, combined with a rather sharp monetary squeeze, whereby money growth has now halved, as a result of what I think was the Bank of England's fairly untimely and overdone interventions. I do not think there is a huge inflation problem out there, and I think the action that it has taken is too strong.

I am therefore delighted that something has been given back. What the Chancellor is giving back next year—about £11 billion—only matches the £12 billion of the squeeze that was being taken out this year. The OBR says, "This is a big giveaway," but it is not actually a giveaway compared with what it said as recently as March this year. One needs to put that into perspective.

We now have to discuss what impact Brexit will have. All the forecasts grossly exaggerate the economic impact of Brexit. It is an extremely

important political event, but I do not think we will see it on world economic graphs when we look back in two or three years' time, and I think we would be hard pushed to see it on the graphs of the UK economy as well. The effect could be reasonably neutral. If we go for a no-deal Brexit because, unfortunately, the EU does not offer us something that is better than no deal, or if there is a continued breakdown in the negotiations—at the moment, the Chequers plan does not look very popular with the EU—then, yes, the Chancellor is right that we will need an additional Budget, but it will be a Budget full of good news because it will be the Budget to spend the £39 billion.

An awful lot of Brexit voters voted in part to take back control of our money. The OBR confirms that if we go ahead with the withdrawal agreement it has in mind, we will indeed be asked to spend £39 billion, sending that money over the exchanges to be spent in relatively rich continental Europe rather than having it available for our own priorities here. So will it not be great to have a Budget to confirm that we can spend £39 billion in a no-deal scenario?

Sir Henry Bellingham (North West Norfolk) (Con): A moment ago, as my right hon. Friend will recall, I also made the point about the £39 billion. It is incredibly important that the Government clarify the situation on that, because some Ministers are saying that part of it is owed contractually in many different ways, while other Ministers are saying that the whole lot would revert to the Treasury in the event of no deal. Surely, the Minister must clarify that when he winds up.

John Redwood: I have looked into this. I have taken advice from lawyers. I have also read the report from the House of Lords—not a known bastion of leave enthusiasm. Its legal conclusions were wholly admirable. It said, “No, there is no legal requirement to pay a penny to the EU after we have left.” If we leave on 29 March 2019, we would definitely save that money. There is no requirement to pay. We did not get a bonus when we joined the thing, because there were lots of inherited liabilities, so we do not have to go on paying for liabilities after we have left. That is quite an absurd proposition. We should be able to grasp this opportunity.

If we were able to spend that £39 billion over a three-year period—I know that it is spread over three years and does not come all in one year—there would be, over that period, a 2% boost to the UK economy. That could take our growth rate back up to about 2% per annum. The OBR forecasts are a bit gloomy, and it could be that our economy has grown by only 1.5%, but that is underperforming. We need to ask why that is, and it is certainly nothing to do with Brexit. The reason the growth rate fell is, as I say, deliberate policy by the Bank of England and possibly inadvertent policy by the Treasury creating a combined monetary and fiscal squeeze. This Budget does something to start to lift the fiscal part of that squeeze, and that is very welcome.

It is crucial that we do end austerity. I am absolutely with the Prime Minister on this.

Indeed, I fought two elections on the proposition that we want prosperity not

austerity. I strongly agree with the Chancellor that we should define austerity, as the public do, in its wider sense. Austerity does not just mean not having enough money for social care, which we need to remedy; it means that people's real wages have not gone up enough or at all, so they are not better off. People expect us collectively, as a result of our interventions in the economy and our supervision of the general position, to help them to progress and have real income increases so that they can afford more and improve their lifestyles as they go on life's journey. That is what we should be doing. We should be in the business of promoting more jobs, better-paid jobs and lower taxes so that people keep more of the money from those jobs and the income they are earning. I therefore welcome the bringing forward of the income tax reductions, which will be very helpful.

I also strongly support tackling the problem of low pay. There is still too much low pay, and I am glad that the Government regard this as an important issue. We need to do more on productivity measures, because the real way to eradicate low pay is by higher productivity: "work smarter and get paid more" is what we need to be thinking and doing. That requires a whole raft of the policies that were mentioned in the parts of the Budget document on education, training, transport and many other areas. That will contribute to making a more productive economy.

