We have a nationalised railway in all but name

There seems to be a widespread misunderstanding about our railway. The tracks, signals and stations are all in public ownership and are run as a nationalised industry. The private sector train companies bid for a monopoly franchise on a single route, and have to meet detailed specifications for timetables and services laid down by the government and rail regulators. There is little scope for competition, innovation or adventurous uses of private capital.

The great frustration of some commuters with their rail service is understandable. Some lines are badly affected by poor labour relations leading to a series of strikes which interrupt the service. Many lines are suffering from a lack of capacity, as the nationalised rail company is unable to provide the capacity commuters need on busy routes to the train operating companies. Train operating companies would often be willing to run more peak time trains if only there was line capacity to do so.

That is why I have been urging the nationalised Network Rail for some time to adopt better signalling systems that would allow more trains to run on the same track compared to the 20 an hour which is the common experience with today's signals. If they adopted new systems that allowed 30 trains an hour we could enjoy a 50% increase in seat capacity and trains running for a modest outlay of public investment.

The idea that we should complete the nationalisation of the railways means cancelling the train operating franchises, probably as they expire, and arranging finance to buy up trains to run as the train operations rejoin track provision and maintenance in the public sector. This would impose an additional financing strain on the state, but would not lead to much change in train services. As the timetables, fare regulation and the provision of the bulk of the railway assets is already in state hands it is difficult to see there would be much change for passengers. How would a nationalised railway resolve the disputes with employees that currently disrupt some of the private sector franchises? At least the periodic advertisement of franchises provides some modest competitive stimulus to better performance that would disappear with a wholly nationalised monopoly.

Network Rail last year (to March 2017) lost £990 million. Its outstanding borrowings were £47bn on a small equity base.

Money for local schools

I am grateful to those who sent me Christmas cards from local schools and added a message that our schools need more money. I agree, and have been pressing the government for this for sometime. I have been an active supporter of Fairer Funding for Schools at Westminster where a group of MPs has pressed for more money overall for schools budgets and a fairer funding formula between different local authorities and schools. As a result Wokingham schools will be receiving more next year, and I will keep pressing for further improvements.

I have also received a number of messages written in capital letters on various pieces of coloured paper also advising me of the shortage of money in some school budgets. As there is no name or address unfortunately I cannot reply to each of these. It is helpful if people do add their name and address, allowing me to reply and to seek further information where this would be useful. It appears these messages were all written by the same person using the same pen. I would judge them to come from a school source and to be from an adult. It would be good to know who sent them so I can reply properly.

"What if there is a run on the pound?" asks Labour in the unlikely event of a Corbyn led government?

It was a moment of honesty from John Mc Donnell reminding us of Labour's struggle to get elected to government in the 1980s and 1990s. Post war Labour governments in 1945, 1964 and 1974 all suffered badly from market dislike of their high spending high borrowing policies, which led to sterling crises in each case. It is etched on the memory of older Labour figures that market disciplines have previously prevented socialist policies being followed, and have created political tensions within Labour governments to be followed by loss of office as electors lose confidence in their ability to manage the economy.

The first two Labour governments inherited and kept a system of managed exchange rates. They were forced to devalue the rate. In 1949 Labour devalued the pound by 30% against the dollar, taking it down from $4.03 to $2.80. In 1967 Labour devalued the pound again, from $2.80 to $2.40, a fall of 14%. In 1974 they inherited a floating pound. Over their five years in office they allowed it to float down from $2.30 to $2.08, a fall of 10%. In 1976 there was a sterling and payments crisis leading to a visit to borrow money from the IMF to stabilise the pound and the financial position. This crisis sealed the fate of the Labour government which lost power for a generation. Only the John Major decision to join the damaging European Exchange Rate Mechanism and its economic impact changed the electoral position back in their favour.

