

Freer trade worldwide

The UK stands on the threshold of being able to lead the movement for freer trade worldwide. If we leave the EU in March we can pioneer new trade deals around the globe. Japan and others would like us to join the TPP, a vast free trade area in fast growing Asia. Australia and New Zealand, Singapore and South Korea, Canada and Japan would all like closer trade relationships than we have enjoyed as members of the EU.

The big issue is how the west relates to China. The world is witnessing a bruising encounter between the USA and China over many trade issues. The USA wants China to remove some of its many tariff barriers. It wants China to allow more inward investment without requiring joint venture partners and technology sharing. It wants a better enforcement of intellectual property rights in China. It wants more action by the Chinese to reduce over capacity and participate more as importers as well as exporters in the world trading system.

The UK should have a place in these debates, and will be able to once we are out of the EU. The UK too would benefit from more open markets in China, and from the removal of more tariff and non tariff barriers to trade by Beijing. The UK is helpful to China as she builds a large banking and financial service industry, with London playing a leading role in the international development of Chinese finance.

Many of us who voted Leave have a global perspective. Recognising the strong logic of numbers, this is the Asian century. Our trade with the EU will naturally diminish as a proportion of the total whether we are in or out of the EU. Our trade with Asia will grow. The issue is how quickly our Asian trade will increase, and how enthusiastic will we be about this development. Now is a good time to be a free trade advocate, and to get involved in TPP and Chinese trade relations. We can be a force for the good, for greater prosperity and more open markets.

It is long past the time when the UK government should publish its tariff schedule for April 2019. This too offers an opportunity to lower the EU tariff schedule we currently use, whilst keeping some bargaining power for future trade deals to eliminate more tariffs. If they see our tariff schedule it might also cement EU enthusiasm for tariff free trade with us.

The Remain Parliament tries again to stop Brexit

This week the same MPs who look down on Leave supporters and want to dilute

or defeat the decision of UK voters to exit the EU were repeating the same tired lies of Project Fear. This was the case put to voters which lost the referendum. They seem to think that all we "stupid" Leave MPs will get it in the end and change our mind about Brexit. Apparently if you shout the same false forecasts and ignorance about how trade works for long enough the country will decide to stay in the customs union and single market, and maybe in the whole EU.

These MPs perpetuate the myth that WTO trade without a customs union cannot work. They seem to think tariffs will have to be paid at the ports with lorry drivers carrying wallets of fivers as if computers and electronic manifests had not been invented. They do not recognise that complex Just in time supply chains already accommodate non EU components and supplies coming in under WTO rules with EU tariffs. They do not seem to acknowledge the substantial friction of EU UK trade, with VAT, customs, currency change, anti terrorism and anti smuggling checks at or away from borders, and with the need to complete a complex Intrastat declaration.

The government proposed a contradiction on Thursday. The Minister said leaving without a deal remains a possibility, as the law says. Yet the government motion said they were taking no deal off the table! That is why many MPs abstained, as we saw no point in voting for such a contradictory and inaccurate motion. Many abstaining MPs agreed with the part of the motion that supported trying to get a better deal from the EU and made clear their support for that.

The Prime Minister needs to press the EU for a better deal and return with that to the Commons in due course if she wishes to reverse the big defeat the Withdrawal Agreement suffered. I agree with her long held line in the election and afterwards that No deal is better than a bad deal. The Withdrawal Agreement is a bad deal. It would need a lot of improvement to persuade me to like it, as I have set out before. It's not just a case of tweaking the backstop.

Leaving without signing it takes back control of our laws, our money, our borders and our fish. It is what we voted for. We have had 2 years eight months to prepare for leaving, and the government has said we will be ready. The government has said they are not going to block our ports or create new delays at the border, so our imports will flow as before.

I want to see them table a Free Trade Agreement so we do not have to impose tariffs and any other new barriers to trade, and to expedite a managed WTO exit in March. The sooner they do this the better. They should also publish a schedule of tariffs for March 30 so the EU can see what not agreeing to talks on a Free Trade deal looks like. I would have thought they would prefer tariff free to continue.

Pound rises against Euro

For all those who like to explain movements of the pound on the basis of Brexit news, they should be saying today the pound rose because Parliament voted to keep no deal on the table. The pound is stronger now than before the vote.

