In search of trade deals

In a dramatic coup de theatre the EU decided to announce a possible trade deal with Japan. They did so with the sound of clicking cameras at the Hamburg G2o summit in prospect. They did so to embarrass Mr Trump, who has turned his back on the elaborate and contentious multi country Trans Pacific Trade Partnership. They did so to tell the UK that after years of no progress the EU with its Canada deal and it is possible Japan deal is at last willing to pursue more free trade worldwide.

I would be delighted if the EU did do a proper trade deal with Japan. When we leave the EU both we and EU have to confirm that each of the EU trade deals will still apply to the two splitting parts. There is every likelihood that they will. Only the third country as the co signatory could prevent each trade deal novating, passing, to both the rest of the EU and the UK naturally. Why would they wish to reverse something that is in their interest and which they willingly signed. So if before we leave the EU already has a Japanese deal, all well and good.

If you read some of the smaller print about the Agreement, you see that so far it is fairly narrow, with plenty of remaining issues to sort out. It does not unfortunately look likely that there will be an EU/Japan deal signed and operating by March 2019. They have not, for example worked out how any disputes will be resolved. Japan favours existing arbitration. The EU ants the ECJ involved. Sound familiar? The EU has sort of promised to remove the 10% tariffs on Japanese cars into the EU market, but it wants to spread the reduction over a number of years and reserves the right to go slow or cancel if too many Japanese cars turn up. Japan for her part has promised some opening of her food market for some EU dairy products.

Any progress is welcome, and should be welcome to the UK leaving the EU. The lack of agreement over important issues, and the narrowness of the positives imply this was an announcement put out for dramatic diplomatic effect at this summit.

Meanwhile Mr Trump could not have been clearer. He wants a good trade agreement between the US and UK as soon as possible. That’s left the gloomsters who reject the democratic choice of the Uk saying that we can do nothing to advance this before we have left! Why not? The only thing we cant do is to sign the Agreement we are working on. When will they start working on our side for a change?

What’s the point of a summit?

Mrs Merkel wants compromises to make the G20 “a success”. Compromises are not always a good idea. The world can accept different countries having different views and running different systems, as long as they are not threatening to another. The pictures from the summit are certainly not the ones she had in mind when she approved the substantial spending to act as host. The decision to have this meeting of the powerful in a normal city environment has placed huge strain on the German police, and has provided a worrying set of images for the easily distracted media who turn their attention to the violence on the streets rather than to the tired cliches of the communique.

There is of course an important role for personal diplomacy between national leaders. They can sometimes cut through or change the decisions and moods between countries. This is more likely to be achieved through bilateral state visits, bilateral government meetings or even by personal phone call. There are fewer cases when summits achieve this, though in the margins of the official agenda national leaders can have bilaterals to fix pressing problems. Global summits work best when there is a major issue which needs a co-ordinated or collective response. During the period of madness by the Central Banks in the western crash of 2008-9 the meeting that agreed concerted interest rate cuts despite the resistance of the so called independent central banks was an important example of political leaders using an opportunity to shift a policy for the better when their institutions were doing damage.

This summit has an agenda much like past summits. The US is unwilling to sign up to the Paris climate change targets, taking the view that if they did they would be legally bound. In contrast the EU has a history of agreeing to targets it does not enforce, and China sets targets that allow it to go on growing its CO_2 output. The countries will agree to further action to tackle tax abuses, but then Mr Trump will fly home to seek to press major tax reductions through the Congress with a view to repatriating more business and profits to the USA.

The world economy on which our prosperity depends is not going to be much affected by this meeting. Crucial to its future is continuing success in China in avoiding banking problems and the hard landing China’s critics have been forecasting for several years. The extent of Mr Trump’s reflationary package and how much he can get through Congress matters a lot. The main thing to hope for is this summit does no harm to growth, sensible credit expansion, and the adoption of the new technologies that are revolutionising our work, play and social fabric.

Controlling public spending

The government has rightly confirmed that a successful economy requires sensible control of public spending and borrowing. The pressures that require more to be spent on schools and social care do not mean we can afford to relax public spending generally. Growth in the economy will generate more tax revenue to meet the needs of priority services for more money. Action still needs to be taken to remove less desirable public spending, to root out waste, and to run the public sector better.

Conscious that many readers here want to see financial discipline in the public sector, I am today writing about it to give you more opportunity to state what you think could be better done or removed from the budgets. In the middle of this current 5 year Parliament the state will no longer have to send the large gross and net contributions to the EU. From March 2019, assuming a sensible deal or no deal, we will no longer be sending that money to the EU. Of course the UK Parliament will wish to spend money on farming, universities and regional development where we were getting some of our money back from the EU. This will leave us around £12 bn of the net contribution to spend, as I explained with my suggested post leave budget before the referendum vote. This will take some of the pressures off.