The Blair government came to office in 1997 determined to avoid a fourth devaluation and sterling crisis for post war Labour governments. They adopted Conservative spending and borrowing plans, and spent the first few years moving the accounts into surplus. The economy continued to perform well. Labour then decided to make substantial increases in public spending, to increase public borrowing and to follow a very accommodating money policy which allowed large debt build ups. The end result was a bad recession and banking crash. Over their time in office with a floating pound there was a modest devaluation of 11%. This crisis is likely to keep Labour out of office for a considerable time period.

In total Labour spent around 30 years in office and presided over the bulk of the fall of 64% that occurred in the sterling/dollar rate between 1945 and 2015.

In government the Conservatives kept the fixed rate of $2.80 throughout their period in office from 1951 to 1964. In 1970 to 1974 with a floating pound the Conservatives presided over a 4% fall against the dollar. Between 1979 and 1997 with a floating pound there was a 22% decline. This included the Exchange Rate Mechanism fiasco which damaged the currency value and much else in the economy and led directly to the loss of office by the Conservatives. It kept them out of office until Labour presided over a worse economic crisis. Over the Coalition years 2010-2015 there was no change in the pound. If you average the rate of fall to an annual figure under Conservative governments the devaluation has been at a rate of 0.6% and under Labour at 2.2%. The Conservative devaluation was largely the result of the ERM disaster. a single policy error not to be repeated.

Floating rate policies are better than fixed rate policies. They give countries a bit more financial leeway. They do not, however, exempt a country from all the disciplines of the market. Mr Mc Donnell is right to worry about the market constraints on policies. The sorry history of Labour devaluations are a reason why I think a Labour win at the next election is unlikely. The constant resort to devaluation to deal with the consequences of the spending and borrowing policies shows the inherent tensions in their policy mix.

I have charted the pound in relation to the dollar as this has been the crucial rate throughout the period, with the devaluations formally expressed in terms of the sterling/dollar rate. The pound has also fallen against the DM and Swiss franc. Since its creation the Euro has had periods of both strength and weakness against the pound.

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Because of Brexit….

The favourite pastime of some economic commentators and broadcasters is to say such and such a figure about the economy they think is disappointing is because of Brexit. Often they are wrong to blame the Brexit vote for the figure they do not like. So let’s have a look at some of the figures that must be in their view owing to Brexit, as they made forecasts of how the Brexit vote would hit these very figures.

1. The FTSE 100 Index. Before the vote they said it would fall if we voted Leave. Instead it has risen strongly from 6138 on 24 June to 7687 at the end of 2017. This rise is about the same as the French Index, a bit better than the Italian Index and massively better than the Madrid Index over the same time period. It is less than the US index. After the vote when they saw it was rising they shifted their forecast and said it would be the FTSE 250 of more domestic companies that would fall.
2. The FTSE 250 has instead risen from 16088 on 24 June 2016 to 20726 at end 2017. This is a bigger rise than the FTSE 100 , which they said would only go up owing to its overseas earnings and currency effects. That’s a 29% rise because of Brexit.
3. House prices. They forecast they would go down. They have risen gently since the referendum vote.
4. Employment. They said it would fall. It has gone up by half a million comparing the August to October 2017 figure with first quarter 2016 before the vote.
5. Unemployment. They said it would rise. It has instead fallen from 1.67 m

in the first quarter of 2016 to 1.42 m in the latest ONS figures.

6. Economic growth. They forecast a recession in the winter of 2016-17. Instead the UK economy continued to report good growth of around 1.8-1.9%.

So we can now say that thanks to Brexit unemployment has fallen, employment has risen, share prices especially for domestic companies have gone up and house prices have risen modestly.

It is true that they forecast a fall in the pound. It did fall against the dollar at first, but has put in a good performance more recently rising 12% off the lows. If it fell because of Brexit presumably it is now rising because of Brexit.

Wouldn’t it be good if forecasters and commentators went back to thinking about what truly moves these numbers, and come to see the impact of Brexit has been greatly exaggerated. All the reasons why the pound went down or up before Brexit still apply!