

# Trade, trade and more trade

All we ever seem to talk about is trade. The Remain Lords and MPs turn every debate on Brexit into another debate on trade, so they can peddle their tired soundbites again. The clever ones spread disinformation, and the badly informed ones peddle their misunderstandings as truths.

Today the media will again declare it trade day, as we learn that the Brexit Committee will discuss yet again what will replace our Customs Union membership. Will they prefer a New Customs Partnership, known perhaps appropriately as NCP as if it were a parking lot, or will they prefer Max Fac, maximum facilitation of trade at the borders? I trust they will opt for the latter. NCP means recreating many of the limiting features of our customs union membership. They need to remember that belonging to a customs union has two big drawbacks. It means we pay more for food and other goods that have tariffs on them. It means we can't do trade deals that help us with the rest of the world. The UK with a large service sector usually finds that is ignored by EU trade negotiators.

So what are the myths they peddle? The first is that if we leave the EU with no agreement there will be all sorts of non tariff barriers to our trade. They do not seem to have read the comprehensive and detailed Facilitation of Trade Agreement which the WTO brought into effect last March to deal with any such problem. Both the EU and the UK will be full members of the WTO after March 29 2019, and both will obey these requirements.

Some suggest that the EU would deliberately create queues at Dover for lorries bringing in much needed supplies. Let me reassure them. We will run Dover, and will have every incentive to keep the lorries flowing easily. What if they broke WTO rules and held trucks up at Calais? That would be a perverse thing to do as the majority of the trucks are carrying EU exports to our markets, so why would they want to damage them? If they tried to detain just UK lorries carrying exports to the EU they would be breaking WTO rules against unfair discrimination and in some cases disrupting the supply chains of their businesses needing UK components. Those businesses have legal rights and could take action.

There is an unwillingness to accept that in the 21st century most goods trade is conducted by large businesses acting as or through Authorized Economic Operators. These businesses file an electronic manifest containing all the details about what is on the lorry, where it travelling, what taxes and duties it needs to pay and how the load conforms with rules of origin, health and safety requirements and any other relevant legislation. Busy border posts allow most to proceed unchecked, as they know the details, levy taxes off site and trust the operator. They can of course delay or impound if they have reason to suspect non compliance or criminal activity, as they do today whilst we are still in the customs union. Anti smuggling is mainly conducted by an intelligence led approach. There are already substantial smuggling issues for our border with the EU as there are differential VAT and Excise rates. Adding customs to it does not create any difference in kind to what we

are doing already. The TIR system was developed years ago to speed trucks through borders.

It is true that rules of origin do require higher UK proportions in a few cases, especially in some vehicles. This is why the UK government is working with the industry to increase the proportion of UK components in cars assembled here to meet the rules, which is a win for domestic industry.

The underlying big picture truth is free trade provides better living standards. The sooner we liberalise our trade with the rest of the world the better, as the gains could be helpful. It is unlikely the EU will want to impose tariffs on themselves, though they may threaten this if they think there is any lack of negotiating resolve in the UK.

In the latest research using economic models Professor Minford puts the discounted long term gains to the UK of leaving without a deal at £651bn, assuming we went on to a free trade approach.

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## Public service and the private sector

I set out three main conclusions from my analysis of the types of private sector involvement in public service.

The first is, bread and circuses, supplied entirely by competing private sector companies, are as much public services as the supply of water or the provision of health care.

The second is there is no such thing as a service entirely provided by state employees using state assets. Every public service uses private sector services to help it deliver. The issues for debate are where should the borders be between public and private in any given case, and which models of private sector engagement and support work best?

The third is there is no simple binary choice between a privately provided service like the bread supply, and a nationalised service. The interconnections between public and private are far more complex and varied.

I looked in particular detail at the railways. Here Labour says we could improve it by nationalising it. Many do not seem to recognise that it is largely nationalised already. All the stations, track and signals are in public ownership. Network Rail controls the railway as a state owned and state financed entity. The private sector train operating companies have regulated fares, regulated train slots on the monopoly nationalised network, and timetables agreed by the government and Regulator. Quite often they are prevented from expanding or running better services by the restrictions of the monopoly provision of track and inadequate signalling capacity.

I also considered the NHS, where all parties agree we want to keep a public service free at the point of use, and no party wants to privatise. We need to remember however that most GPs run private sector businesses, owning their own surgeries. All drugs used are supplied by for profit companies, who also provide most of the research into treatments. A wide range of contractors are used for catering, cleaning, management services and the rest. Labour introduced sending some NHS patients for operations in private sector hospitals.