As regular readers will know, I think the pound's movements are usually the result of other economic and market forces.

Paying for a degree

The topic of student loans and student debt is back on the agenda. There is wide dissatisfaction with the current system. Students worry that they are asked to pay too much and borrow too much. Universities worry that some course fees do not cover the costs of providing a good education. The public debate worries about access to higher education for students from lower income backgrounds, and about the value of some courses to a person's life chances.

I am a fellow of an Oxford College drawing no salary. The College is a research institution financed from Endowment income. It has no students and no fee income so I am not conflicted or pursuing self interest in this matter.

The case for the student loan system initiated by Labour and extended by the Conservative/Lib Dem Coalition government was straightforward. Going to loans allowed universities to expand and more students to attend. A grant based system implied rationing as there were limits to the amount of state cash allocated to this service. Universities themselves would decide how many places to offer and set entry requirements. The system as a whole would supply money and a place for anyone wanting to go who met a university's standards. The taxpayer was let off paying grants. In some cases lower income taxpayers without the benefit of a degree had to pay more tax to give a grant to someone would go on to earn many times their income, which was generally thought unfair.

The problems of the loan scheme were also well understood. Many students would not repay them, leaving taxpayers with the debt after all. Graduates with a large debt might feel constrained about buying a home or building their own business as they had already borrowed a lot. Some people would be put off going to university, not liking the idea of starting adult life with a big debt.

There were attempted fixes for some of these problems. People from lower

income backgrounds can apply for access funds or scholarships, so they can borrow less and still pay the bills. In an attempt to cut taxpayer costs from non repayers the interest charge was set high. The successful and honest ex students are asked to pay more to cover some of the costs of those who never earn enough to repay or of those who leave the country to try to walk away from their debt.

Reform is the air, with both Labour and Conservative wanting to move to lower fees or no fees. Replacing the whole system with grants would be very expensive and raises the issue of state rationing again. Cutting the maximum fee will curtail universities and militate against more dearer courses in science which require expensive facilities and more intensive teaching.

Offering more scholarships to lower income students might be a better way forward, with scope for government and universities to negotiate over how many and who pays. Universities do provide access funds, and many are building endowments with independent financial capacity to help students.

The provision of university places is not a proper market. There is a fee cap, which means they all tend to charge the same maximum permitted, whilst there does have to be a system of rejecting some who want the service but are not qualified to benefit. Just as under the state financed system that went before, there is a market for talent where the brightest and best qualified tend to go to the universities that come out highest in league tables, thereby reinforcing their positions.

Inflation, money policy and wages

Yesterday came the expected good news that headline inflation is below the 2% target. Core inflation has been below target since June 2018. Meanwhile wage growth is around 3%, so real wages are now rising. People can look forward to having more to spend as their pay goes up.

The Bank of England has been changing its mind about all this. In a past good lecture the Governor argued that there is no longer a simple trade off between lower unemployment and higher inflation. The so called Phillips curve suggested that if unemployment fell wages started to go up faster, leading to price inflation and the need for the authorities to rein things in. Revision to this pointed out that in a modern open trading economy like the UK prices are held down by global competition, and wages by inflows of migrants and by importing labour intensive goods and services from lower wage countries. In his most recent speech the Governor has rowed back a bit on this sensible observation. He claims that there is once again a modest trade off between lower unemployment and higher wages, and that therefore the Bank will need to tighten further to control prices in the months ahead.

I do not agree. It is true wages have been going up faster in the last year,

but there is no evidence this is flowing through to prices which remain under the cosh of global competition. In part wages have gone up through the introduction of the Living Wage, in part through cost push pressures in areas of the economy like care homes where recruitment has been difficult. The danger is lifting interest rates too far too fast will plunge us into a downturn. There is too little money and credit about as it is, given the Bank's tightening policy. The Governor does at least acknowledged that he has deliberately tightened policy over the last year.

It is time he said job done. The Fed has been more magnanimous in saying they have tightened enough. The Bank of England should also say this more clearly, and work to ensure a decent supply of credit to households and businesses. As The Governor argued convincingly there is no debt problem in either the public or banking sectors in the UK. With China slowing and the Eurozone stalling we need a positive policy in the UK. With inflation under target now is a good time to promote growth and allow people to buy more cars and invest more in property and business.