Mr Macron flies to Berlin

Mr Macron promised to rebuild the Franco-German alliance and to seek to strengthen the role of the EU in his country. To do so he has to fly to Berlin to show Mrs Merkel he agrees with her and will be helpful to her prior to the German election.

He will find in Berlin beneath the public courtesy a very different view of what the problems are, let alone what the future answers should be. There will of course be some goodwill born of relief that Mme Le Pen failed, but the reality of German interests will soon reassert.

The main German preoccupations will be to avoid any new spending commitments by the EU that Germany might have to pay for, and to keep the austerity pressure on the heavily borrowed countries of the Union. France will want to speak for a higher spending and borrowing federal EU government which Germany will dislike. Both countries say they want a political union, but France wants that to include sharing the money whilst Berlin wants it to be governed by teutonic controls on spending, borrowing and printing money.

Mrs Merkel may offer her new suitor warm words, but is unlikely to loosen the German or EU purse strings. Germany will be conscious that her 830 bn Euro deposits in the ECB are already lent on at no interest to countries who will struggle to repay.

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Why is the Bank of England so mesmerised by Brexit?

The latest report from the MPC of the Bank is as muddled as ever. They record that their February forecast was too optimistic on growth, too pessimistic on unemployment, and got inflation wrong. This time they have boosted their ideas of Uk growth next year and the year after to more realistic levels, but taken 0.1% off this year after big upwards revisions last time.

They keep referring to inflation going up thanks to lower sterling, and trying to find a Brexit related explanation to other changes. It’s as if they forget we are in an active global economy with many linkages to the world. They did not ask themselves why UK inflation has gone up about the same as German and a bit less than the US. They forgot that dollar oil price rises underlay much of the US inflation, just as it underlay inflation in other countries that had not had a fall in their domestic currencies. They seemed to fail to make the link between weaker first quarter growth in the Uk and also considerably weaker first quarter growth in the US where the currency has been strong and in most of the Euro area.

Weak first quarters on both sides of the Atlantic owed much to a mild winter hitting energy output and demand. Higher inflation in most places was related to the oil price and general commodities. This quarter oil and commodity prices have fallen, the pound has risen and in the UK the weather has been colder for the time of year. All this points to another change of direction for inflation and output.They asked if weak UK cars sales in April means weak consumer confidence. Surely it is instead the response to large rises in VED in the budget which may reduce sales for more than one month, just as Buy to Let taxes are still hitting the second hand homes market.
It looks as if there will continue to be a synchronised recovery in the main economies. It is difficult to see much sterling effect on prices given the way UK inflation has moved as in other expanding economies with stronger currencies. It is also difficult to see why Brexit should have the impact on the Banks forecasts, as they helpfully assume a smooth Brexit as their base case.

I do agree with their decision to put up their output forecasts for the next two years, and their upward revision to employment.

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[Financial services will be fine after Brexit]

Critics of Brexit on this site have regularly alleged that if we do not get the same access arrangements as today to the EU market after Brexit, the City will lose jobs and business to the continent. I have been accused of complacency for thinking that is untrue.

I have pointed out we were told the UK would lose jobs, influence and business if we refused to join the Euro. We did decline to give up the pound, and our business in Euros grew substantially. Attempts to prevent clearing in London failed, as of course if you run one of the world’s large trading currencies you cannot stop non members of your union trading the currency and securities in it. Business goes to where the talent is and where the capital to execute the transactions resides.

This week there has been a most important statement from the CEO and Chairman of one of our major banks. Barclays has said that they do not see any need to transfer personnel from London to elsewhere on the continent, whatever the outcome of the Brexit talks. They also state that the technical changes they are making to ensure continuity of EU business are less complex than the changes they had to make last year to comply with new business rules in the US, or the large task of ring fencing their commercial bank in the UK to comply. They confirm that complying with any new EU arrangement will be cheaper as well as easier than these changes.

London out of the EU like London inside the EU will face competitive challenges from all round the world. IF you are good at something you need to get better at it to maintain your position. You constantly have to strive to improve and to keep up with or lead change. There is no reason why London should stop doing that once we are out of the EU. In some ways it will be easier, because we will be free to decide on our own arrangements with the rest of the world without having to adopt the EU model for that. The UK will regain its vote and voice in the global talks and formal bodies, where today we often have to be represented by the EU instead.

As Barclays said “We are confident we have multiple choices for how we might continue to serve our customers and clients regardless of the outcome. (Of Brexit)”

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Better Schools

There is general agreement in Wokingham and West Berkshire that our local schools need some more money. Just before Parliament was dissolved for the election, the government published proposals for fairer funding. The idea is to narrow the gap between the best financed and the worst financed schools by changing the formula for financing them.

I look forward to the government’s response to the consultation, as there could be improvements to the formula they proposed. I argued the case for more cash in the last Parliament.

It will be important in the new Parliament to find additional money for education in the years ahead to benefit all state schools. We want good provision for teachers and for all the support staff and buildings it takes to provide a good education. This can come from the proceeds of growth, as tax revenues rise with a growing economy. The best tax collector is growth and success. Often the worst tax collector is higher tax rates, which may curb growth and lead to loss of revenue if ill judged.

I will take the argument to Parliament if elected to find more money overall for schools, and to offer a better share to the lowly funded areas ike Wokingham and west Berkshire.

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Higher taxes and the miraculous £6bn more

Several parties are out to show they can deliver more money to public services without hurting most voters. The Lib Dems say they will increase Income Tax by 1p to deliver £6bn more for the NHS and social care. Labour argue for a big hike in the Corporation Tax rate to pay for a wide range of extra public spending and various expensive renationalisations. These views are based on two common fallacies in UK debate.

The first fallacy is an extra few billion will make all the difference. The truth is all parties in government do increase the spending on the NHS, social care and other priorities every year, and all wish to see these services properly funded. Since the Conservative led coalition entered government, total public spending has risen by 20% from £669 bn to £802 bn. Health spending has gone up more, by 23%, from £96bn to £117bn. The Conservative government has promised another £8bn to the NHS and £2bn more to social care, and will doubtless review the figures regularly to see if they are enough or need increasing if re elected to government. Just adding £6bn as a one off will not suddenly transform the NHS, I doubt there is a thought through budget of how to spend that money and what improvements it would buy. The extra pound has no magical powers not shared with the pounds already being spent.

The second fallacy is the idea of painless tax rises. 1p on Income tax rates sounds modest. That is a 5% increase in the standard rate, a 2.5% increase in the 40% rate and a 2.2% increase in the 45% rate. It means hundreds of pounds extra for most earners. That is money which families cannot then spend on their priorities.

The proposal for a big rise in Corporation Tax might well backfire. Having a low rate by international standards is one of the ways the UK attracts substantial inward investment, building a strong presence by many dynamic international companies here. Over the period when the reductions in rate have been put in, our revenue from Corporation Tax has gone up. Why wouldn’t we lose some revenue if we push the tax rate up, especially at a time when the USA is planning a major move the other way. I have no wish to be a soft touch for big business, but it does seem we are finding the right levels of Corporation Tax to get them to pay more.

In 2009-10 the Corporation Tax rate was 28% and the tax take was £36bn/ £6.4 bn of that came from North Sea oil. This year the rate is 19% and the estimate is for £46bn of tax revenue with no revenue from North Sea oil. The take has gone up in recent years despite a major reduction in North Sea volumes of output. So by cutting the rate from 28% to 19 we have gained 28% more revenue, or an impressive 55% if you adjust for the ending of North Sea taxable output.

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