

## Should there be a reward for vaccination?

On March 11th the EU published its weekly death figures from CV 19. Unlike most countries the EU does not give its citizens a daily up date. The sad news was the death toll had exceeded 560,000. This compares with 530,000 for the USA. The U.K. media reporting U.K. deaths daily and US deaths regularly ignored the EU deaths again.

We should expect the U.K. CV 19 death rate to continue to plunge as most people at risk get a jab. The U.K. and the US are well ahead of the EU in getting people vaccinated. Shouldn't the UK now enjoy a benefit from this success? Isn't it now safe to let us relax more of the controls? We need to get more services re opened, more leisure and hospitality available with suitable social distancing and air flows.

A year has now passed since the government first locked us down. Over that long time the U.K. has made good progress with treatments and with vaccines. We now have much more understanding of the disease and how to combat it. We need to use these advances to permit more relaxing of the rules and restoration of more business and social activity. It's time to get our freedoms back.

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## Goldilocks policy?

Janet Yellen the US treasury Secretary wants to run the US economy hot. She wants Daddy Bear's porridge straight from the cooker. The UK authorities seem to be looking for Goldilock's favourite, neither too hot nor too cold. The UK has done under half the monetary loosening of the USA. After a similar large fiscal response last year the USA is now doubling up with its monster \$1.9tn further package whilst the UK is looking to phase out the special cv 19 assistance and get borrowing under more control this year. So who will fare better?

It seems likely the USA will grow faster this year than the UK and certainly faster than the EU which is struggling with vaccines and continued lockdown. The \$1400 cheques for most adults sent by the state will combine with the substantial savings accumulated over the lockdowns by the many who kept their jobs but faced restrictions on travel and other spending. This means there is plenty of consumer firepower to unleash. As soon as enough states have relaxed restrictions on retail, leisure, entertainment, hospitality and travel there will be surge in new spending.

What is less clear is has the USA decided to overheat? Could some of that

formidable spending power generate more price rises than is desirable? The thought of world re opening has already powered a substantial increase in the price of energy and some other commodities. There has been a sharp rise in freight rates as trade picks up, and a substantial price rise for semiconductors as a world shortage emerges. Will restaurants, hairdressers, holiday firms and hotels respond to a sudden revival in bookings to put up prices, in an effort to recoup some of the losses from the last year? Will there be many economic areas where capacity has been cut by closures that prove permanent, giving more pricing power to those who remain?

The authorities are relaxed. They want a bit more inflation, a bit more pricing power for companies to generate some cash again. The US expects inflation currently at 1.7% to rise towards 3% and to stay above their 2% target for a bit. They do not expect a price/wage spiral. The high level of unemployment and the need to get so many people back to work suggests to them wages will stay under control.

If the USA is right and it can get away with the huge stimulus it has administered without a worrying inflation, the UK has underdone it a bit. If the USA has gone too far with its monetary and borrowing bazooka, the UK may turn out to be Goldilocks after all.

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## Continuity in US policy

The strong disagreements between President Trump and President Biden were well followed and heightened by media comment in the run up to and aftermath of the election. They reflected some big policy differences as well as a chasm over style, behaviour and the results of the election. Where Mr Trump wanted to limit immigration President Biden wanted to make it easier. Where President Trump wanted to avoid long and costly lockdowns, President Biden wishes to enforce strict rules to respond to the pandemic. Where President Biden wishes to decarbonise quickly President Trump wanted to grow the fossil fuel economy faster to make the US independent of fuel imports.

When it comes to governing there is a lot more continuity than most commentators report. Both men believe in a large stimulus from the Fed to get recovery underway, favouring ultra low rates of interest, plenty of Fed bond buying to keep markets liquid and direct Fed support to banks and the corporate sector. Both believe in a substantial fiscal stimulus with the state spending considerably more than it collects in taxes, though they would disagree about some of the spending priorities. Both in particular believe in sending a decent sum of money to every US adult to spend to get things moving again.

Both men accept the general government advice in Washington that China is a major challenge to the USA. They both wish to confront China on intellectual property, security and Hong Kong governance issues, and President Biden is

even more vocal on the issue of the Uighurs. Both believe in onshoring a lot more production capacity to create jobs at home and reduce US dependence on imports. Make America great again has transposed to build back better with more built and made in America.

As a result the US has now embarked on a massive policy experiment. They wish to run the economy hot. The Democrats have just narrowly passed a huge stimulus package, opposed by every Republican as too large. The USA will borrow an additional \$1.9tn to get things moving, sending much of the money citizens to spend. Meanwhile the Fed has expanded the money supply by a stunning 25% over the last year.

In contrast the UK money supply has grown at less than half that rate despite the UK efforts to provide a monetary boost. The UK fiscal boost is not as large as the US one adjusted for size of the economies and fell short of sending every person in the country a cheque to boost spending. We should expect the USA to outgrow us this year. We should also expect them to have more inflation on the back of their expansion. The US authorities are sure the pick up in inflation will be mild and helpful, not high and persistent. I will return to this in future blogs.

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## Unauthorized encampments

The government has recently set out its plans for new legislation concerning Police, Sentencing and the courts. This draft legislation contains revision to the law over illegal encampments. As constituents have been asking for changes to the law in this area I reproduce below the Ministerial statement:

### “Unauthorised Encampments

While the vast majority of travellers are law-abiding citizens, illegal sites can cause distress and misery to those who live nearby. The Bill will introduce a new criminal offence where a person resides or intends to reside on any public or private land without permission and has caused, or is likely to cause, significant harm, obstruction, or harassment or distress. We have taken steps to ensure that those exercising their rights to enjoy the countryside are not inadvertently impacted by these measures. In addition, the Bill amends the Criminal Justice and Public Order Act 1994 to broaden the list of harms that can be considered by the police when directing people away from land; and increase the period in which persons directed away from land must not return from three months to 12 months. Amendments to the 1994 Act will in addition allow police to direct trespassers away from land that forms part of a highway.”

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# The UK single market

Yesterday the Northern Ireland Secretary talked about trade between GB and NI. There are clearly issues to be sorted out.

I thought you might find it helpful to be reminded about what the NI Protocol said about the UK single market, as this now is at the centre of the disputes.

The Introduction to the Protocol states "Having regard to the importance of maintaining the integral part of Northern Ireland in the UK's single market"... "Determined that the application of the Protocol impact as little as possible on the very day life of communities in both Ireland and NI"..."Affirming the commitment of the UK to facilitate the efficiency and timely transit through its territory of goods moving from Ireland to another member state or third country."

These introductory statements make clear the context to interpret the Protocol. The EU accepted the need for NI to be fully part of the UK's single market and customs union, and wanted assurance that Irish goods could still pass through the UK to the continent without hindrance.

Article One strongly reinforces the main point in the Protocol. It says "The Protocol respects the essential state functions and territorial integrity of the UK"

Article Six states that "Nothing in this Protocol shall prevent the UK from ensuring unfettered access for goods moving from Northern Ireland to other parts of the UK's internal market"

Article Seven states "The lawfulness of placing goods in the market in Northern Ireland shall be governed by the law of the UK"

There are various other provisions about the EU single market and the handling of goods that might move from GB to NI and then on to the Republic where EU rules matter.

The UK has a good case to ensure the smooth functioning of its own internal market. The ECJ has no standing over the UK's internal market.