The composition of the new Cabinet

https://johnredwoodsdiary.com/

There has been much misleading comment masquerading as analysis about the nature of the new Cabinet.

There are just two members who voted against the Withdrawal Agreement on all three occasions it came forward, and three who voted against it on two of the three occasions.

There are fourteen who voted Remain plus the Chief Whip.

The big majority of the Cabinet supported Mrs May's Withdrawal Agreement, and some were particularly vocal in urging others to do so.

Congratulations to Boris

Boris Johnson yesterday became Prime Minister, following his good election win in the Conservative leadership contest.

He campaigned consistently and strongly to get us out of the EU by 31 October, with or without a deal. He made clear he sees the draft EU Withdrawal Treaty as dead. He and the government he leads must now see this through. I wish him every success with the task.

The draft Withdrawal Treaty

Martin Howe, Richard Aikens and T Grant have written an excellent guide to the draft Withdrawal Treaty, published by Politeia.

They remind us that the whole Withdrawal Treaty, not just the Irish backstop, contains problems for the UK were we to sign it.

In particular they cite

1. It reaffirms the supremacy of EU law in specified areas, requiring UK courts to strike down any UK legislation which contradicts EU law.
2. It gives the European Court of Justice an important role in settling disputes by referring them to the ECJ, a court of one of the two parties to the dispute. International Treaties usually go to third party independent appeal
3. It imposes stringent penalty payments on the UK for non compliance and allows the EU to suspend its own Treaty obligations if they argue the UK has failed to comply
4. There is no exit clause for the UK without the permission of the EU

I wrote a letter to the Attorney General about various problems with the draft Treaty including the long tail financial liabilities it would commit us to.

It is good the new PM has said this draft Treaty is "dead".

Government Funding for Roads and Highways

I have received the enclosed letter from the Secretary of State for Transport. I am encouraging both Wokingham and West Berkshire Council to bid for funding to help improve our local roads:

Department for Transport

From the Secretary of State
The Rt. Hon. Chris Grayling

Great Minster House
33 Horseferry Road
London
SW1P 4DR

Web site: www.gov.uk/dft

22 July 2019

Dear Colleague

I am writing to announce that Government is launching a competition for local authorities to bid for £198m of funding for highways maintenance in 2019/20 and 2020/21, and for funding of £150m to ease congestion pinch points in 2021/22 and 2022/23. Both competitions are designed to improve local roads in England outside London.

I am sure you will welcome this funding announcement as this is significant for roads in your local areas, and I would encourage you to work with your local authority on identifying suitable opportunities for bids.

I know that the condition of our local roads and associated infrastructure is a major concern for constituents and this funding will help local authorities repair their roads, invest in keeping bridges open and safe, and make improvements that will ease congestion.

Further details of the funding are published on GOV.UK. Officials will be writing directly to local authorities with details of how they can apply for funding by the end of July 2019.

With best wishes

Rt Hon Chris Grayling MP

SECRETARY OF STATE FOR TRANSPORT

The plight of the saver

In an era of ultra low interest rates some savers complain that they do not get a sufficient return on their savings. Anyone who wishes to keep their savings secure and not at risk of capital losses from price fluctuations of financial assets is left with a low income return on a deposit or a low yield on a secure bond with a specified later repayment date.

It is not true to say that all savers have suffered from the era of ultra low rates. Those savers who decided to run the risk of losing money have often done very well. Those who bought government bonds have seen them rise strongly over the last decade as rates fell and stayed down. Those who bought world shares have also seen good gains. Those who had property in the right places are sitting on capital gains on their property. Indeed, most savers own property, and many directly or indirectly own financial assets through their pension funds. This blog is not offering investment advice or commenting on what might happen next in markets but describing the past.

Japan has lived now with these ultra low rates for several decades. The big crash in Japan did far more damage to property values, share prices and banks there at the end of the 1980s than the western crash of 2007-9. It ushered in a long era of money creation and extra borrowing by the Japanese state. We can see in Japan what these distortions do if sustained. The state can make many investments at little cost, and may make investments that are highly marginal in more normal times. Some savers decide they need more savings because the return on safe investments is so low. The Japanese state has bought up around half of all the outstanding quoted state debt, and is also buying up substantial quantities of exchange traded funds that hold Japanese shares.

Japan’s economy grows but slowly, though if you adjust the numbers for a falling population they look better. The high gross state debt at 250% of GSDP is far higher than anything in the west, but it is no great burden given the interest rates around zero and the state ownership of so much of that debt following Central Bank purchases. A policy of money creation which should have induced inflation has not done so, given the pressures against credit and inflation in the rest of the system.

Some will argue that giving states so much access to cheap capital will distort markets too much and lead to too many ill advised investments by governments. The alternative way through the current situation is a more concerted attempt to strengthen the banks and to encourage more private lending so there is more of a market test on new investment. The mood globally is once again to lower interest rates, with the Fed this week likely to cut rates. Australia has recently cut her rate from 1.5% down to 1%. Many EU government and Japanese government bonds now offer a negative interest rate, yet still people and institutions buy them.