

Small Business, Brexit and the budget

The Small business Bureau signed a letter with the CBI talking of unspecified dangers they saw for business from Brexit uncertainties. That letter indeed seemed to want to extend the uncertainties rather than reducing them, by recommending a further two years of delay before we fully exit the EU. They recommend a Transitional period of 2 years. That would need to be negotiated and agreed with the rest of the EU. It delays adjusting to the new relationship.

There is a muddle in the minds of some who seek a 2 year Transitional period. You cannot have a Transition unless you have in place an Agreement about a new relationship which you are then going to move to. It is best currently to concentrate on negotiating that future relationship. If any implementation period is then needed as a result of that agreement, that would be decided once you know the overall Agreement. The Prime Minister has always been clear about this. As the EU is not yet willing to start negotiating a new relationship the idea of transition looks premature. No future Relationship Agreement, No Transition. If as the PM hopes they soon change their mind and do get on with negotiating a future relationship agreement then there could be implementation time depending on what needs doing to execute the Agreement. If there is no special Agreement, then clearly there is no need for an implementation period.

The overwhelming majority of small businesses do not export to the EU. Their confidence levels and ambitions are dependent on the prosperity of the local and UK economies. They are more interested in lobbying the Chancellor before the budget than in seeking to influence any particular way to leave the EU. Issues that worry the small business community most include the indexation of business rates to the RPI, which they would like eased. Business rates are felt to be high, and hit businesses like High Street shops more than some of their on line competitors. The small business groups are worried about the reduction of credit in the economy resulting from the macro prudential actions of the Bank of England and the slowing apparent in recent figures for output. They regret some of the tax rises put through in the 2016 and 2017 budgets, and are keen to resist any changes to the way NI is levied on the self employed.

There is a temptation in some journalism and commentary to attribute everything to Brexit when little that is currently happening is to do with Brexit which still has not happened. Small business wants a positive budget that helps promote growth. An end to monetary tightening combined with some suitable tax cuts would be the best response from government to the needs of small business.

The politics of identity shakes the European continent

The Catalan crisis is deepening. The Catalan nationalists tried to engage the Spanish state in talks after their illegal referendum showed a strong vote for independence with other voters absenting themselves. Instead of offering them a legal way forward, the Spanish state proposes to double up on its unpleasant behaviour when they sent in the national police to try to prevent the vote, by now threatening to close down the Catalan regional government. If they go ahead as suggested there could be a tussle over who controls the officials and police currently answering to the Catalan government, with loyalties divided and authority in question. The Catalan politicians are invoking memories of Franco's regime which also tried to curb independent tendencies in Catalonia. They may want to carry on with their government in exile. With an estimated half a million protesting today on the streets of Barcelona against the proposed Spanish action, it is not going to be an easy matter enforcing what Madrid thinks should be the rules of Spanish state law.

This is but one of several cases of important regions of larger countries seeking to be independent or to have more autonomy. The typical pattern is for the richer parts of a country to come to resent the control of the wider state, particularly because the state takes much more money from them than they get back as public spending in their area. In Catalonia they generate 20% of the National Income but receive only 11% of the public spending for Spain as a whole.

Yesterday in Italy legal non binding referenda were held in both Lombardy and Veneto over whether the voters want more autonomy. Here again money was an important topic. Lombardy provides over 50 bn Euros a year to Rome which it does not get back, and Veneto over 15bn. When this is combined with austerity budgets to hit Euro area targets it creates resentments. It is difficult to know how, close to a national election, the Italian state will respond to this strong demand to keep more of their own money and to control their own migration and planning policies that has emerged in the referendum debates. It is fuelling support for 5 Star and the Northern League, two parties that are polling well and hoping to benefit from this mood in the next national election.

Only in the UK has democracy prevailed, with the grant of a successful referendum to Scotland to settle the issue. There the nationalists argued that Scotland was a net contributor to the Union based on high estimates of future UK revenues from North Sea oil which the nationalists attributed entirely to Scotland. The subsequent sharp fall in the oil price and the continued decline in output from North Sea fields makes it clear Scotland is not a net tax contributor to the UK in the way Catalonia is to Spain or Lombardy to Italy, even if you accept the contested argument that all North Sea revenues should be attributed to Scotland.

In Ukraine the Russian Crimea has split from the country, followed by a referendum organised under Russian auspices to validate it which was not held with international approval or agreed standards and inspection but which delivered a large vote in favour of secession.