There are many other areas to look at to save money. The government could press on more vigorously with its office and property rationalisation programme. It can initiate something for something pay deals to promote smarter working in return for higher pay. It can do more to cut its demands for fuel and other supplies.

I voted against HS2. It looks as if we are now committed to that expensive project. In the light of that the budget of Network Rail should be reviewed. Network Rail can improve efficiency, dispose of more property assets, and encourage more use of existing track to boost revenues. There are opportunities for getting more value for money from the railway budget.

The large overseas aid budget is pledged by Act of Parliament which this Parliament is unlikely to amend. There should be more scope to include as part of this budget the many costs the UK already incurs in helping low income countries and refugees. When our armed forces are undertaking humanitarian or peacekeeping work for a low income country all their costs doing that should be part of the overseas aid budget.

Introducing more Right to buy purchases by tenants of social housing would raise more private capital, to offset the housing budget. There are a range of public sector assets which could be sold as an alternative to additional borrowing.

Education money

It is clear from the reports of discussions within government and within the Conservative Parliamentary party that many think more money should be given to schools that have low funding levels today. There is general agreement to the idea of the pending reform, that a larger share of the money should go as a per pupil sum for each student at the school to reflect the basic costs of provision where ever it may be in the country and whatever the social background. There is also agreement among many that the better funded schools should not have cash taken away from them when the more lowly funded schools get more.

The Treasury clearly hoped that the new formula would take money from the generously funded and give to the poorly funded without major increases in total funding. It is never easy getting through these redistributional reforms, as the losers always speak more volubly than the winners. It looks as if on this occasion there will need to be some pump priming money as the formula is altered, to prevent big losers. It will also be needed to give sufficient to the winners for them to think they have made a reasonable gain.

Labour asked a Question in the House about this yesterday. The junior Minister, Mr Gibb, replied. He was unable to reveal more of the detail, as the government is still finalising its position on its response to the consultation concerning the new formula. I had a conversation with him afterwards to remind him of the position of Wokingham and West Berkshire.

Wokingham and West Berkshire schools remain at the low end of the table for per pupil money. It does not cost us less in Wokingham to educate a child than it does in the big cities.Teachers pay is based on national rates, whilst property costs are quite high. These matters need to be reflected in a common per pupil sum throughout the country which is a sufficiently high proportion of the total money awarded.

Meanwhile this week in the Commons Ministers have returned to explaining that there do have to be sensible controls on the total level of public spending, given the continuing deficit. More work is being done on spending priorities, and on raising the general level of efficiency and quality in public service. The answer to the need for better public services lies partly in economic growth generating more revenue, and partly in better management. Working smarter can be a win for taxpayers, keeping down cost, for service users, bringing up quality, and for employees, with better paid and more rewarding jobs. I raised these issues with the Chief Secretary to the Treasury when she answered a question about public sector pay yesterday.

How do we raise more tax revenue?

Some of you will be pleased and others unhappy to learn that today’s question is one of the most common in the modern media and even amongst some MPs.

There are two easy answers. The best way to get more tax revenue is to grow the economy.
The best way to get more money from companies and the rich is to lower the rates of tax they pay.

As I have often argued, cutting the Corporation Tax rate from 28% in 2010 to 19% today has taken place against a background of a substantial increase in company tax revenue. We collected 55% more last year at 19% than they did at 28% in 2009-10. Some say this is the Laffer effect – lower rates lead to more tax. Some say it is a coincidence. No-one can say cutting the rates has led to a decline in tax revenue in the way Treasury models and others suggest.

Cutting the top rate of Income tax from 50% to 45% has also led to an increase in revenue from the higher paid. In the early 2010s we collected £2bn less in self assessed income tax with a top rate of 50% than the government collected at 40% before. Revenue rose by 15% with a cut in the rate to 45%. When in the 1980s the then Conservative government cut the rate from 83% to 40% in two steps, there was a surge in extra money from the better off. They paid more in cash terms, they paid more in real terms, and they paid a bigger proportion of the Income Tax total.

The reason all this works? Entrepreneurs, rich savers and companies are footloose. They only need come, or only need stay, if tax rates are competitive. They need only invest and spend in places where the rates make sense to them. When the UK had 83% tax there was a Brain drain. Many talented people from pop stars to businessmen went abroad to avoid the tax rates.

Capital Gains tax collected 23% less than forecast when the rate was hiked to 28% from 18%. There was a loss of revenue in 2012-13 and 2013-14 with the higher rate, contrary to Treasury model predictions.

So to raise more revenue we need to change the Treasury model to make it more accurate, by accepting that some taxes are at rates above their revenue maximising levels.

The Treasury have a very poor forecasting record on revenues. Remember they had to hike their forecast for 2016-17 tax receipts by £10.5bn between the November forecast and the March forecast in the year in question!