What is money?

There is active discussion of what is money with the advent of crypto currencies. There are also those who see gold and silver as money, given the ability to convert these metals into coins and to trade them.

Money has three main characteristics. It is a means of exchange. It is a unit of account. It is a store of value. Most of our money today takes the form of an entry in an electronic ledger at a bank. We accept transfer of electronic money to our account as payment for our work or pension. We pay for many items by offering an electronic transfer from our bank account to the account of someone selling us the good or service.

Most of us rely on the monopoly fiat currency of the country where we live. We know that we can draw money out of our bank account in the form of bank notes, which are accepted as payment universally in our domestic economy. A bank note or a bank account credit possess the three characteristics of money. We can pay for anything with them. We can keep the notes or ledger entry as a store of value for future purchases. We use the value of the money we own to assess the prices and values of goods and assets we might buy or own. Assets, goods and services are all priced in the local money.

Money depends on trust. We trust UK banks to hold our money because they are large businesses with substantial reserves. We know that the Bank of England regulates them and stands behind them. The Bank of England has the power to create additional money if the system needs more liquidity. Our deposits in commercial banks are backed not just by the bank we use, but by the Bank of England standing behind that bank, and by the UK state and taxpayers who stand behind the financial system. There is a deposit insurance scheme for deposits up to the stated limit.

In some overseas countries trust has been badly damaged in their local money thanks to gross mismanagement. A country which manages its economy and banking system badly can end up with a run on its currency, lowering the external value of it too much. This in turn can lead people to want to be paid in foreign currencies, and even to trade in dollars instead of their local money to create some stability of values. A hyperinflation coupled with a collapse in the external value of money in a country is a destructive process.

Those who distrust all fiat currencies look for some other store of value. Gold has often been their choice. This precious metal has had a volatile past, with periods of large gains in value against paper currencies interspersed with periods of decline. Holding gold entails costs of storage and insurance. To use gold as a payment system normally requires selling the gold and using the proceeds in a paper currency to complete a purchase. Like paper currencies, the efficacy of gold rests on confidence and its popularity with users. It is not widely accepted as direct payment and is not normally used as a unit of account for valuing items.

Better animal welfare

THE GOVERNMENT HAS PUBLISHED A DRAFT BILL TO STRENGTHEN ANIMAL WELFARE

The Government has published a draft bill which would increase the maximum prison sentence for animal cruelty tenfold, from six months to five years, in England and Wales. The draft bill also sets out that the government "must have regard to the welfare needs of animals as sentient beings in formulating and implementing government policy". Subject to consultation on the draft bill, the government will legislate to deliver both aims.
The plans underline the government's commitment to raising animal welfare standards, ensuring there will be enhanced protections for animals as we leave the EU.

Many constituents will be pleased that we will strengthen protections for animals.

What might a UK/EU Agreement look like?

Early next year we should begin talks about trade and the future relationship with the EU. Until we do so the language developed over money and the Irish border is parked. Both sides confirmed "Nothing is agreed until all is agreed".

There may be continuing misunderstandings on the EU side about what the UK has in mind once the proper talks begin. The UK offers a full free trade agreement covering goods and services, with zero tariffs and no new barriers to trade. The EU sometimes seems to be suggesting they want the UK to sign a leaving agreement and implement it prior to 29 March 2019, to leave, and then engage in more detailed talks on trade. The first thing to clear up is the phasing of the talks. The UK needs to stress the urgency of getting on with the free trade talks. It is accepted we only sign a free trade agreement with them after we have left, but we need to know the details of such an agreement before we leave to judge the rest of the Agreement and the phasing of implementation.

The second thing to sort out is the possible Transitional arrangement. The PM always stressed this would be an Implementation Agreement. It would be as short as needed. We would only need one if there is an Agreement on our future trade and partnership to implement. The idea should not be to create a further two years in the EU under the guise of a Transitional Agreement, in order to have another two years of uncertainty and more talks about trade. Business and consumers need to know where they stand. They want to know as soon as possible if we are en route to a free trade agreement, or if we will be trading under most favoured nation WTO terms.

The third necessity is that once we have left in March 2019 with or without an Implementation Agreement, the UK will be free to sign trade deals with other countries and to pursue its own overseas trade agenda. There are various misunderstandings about regulatory alignment and convergence. Of course when you trade with another country or trading bloc you need to meet their requirements and product rules to sell to them. The UK accepts US law and rules when selling into the US, and will accept EU rules and laws when selling into the EU. What you do not do as an independent country is also accept all the rules and laws to govern all the rest of your trade. You have your own national rules based on an understanding of world standards instead. Alignment or equivalence means you have regulations with the same purpose but they may be different in the areas where this matters. The US sells services into the EU based on acceptance of equivalence for its regulations compared to EU regulations. It does not have to enforce EU rules on its domestic businesses or foreign trade outside the EU.

Visit to CEMAS

On Friday I accepted the invitation of CEMAS to visit their company and the meet their staff.

Cemas is a privately owned business based in south Wokingham. It employs 72 people and specialises in preparing test data for the agro chemical and pharmaceutical industries. It can monitor trace substances in air, water and animal tissue, identify active ingredients in products and their concentrations, and prepare large independent dossiers of tests of product approvals and monitoring. This work is vital to ensure product safety, to limit damage to the environment and to help companies produce innovative new products and treatments.

The company has strong links with our local University at Reading. Some of the younger staff are also working on degree courses at the university, and some of the more senior people are Reading graduates and postgraduates who have specialised in relevant subjects.

The company works for a wide range of global businesses. It seeks to maintain high levels of accuracy and independence, as it needs to do to satisfy its own standards and its Regulator. It has grown steadily over the last three decades from its Wokingham home base. I wish the staff and the owners every success with their venture.

Talks about trade

I have in the past said trade talks between the UK and the EU could be relatively short and straight forward. I have never said they would be. I have always acknowledged that if the EU wants to make them long and complex they can do so.

The first question the UK must ask when the talks begin is the simple one. Does the EU want a comprehensive free trade Agreement with us or not?

If the answer is yes, we can get on with translating our current tariff free arrangements on goods into a WTO registerable Free Trade Agreement, along with the access methods for service covered by current EU arrangements. This is largely a scissors and paste job, ensuring continuity of trade. As I understand it the UK is happy to offer this.

If the answer is No, then the UK needs to ask the second question. What new tariffs and barriers does the EU wish to impose on our exports to them, given that we will likely impose identical barriers on their exports to us?

If we take goods, the EU could if it wishes impose the same tariffs on our goods and food exports as they do to other non EU countries under WTO rules which govern us both. This would mean they would face high tariffs on their large farm exports to us, where they run a £20 bn surplus. We have a year to source alternative cheaper food from around the world and for our farms to gear up to produce more at home behind the tariff wall. If the EU for example wants a high tariff on meat there are plenty of other suppliers who would like to sell us more.

There is then the question of what impediments they would want to place on services. They have never completed a proper single market in services. There are still many national regulatory, language and qualification barriers around. The UK allows considerable access to its markets that helps continental business.

If the EU wanted zero tariffs on goods but more restrictions on services the UK could say it sees a trade off between the two.