The EU used to fan regional feelings through its encouragement of a Europe of the regions. It sought to promote and strengthen regional identities, favouring regional governments to distribute EU grants. It likes regional languages and other signs of difference. It is strange therefore that now it is faced with the consequences of a greater sense of regional identity and the wish for more regional autonomy the EU recites the mantra that these are matters for the state concerned. By saying this it sides against the regional political movements. I guess it assumes the states will win and they will retain control over the tax revenues which the EU needs to share to sustain itself.

Simple negotiating

I am glad the government is going full ahead with showing how the WTO option can work for the UK, and will do what it takes to make sure we trade and do business after March 2019 if there is no deal. That is a sensible contingency plan, as well as a good negotiating strategy.

It is quite clear from the different tone of remarks coming from Mrs Merkel, the Commission and elsewhere within the EU that they are very worried at just how popular the WTO model is with many UK voters. Brexit voters understand that this model delivers us full control over all our money from March 2019 with no additional payments, full control over all our laws including the laws transferred from the EU with the end of all ECJ jurisdiction, and full national control of our borders from day one out of the EU. That is what we wanted from Brexit. That is what "taking back control" was all about.

The wider partnership agreement that the UK wants mainly revolves around adding a free trade agreement to that list of advantages from simple exit. The debate is going to be over how much damage should we allow to the many advantages of just leaving in order to secure that free trade agreement. Some seem to think it is worth billions in extra payments, and worth keeping some ECJ involvement. I don't agree.

I suggest the government starts from a different perspective. It should remind the EU that a deal will only be acceptable if it is indeed better than the WTO "no deal" option. That does not leave scope for giving money away we do not owe, or for accepting continuing EU jurisdiction. So first secure the WTO choice, then I suspect the EU will be more willing to seek tariff free trade which we know it wants. We do not need to pay to trade, especially when it is much more import than export. We certainly do not need to pay for talks.

Some say we do need a transition period after we have left. There is sufficient time to put in place all that is needed to conduct our EU trade on the same basis as we currently conduct our non EU trade under WTO rules before we leave. That should be the government's overriding practical aim for the next seventeen months. We will only need some implementation period beyond March 2019 if we have an Agreement reached late in the negotiations that requires something different from WTO border arrangements.

I am receiving numerous messages to get on with Brexit and keep to the March 2019 deadline to leave.

Earley news and Wokingham Town Centre

I was out with Councillors in Earley today listening to views on the doorsteps.

The main local issue remains traffic and congestion. I am pursuing this with the Council who remain determined to improve the local road system, increase capacity on main roads, put in by passes and provide alternatives to cars where these are feasible. The current high level of disruption of Wokingham town is related to the big programme of works to improve the town centre which does have knock on effects to the rest of the Borough. We all look forward to the successful early completion of those works to ease things a bit. The general idea of expanding the shopping space and modernising the town centre environment is popular, but there are adverse effects from doing the work.

Taxing the generations

The last Conservative Manifesto suggested that elderly people should have to pay more for their social care at home, to match the way they have to pay for residential care from the proceeds of selling their house. This was an unpopular proposal which has been abandoned as I understand the government's position. It was an illustration of how people in the UK are not willing to pay more tax or to make a larger contribution to social services they enjoy.

Some now say there needs to be higher taxes on the elderly so the state can offer more to the young. I do not agree with this logic. It is one of the successes of recent years that more pensioners retire with a reasonable income than thirty years ago. It is good news that the basic state pension has gone up thanks to the so called triple lock the Coalition imposed. Why

would we want to reverse progress for pensioners?

It is true we need to help young people more. The best help they can receive is a good education followed by plenty of decent job opportunities. In recent years the numbers of jobs have expanded, and considerable effort put into higher education, apprenticeships and training. The government needs to press on with the task of improving education and training and providing a supportive framework for a growing economy.

It is true that more needs to be done to help young people buy their own home. Survey after survey shows that homeownership is the preferred tenure for most people. Many people currently renting would like to be able to afford to buy. The budget should tackle this matter most strenuously. It will need a new migration policy to back it up, to narrow the gap between housebuilding and demand for homes.

It would be a good idea to lower Stamp Duty. If we believe in home ownership as a good why do we tax it so much? It would be helpful to be supportive of lending and deposit schemes to assist young people with the capacity to service the debt into ownership. This does not require us to tax the elderly more.

The multi generational family may have substantial housing wealth amongst the old members. Maybe we also need new ways to share this if the family so wishes, and to ensure it can pass from one generation to the next without tax. The exemption of a family home from IHT for some people is a step on this road.

The high Stamp duties get in the way of elderly people trading down as well as adding to the costs of first time purchase in many areas.