Mr Macron’s EU vision

In a long speech the French President sought to wrestle the EU agenda his way at the moment of maximum weakness for Germany following her election.

His speech was very like that of the President of the EU Commission. He seeks an EU budget, Finance Minister and much more integration. He wants a stronger EU foreign policy backed by EU forces. The speech was well received in Brussels.

The problem he still faces is this vision will only happen on German terms. Mrs Merkel is weakened by her election losses. If she survives as head of a wobbly three party coalition there will be severe limits on her room to move the German position in the direction France wants. Like Mr Macron she is happy to move to political union. Unlike Mr Macron she will need to concentrate on common economic policies as a discipline on the Eurozone. She will not be able to offer a proper transfer union channelling German money to the poorer EU regions on a bigger scale. She will not want a proper common budget, as Germany would be the main paymaster of that.

The traditional German position is they want more European control of national budgets and more EU pressures for structural reform in the deficit countries. That is very much the view of the Free Democrats that Mrs Merkel now needs as supporters. She will also have to trim over migrant numbers, where her old coalition partners the CSU have strong views and were badly bruised by her policies in the election.

So Mr Macron will get more EU power but not more EU money. Money after all is going to be short assuming the UK leaves without paying the future bills. Meanwhile Mrs Merkel has to get used to having just 200 MPs in her party in a Parliament of 709. Even with the CSU who are now unhappy allies, she only has 246. Germany will be weaker, but that does make Germany more compliant to France, given the direction France wants to go in. Without the UK helping pay the bills Germany will become more of a budget hawk. The rest of the EU will soon run out of German money to spend, which will limit their integrationist ambitions a bit.

Preparing for No deal

The EU’s comment yesterday that it will take a miracle to get early trade talks with the UK is not an accurate statement of the position. It would apparently take the UK offering them sheds loads of money to get trade talks going. I am glad the UK is not doing so. We should pay them nothing for talks, as they need trade talks more than we do. We should pay them nothing for a Free Trade deal, as that would be against the spirit and probably against the rules of the WTO. If they want each side to have to pay to trade, then WTO tariffs is the cheapest and easiest way of paying for trade, and would be legal. I remain to be persuaded that we owe them anything other than our regular contributions.

As the EU is clearly now overplaying their weak hand, the UK needs to show it is serious about gong for No Deal. That would also be the best way to get them to talk about trade, when they realise we are prepared to put tariffs up against their food exports.

Today I invite all those who think No Deal would be bad to write in with specific problems they think will arise. I will then respond with how we coukd fix any that might be an issue.

Some say the planes will not be able to fly because there will be no Air Se rvices Agreement in place. Work is underway to ensure the reciprocal landing rights UK and EU carriers already enjoy are continued.

Some say there will be queues of lorries at Dover carrying all our imports that will cause customs chaos. Work is underway to have registered traders filing details of consignments electronically so lorries can proceed quickly and tariffs can levied electronically. We are also building a huge lorry park to deal with French strike days which can be used if anything else goes wrong.

Most just say there will be a cliff edge without having a clue why. There is no cliff. The day after we leave French farmers and German car makers will still be sending us their exports.In return we will still be selling things on the continent. The cliff edge has all the potency of the Millennium Bug.

Balance of trade improves, government gives more money to foreigners

The balance of payments figures for the second quarter sum up the UK problem on the balance of payments. The deficit widened by £1.9bn from additional sums the government sent abroad, and from a £1.4bn deterioration in the net figure for interest and dividends. As we sell more and more of our assets to overseas buyers so more rewards will be sent out to foreign investors. On trade account we saw a £2,4bn improvement, with a £2.3bn improvement in the export of goods.

Inward investment remains very strong, at a net £11.7bn. This means we should expect further deterioration in the flows of interest and dividends in the years ahead. The UK government could improve the balance of payments by simply refusing to send the EU any more money after March 2019, which would be great news.

The Bank of England is not independent and has presided over a major banking crash and recession

Spare us the false argument that the Bank has been independent for the last 20 years, and spare us the idea that it has done well over that period.

Gordon Brown's Treasury clearly influenced the Bank's approach to interest rates, and on one occasion set it a new inflation target to remind it who was boss. Brown also took powers away from the Bank over banking regulation, making its job of controlling the money supply and credit more difficult. The background to the banking crash is a turf war between the Bank and the financial regulator.

George Osborne chose the Governor he wanted, who turned out to share Mr Osborne's view of what would happen were the UK to vote for Leave. The Bank joined the Treasury in making wildly inaccurate forecasts of the short term economic impact of a Leave vote.

The Bank made two major policy errors. In 2005-7 it failed to limit an excessive build up of credit and money despite warnings from Opposition parties and many commentators. Worse still in 2007-8 it decided to remove too much liquidity and keep rates too high, triggering runs on banks and the collapse of several financial institutions.

It has shown a very unsure touch pre and post the Referendum vote, and is today tightening credit prematurely.

The mistakes the Bank made were significant and were criticised by some commentators at the time.

Loves Labour lost

Under Blair and Brown Labour claimed to love rich people, to hug business and to be warm towards the private sector. To win and retain power they pledged to keep the top rate of Income Tax at 40%, to avoid new nationalisations, to privatise some more and to engage the private sector in public services through the Public Finance Initiative. They even kept the Conservative spending plans for the first period, which produced an excellent economic performance and some repayments of state debt.

Later in office Labour fell out of love with Prudence and assisted the huge debt build up throughout the economy, adding piles of ill considered PFI loans to the burgeoning private sector debt mountain. It all ended in predictable crash and tears.

Today’s Labour party has fallen out of love with all of this. They do not try to defend most of what Blair and Brown did. The party is after all now run by people who opposed Blair at the time. They are right to ditch the Blair legacy of foreign wars and the collapse of 2008-10, but wrong to ditch all the love affairs with the private sector which helped Labour to power in 1997. Not only did it make political sense to tempt loosely attached Conservatives to join them by wooing them. It also made economic sense to adopt a policy which could help the economy grow and deliver more prosperity. You need low tax rates and encouragement of choice and competition to foster growth in real incomes.

The latest Labour policies are on the Venezuelan model. They want to use price and rent controls to make homes and basics more affordable. They want to ban some contracting out, and nationalise Private Finance contacts. They want to take into public ownership the main utilities, short changing their current owners. They want to boost low incomes and increase benefits. These policies always start with considerable popularity. Their first round effect may well be to cut prices and boost real incomes, but this is soon followed by disaster. Price and rent controls curb supply and lead to shortages. Nationalisation leads to bad investment, inefficiency and to shortages too. In Venezuela foreign investors have been deterred, the shops are empty of many of the goods people want to buy, inflation takes off and nationalised industries let employees as well as customers down. In Venezuela the poor suffer most. The rich have either left or have access to more goods and services by having hard foreign currency to spend that people will value.

When the UK last had a large nationalised sector both consumers and employees got a bad deal. The steel, coal and rail industries in nationalised hands were always closing furnaces. pits and lines, and sacking staff. Energy and train fares were dear and often went up more than general inflation.

Labour wish to eliminate choice. They want to limit your choice of supplier, and limit the number of employers who can offer you a job. Far from liberating the poor they would confine more people to poverty. We have seen their future and know it does not work. The Labour leadership will still not come out and condemn the disaster which is Venezuela’s economic policy, because they know it is much like the one they want for us.