The sound bites and fury of these nationalisation debates ignore the complex realities.

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## [The balance of the Brexit Committee of the Cabinet](#)

I hear and read briefings that say it is important for the government that the Brexit Committee of the Cabinet has a balance with equal numbers of Remain and Leave members. This surely is an out of date or wrong idea. There are pro Leave Cabinet members not currently on the Brexit Committee who could strengthen it.

The government as a whole is meant to be dedicated to seeing through Brexit. It is meant to be united in public with a strong position to maximise our chances of a good deal rather than no deal, which we have been assured we will pursue rather than a bad deal. Such a course argues for a good majority on the Brexit Committee of strong supporters of Brexit.

It also means that Cabinet Ministers outside the Brexit Committee who were of the Leave faith should also be more willing to pursue a good Brexit rather than thinking their task in private is to dilute or delay departure. The issue of Brexit was settled almost two years ago by the people and their vote. That was reinforced by the 82% vote in the last election for the two main parties who both promised to see Brexit through, and by the strong vote of Parliament to send the Article 50 letter notifying the EU of our intention to leave next spring.

Any Cabinet Minister who tries to delay his or her department getting on with the necessary preparatory work to allow us to leave with or without a deal next March is undermining the government's policy and the UK's position in the negotiations. Cabinet Ministers who accept the collective line that we are leaving the EU, the single market and the customs union are getting on with preparing suitable plans. More importantly they should also be preparing their policies to take advantage of our ability to make our own laws, spend our own money and control our own borders once we are out. There are lots of wins for us as long as we do take back full control as soon as possible.

Those who have sought to delay exit by seeking a 21 month so called Transition should not also then seek to delay the necessary work for No Deal in case that turns out to be the best option.

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## Illegal immigration and the Home Secretary

Tomorrow I read that the Home Secretary will provide another Statement to the Commons on migration matters. Parliament will only know for sure when the Speaker announces topical business at midday on Monday.

I assume she will reaffirm that no Minister wanted legally settled people who have been here a long time to be sent away, and will confirm that all actions are being taken to complete any outstanding paperwork quickly and helpfully in cases where proper documents have not been issued in past years. That is what we want and expect, as people welcomed into our country should not be put under pressure by the system or have their status placed in doubt. If anyone has been deported wrongly their cases should be reviewed and matters put right as best the government can.

I also trust she will stress as the Prime Minister rightly did last Wednesday the crucial distinction between legal and illegal migrants. Service has to be improved and any errors put right for legal arrivals, but the Home Secretary will presumably continue with her tougher policies towards illegals. Labour seems to wish to muddle this distinction.

The current Home Secretary agrees with the Prime Minister in wishing to reduce net inward migration to the tens of thousands, and is signed up to bringing that about. She issued a Home Office Annual Report for 2016-17 which she presumably approved which was crystal clear about the aim of reducing migration and the policy of removing illegal migrants. The Annual Report reminds us that that the government is committed to "Reducing annual net migration" and sets out how in that most recent year net migration had fallen by 84,000 or 25%.

It also states that a central aim is to "Clamp down on illegal immigration". Deporting foreign criminal offenders "remains a priority". "We continue to use the provisions of the Immigration Act 2014 and by December 2016 over 5700 foreign national offenders had been removed".

The Report continues with "The Home Office's approach to returns goes wider than criminal offenders. In January 2016 we broadened our engagement activity in priority countries to maximise returns of all nationals in the UK illegally". The Report also details numbers of people using the four Resettlement Schemes the Home Office promotes. The Report does not contain any individual targets beneath the general public target to cut net

migration, but is peppered with numbers of how many people are involved in each of the detailed policies to try to implement the general target.

The Home Secretary will be expected to offer a robust defence of her approach, as well as updating us on how she is sorting out problems for those legally here. I also want to know when she is going to share with us the work she should be doing on a UK migration and borders policy for once we have left the EU. It would be wise of her to correct again her slip over the Cabinet's long standing decision that we will be leaving the customs union when we leave the EU.

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## What use should the public sector have for the private sector?