I am fully behind the Government's aim of banishing austerity. I am fully behind the aim of getting real wages up and allowing people to spend a lot more of their own money. I want the £39 billion because that would be a really knock-out blow in getting a stronger and better economy.

Easing the squeeze?

The UK economy has been through a monetary squeeze and an unplanned fiscal squeeze over the last year and a half. The Chancellor reported that this year they are collecting £7.4bn more in tax than planned, and spending £4.5bn less than planned in March. Added to the halving of money growth thanks to Bank of England policy, it is no wonder growth has slowed down.

The Chancellor has decided to put back the money that has been removed by higher tax revenues and lower spending in his figures for next year. There will be an £1bn fiscal boost from lower taxes and higher spending. Is this truly a boost as the OBR say, when it is merely trying to get back to their forecast figures from last March which turned out once again to be too pessimistic? It is not easy for a Chancellor to chart a course for spending and taxing, when the numbers he relies on for the year in question, let alone future years, are so wrong. At least recent forecasts have not been as wildly and wilfully wrong as the prediction of a recession in the winter after the Brexit vote made prior to the referendum by the Treasury and Bank.

There was much discussion of what constitutes an end to austerity. As argued

here, to many people austerity is high taxes on their incomes and spending, or an absence of real growth in their pay or living standards. The Chancellor raised Income Tax allowances to help boost the net pay packet. He has also proposed above inflation increases in the Living wage and some improvements in benefit payments. He argued that austerity is a private sector as well as a public sector matter, and rightly argued that higher taxes do not solve the problem of austerity for individuals and the private sector. Indeed, they are an important cause of the problem.

The spending increases were largely as briefed out over the week end and already discussed here. The task still remains to see how value and improvement can be bought with the large headline figures pencilled in for the NHS, and to find sufficient for social care and schools. £400 million for schools capital for small projects as a one off is not quite what the schools had in mind when lobbying for more money for their revenue budgets to meet mainstream costs. The government will continue to spend more on Universal Credit as roll out continues and issues arise that need more generous treatment.

Better transport

It is great news that the Budget will include a major programme to improve our roads. The government briefing says they will spend more on motorway improvements. They will offer a substantial sum to improve strategic local highways. There will be more money for potholes, and more to improve dangerous and congested junctions. There will be more cash to improve access to town centres.

I have been pressing for this for some time. It is welcome when ideas you work on come to fruition. I am asking Wokingham and West Berkshire Councillors to have schemes ready that are likely to qualify for money under these headings. We need better and safer junctions, we need more capacity and better flows at junctions, and we need more capacity on our strategic local highways. On my list is the northern and southern peripherals around Wokingham, the new bridge over the railway, and the rest of the Winnersh by pass. There are various junctions that can be made safer with better flows by putting in roundabouts or rephasing lights with traffic sensors. Splitting turning traffic from straight on traffic would also help. Another Thames crossing would be good but getting agreement from surrounding Councils remains problematic.

Nationally England needs to complete the network of trunk roads and motorways to at least dual carriageway standard and with grade separated junctions. We need a network of relief A roads for local journeys to relieve the trunk routes. One of the ironies of all the Remain commentary about possible delays at the ports after Brexit is port delay pales into insignificance besides the

delays transport companies have to deal with everytime there is a crash or roadworks on one of our limited number of main motorways and trunk roads. Just in Time manufacturers have to build in these delays which are all too regular. One of the ways of raising productivity in the UK is to improve the road network. People running plumbing, electrical, cleaning and other businesses offering a service in people's homes schedule fewer appointments to allow for the extra time it usually takes to get to the places of work. Delivery companies for on line shopping also have to confront inadequate roads for their vans.

Some green critics complain about any increase in road spending. They should recognise that cutting down on traffic jams and improving flows of vehicles through junctions and over rivers and railway lines cuts down on the amount of fuel burnt by slow moving vehicles, and cuts the amount of emissions hitting people living and working close to busy roads. On line retailers cannot deliver to your door by train or bike, and businesses that need to take tools and materials to a job also need vans. It is time to give them a helping hand. It will require Councils to come up with good schemes to spend the money well. Traffic management needs to help in the task of improving junction safety and vehicle flows.