UK/EU talks

I held a conference in Westminster yesterday on the EU talks.

I was able to praise the government for its opening approach. They are right to insist on talking about all issues in a series of simultaneous working groups. They are right to say we want a Free Trade Agreement, not a comprehensive Partnership Agreement or Association Agreement designed for countries seeking to converge and join the EU. They are right to stress there is no read across from say fishing to free trade. Each has to be settled on its own merits.

The EU still seems to think the UK is the weak party to the talks and needs to make more concessions. It also seems to think the UK will be so desperate for a deal it will crack and concede on fishing, convergence of laws, powers of the ECJ and all the rest of their federal agenda.

The Conference provided unified advice. We do not need to pay to trade. An FTA is very much in the EU's interest. We need to take control of our fish and land many more of them at home. We want to free ourselves of the controls of the ECJ, and will establish the right to shape our own laws as we see fit. Canada and Japan have FTAs with the EU but do not accept EU laws and the ultimate power of the ECJ. Our defence arrangements should be under our control, and our main collaboration through NATO. We should not impose any border between Northern Ireland and GB and not accept any continuing EU jurisdiction over any part of the UK from January 1. 2021.

Why I am not worried about UK state debt levels

The UK government bas put in a new control on UK state debt. It is a sensible one. The interest on the debt should not be more than 6% of total public spending. This appears to be quite a tough target, as very year bar one from 1945 to 2000 saw interest higher than 6% of spending.

Today debt interest is around 4% of public spending, or under 2% of GDP. It is down at this level mainly because UK interest rates are so low and look likely to stay low. UK rates remain higher than the Euro area and Japan though below the US.

State debt at the end of last financial year was £1.82bn or a quite high 85% of National Income. This was a gross figure. The Bank of England, 100% owned by the state on behalf of taxpayers, owned £435 bn of that. If you deduct that, state debt was a more realistic £1.39tn or 67% of GDP, a low figure by contemporary standards.

Refinancing UK state net debt today at rates under 1% for up to 30 year borrowing would leave the state with an net interest bill to pay of under £13.9bn or under 2% of state spending. There is every reason to get on with funding the debt longer and refinancing . It is clearly affordable. It is, however, as some will rightly point out, no reason to waste money. Tax cuts are a particularly good idea.

Levelling up

The government has committed itself to levelling up. It wants to adopt policies that spread wealth and income more widely around the country, given the big gaps between London and the rest.

It is right to talk positively of levelling up, and not to talk negatively about taxing the rich out of London to bring London's figures down to nearer the national average. It's no help to the other cities of the UK if London is poorer. Indeed, levelling London down might also entail some loss of income and wealth for the rest of the country as well.

There are various differences between London and the rest of the country. London's productivity is higher. The capital has many more small and competing companies per 1000 residents than the rest of the nation. There is much more private sector wealth and income per person than elsewhere.

One of the curious features of the imbalance is it is much dearer to live, work and set up a business in London than elsewhere, yet more people choose to do it. They do so because they seek access to the better paid jobs, or access to the better off customers that London provides. There are many competing London restaurants, often with high meal prices, yet many of them make a good living. There are so many people in London wanting to buy a meal with the income to pay for them. With more companies and more highly paid people there is more need of lawyers, accountants, business consultants, personal advisers and the rest. In turn these service sector professionals are well paid and create more demand.

In some other cities and towns around the country there is a shortage of spending power and free enterprise. Oxford and Cambridge are demonstrating that it is possible for smaller provincial cities to attract a cluster of new investors and businesses around themes or strengths of that place. It requires ensuring there is suitable housing for those with the money to develop a business or to supply the high level talent the businesses need. As the cluster of new activities grows so the city attracts the supporting trades and services that can work with the new wealth creators.

Manchester in its prosperous past was King Cotton. Liverpool developed from a great port with many merchant traders. Birmingham was always a big manufacturing and engineering centre. Modern versions of these concentrations of talent and investment will drive wealthier and more productive cities and towns around the country. The levelling up agenda needs to make it easier for them to attract the talent and investment it takes to build a much bigger private sector. The policies needed include lower taxes, more supportive government interventions and fewer penal regulations, and a belief at all levels of government that free enterprise is a big part of the answer, not part of the problem.

Boost the economy now

Other countries have been doing what I have advised the UK authorities to do. We are now witnessing a rash of policy announcements by Central Banks and governments around the world to boost their economies . They want to arrest the global slowdown and prevent a global recession. The UK as the world's fifth largest economy needs to help them.

Australia, the USA, China, Turkey, Russia, Brazil and others have cut interest rates recently.

The USA, China, Japan and Euro area Central Banks have all put more money into markets. The Fed has bought T Bills, the ECB government bonds, the Japanese both bonds and shares.

China has relaxed lending restrictions and offered cheap finance for distressed companies losing revenues from the virus effects. Hong Kong has given HK$10,000 to every adult.

We can argue about the wisdom of individual measures, but they are right to be trying to generate more activity and see business through a difficult time. In this environment boosting demand and ensuring liquidity is probably better than cutting rates.

So what should the UK do?

The Treasury should lift its tax attack on small business contractors, by cancelling IR35

It should abolish VAT on green products and domestic fuel to cut the costs of living

It should cut Stamp duties and VED to promote more home and car sales

It should offer all small businesses a 3 month holiday from Business rates as some will suffer cashflow problems from virus disruption.

Cut Income tax to give all employees a pay boost.

The Bank of England should ensure a plentiful supply of liquidity to markets. It should facilitate lending to companies with temporary liquidity problems brought on by virus disruptions to sales or supplies who have a decent future business model.

Should civil servants be accountable for delivering policies and services?

It has been fashionable for many years to set up so called independent state financed bodies to carry out functions of government away from direct Ministerial supervision. Thus transport Ministers created a Highways Agency to run the main roads, the Environment Department an Environmental Agency to run water, anti flooding and a range of other environmental policies, and the Treasury set up the Office of Budget Responsibility and a so called Independent Central Bank to limit Ministerial control over economic policy.

Some MPs seem to want to transfer more and more things to such bodies. The ultimate of course was the mass transfer of powers to the EU. The public often say this trust the experts approach is a good idea, until the policy miscarries or mistakes are made. Then they expect Ministers to intervene, sort it out and take the blame.

The problem is independent civil service activity often does go wrong. I have chronicled the bad mistakes of the Bank of England in recent years which helped create the ERM recession, the banking crash and the recent economic slowdown. The Environment Agency policy of discontinuing pumping and dredging led to bad floods in Somerset and the need for Ministerial intervention. The EU invented the Common Fishery Policy which did so much damage to UK fish stocks and to our fishing industry.

Well paid senior civil servants in or out of quangos are set targets and asked to run particular programmes or services. There is nothing political about ensuring high quality and efficiency in most cases. Should these targets be used to influence promotion? Is there a level of performance so bad that it warrants loss of job? Should senior civil servants stay put in a role for bit longer than the current average, with named responsibility for what they are meant to be managing?

In a democracy there can be no independent branch of government. The public through their Parliament or Congress can demand that anything changes or gets better. Ministers cannot go on saying a branch of government is independent of them when it is doing harm or failing to perform.They will be forced into changing the structure and or the personnel, in order to get the change of policy people want.