Here are the slides from my recent All Souls Lecture on privatisation:

### **The Big Issue**

- The big issue of public / private partnership, contracting out and privatization is back on the agenda.
- The government needs to clarify the role it sees for the private sector and make the case for why it needs private involvement in the public services.
- The public sector under both Labour and Conservative make extensive use of the private sectors as
  - Supplier of goods and services to public service
  - As adviser
  - As financier of public provision
  - As provider of public services

### **Ten Types of public service**

- Public sector monopolies employing public sector staff using public sector assets, providing the service free at the point of use. This is some people's idea of a public service in general but is a limited case. The nuclear deterrent and the army are two good examples.
- Private sector companies competing to supply goods or services, using private sector assets, employing private sector staff and charging the customers. This is the most normal form of public service in the UK for the supply of everything from bread to medicines over the counter.

### **Ten Types of public service**

These are the main eight hybrid types:

- Public sector monopolies employing public staff and assets that charge the

end users the cost and a mark up – planning departments, the grant of a variety of licences, the BBC etc.

- Public sector monopolies that employ private sector staff and assets to provide a free service – this would be a contracted out service like domestic refuse collection.
- Public sector monopolies employing private sector staff and assets and charging the end user – not common, but could include a local monopoly leisure facility or toll bridge for example.

### **Ten Types of public service**

- Competitive services provided free by the public sector with choice to the end user using public sector staff and assets – schools etc.
- Competitive services provided free by the public sector using private sector staff and assets – the GP service.
- Competitive services provided by the public sector but charging the end user – e.g. public sector leisure facilities.
- Private sector monopolies using private sector staff and assets and charging the end user – these are rare but include regional domestic water monopolies.
- Private sector competitive businesses employing private sector staff and assets that do not charge the end user – free newspapers, free to air commercial TV etc.

### **Privatisation**

Privatisation describes a range of different policies. There are two possible main ingredients:

1. Transfer of assets and risks from public sector to private, as with the sale of trading companies like the water business or BT.
2. Introduction of competition into former public sector monopolies, as with the licencing of competitors to BT and to British Rail trains.

In order to qualify as a privatisation there does have to be a genuine and substantial transfer of risk from public to private.

There is usually money passing from the private sector to the public when they buy the assets, but you can have privatisations for negative consideration where the assets and business are heavily lossmaking.

It is best when privatizing to break monopolies, but this is not always done.

### **Privatisation**

The capital provided by the private sector will usually be dearer than the government raising it through a bond issue on its own balance sheet. So why might it still be cheaper for service users and better for taxpayers?

1. The private sector may well have better capital discipline, controlling the cost and the time it takes to build new facilities.

2. The private sector may be better at employing people, creating a higher wage higher productivity environment which is also better value for service users.
3. If a mistake is made with an investment private sector shareholders have to meet the losses, not taxpayers.
4. The private sector may innovate and grow the business, finding new revenue streams and activities which supplement the core activity.

#### **What happened as a result of the major privatisations of the 1980s-1990s?**

- The privatized railway reversed years of decline in the use of the railway and turned it into a growth business. Labour blamed a couple of bad accidents on privatisation, through the safely record was no worse than BR. They renationalised most of it.
- The electricity industry switched substantially from coal to gas and greatly raised the fuel efficiency of its output, driving prices lower before the Labour government turned it into a heavily regulated and controlled activity.
- The telecoms industry was transformed by competition and private investment, breaking free from the shortages and lack of innovation of the old nationalized industry. The huge growth of the City would not have been possible with monopoly BT rationing service.
- The water industry modernised and spent more money on investment, but gains were limited by the lack of permitted competition.

#### **Could we have more private infrastructure?**

1. Telecoms – definitely Yes, and we are
2. Roads – problems with road pricing when the bulk of the system is free and will remain free
3. Railways – lack of investment return without guaranteed subsidy
4. Energy – Yes, but need for regulatory clarity and consistency

#### **Why is so little private infrastructure started when so many say they want to invest?**

1. Slow pace of planning and licences for large projects
2. Uncertainty over what an infrastructure investment looks like
3. Arguments over how much risk the private sector can and should take

#### **What other forms of partnership make sense?**

1. Design, build, operate schemes

2. Contracted out services
3. Provision of specialist services by private sector for public
4. General supply

#### **How far should general supply go? The case of medicines**

1. Research and development of new treatments
2. Manufacture of the drug
3. Supply to NHS central warehouse
4. Supply to ward or surgery just in time
5. Supply direct to out patient
6. Role in repeat prescription whilst preserving control of Dr

#### **The world of the internet**

Now the public sector is so reliant on private sector internet technology, service provision and data storage what does this do to the definition of public service and to the role of the public sector official?

1. Data generation
2. Data storage
3. Data processing
4. Data use