

## What is a Customs Union – a set of restrictions on trade

It is most important not to confuse a free trade policy with a Customs Union policy. The main point about a Customs Union is the wish to impose tariffs and barriers against the rest of the world that are legal under WTO rules, knowing that the WTO would prefer the members of the Customs Union to lower tariffs and barriers for all.

Much of the design of the EU Customs Union was to protect French and German industry from better value or smarter competition from elsewhere in the world, and to protect the exploitation of market niches that they had done well so far. One of the features I most dislike about the EU Customs Union is its aggressive stance towards emerging economies which rely heavily on agricultural production, as the EU Customs Union takes full advantage of the WTO permission to have strong restrictions on agriculture.

Germany, for example, has a profitable and large industry processing raw coffee. This is made possible by imposing tariffs on processed coffee from outside the EU whilst allowing import of raw coffee tariff free. It means the coffee producers find it more difficult to capture the extra added value and create the extra jobs that are needed to turn an agricultural product into coffee to drink in supermarket packaging.

Once out of the EU Customs Union the UK could unilaterally cut all tariffs on products we do not grow for ourselves, or could offer to do so in return for some free trade response from those who would benefit. Inside the EU Customs Union we cannot do this, as the others do not agree with such a strategy. Trade is often better than aid in promoting economic development and greater prosperity amongst emerging economies. The UK will be able to have a better policy for this once we are free to negotiate our own trade system.

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## The costs of belonging to the single market and customs union

In what passes for a debate about Brexit I have got used to the barrage of commentary that thinks it is wholly or mainly about trading arrangements, when it is really about how we are governed, to whom our government is accountable, who raises and spends the tax money and who makes the laws. Many people voted leave to take back control, to bring back self government.

The commentary also usually wrongly assumes that membership of the single market and customs union has been wholly benign, and that if we just leave we

will be worse off. The facts of our past membership do not prove this supposition. As I have often pointed out, our growth rate was faster in the years before we joined, than after we joined. There was no benefit or acceleration of growth when they “completed” the single market.

More importantly, lop sided reductions in tariffs and barriers meant we lost a lot of industry to continental competition, but were given no parallel benefits to compete in areas where we were stronger. Our fishing industry was badly damaged by the CFP and we plunged from net exporter to net importers. Our farming industry saw its domestic market share eroded badly, aided by EU policies on beef and milk which did not help.

The EU argues that single market membership added just over 1% to our economy over the whole time we were in it – yet it is difficult to see from the actual growth figures any positive contribution. You clearly need to knock off from the figures the 5% loss of GDP compared to trend caused by membership of the European Exchange Rate Mechanism, which the EU study leaves out. You also need to take into account the £12 bn net a year contribution or cost, which is a drag of around 0.6% of GDP every year. If we spent that all at home instead that would give us a welcome boost.

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## There is more intergenerational co-operation than battles

I have long disagreed with my old friend David Willetts and those who think the baby boomer generation have done too well at the expense of the generations that follow. I am not pessimistic like them about the upcoming generations, who may well go on to harness new ideas and new technologies to make themselves considerably more comfortable and richer than the baby boomers. Meanwhile, let me explore some of the errors of the present belief that the older generation are having it too good.

There is nothing new about most of the wealth of a country residing in the hands of people over 40 rather than under 40 years old. By definition babies come into the world with no wealth of their own, and no capacity to earn until they have grown up. We do not agree with child labour, so we support our children from our income instead.

In contrast many of the older generations have spent years struggling with a mortgage until they reach the day when they own a home outright. Given usually rising house prices they get gradually richer even with a mortgage. Most save for their retirements, so over their lifetimes their savings in financial assets build up to secure them that pension at 65 or beyond. 20-40 year olds have not normally managed to save much for their retirement, and are still struggling with home buying. So did the baby boomers in their younger days when house prices were a lot cheaper but mortgages were a lot

dearer. Current affordability as judged by mortgage payments as a proportion of income are not overextended in the way the house price to income ratio is.

In practice the baby boomer generation is sharing their wealth and income with the younger generations in conventional ways. The Bank of Mum and Dad is flourishing where parents have a surplus. It is paying educational fees and providing deposits for homes. The Bank of Grandma and Granddad is also often working overtime for similar purposes. Many of the younger generation will stand to inherit decent sums, though we hope they will have to wait a good long time for that.

The more active retired who have some wealth are keen to spend on exotic holidays, meals out, leisure breaks, sporting and cultural events and much else which creates income for those setting up businesses to service these markets, and creates jobs for many younger people. The frail and disabled better off spend much of their money on care homes, which again generate work and income for many people. The better off tend to be generous with charities.

The present imbalance in wealth between older and younger people is nothing new. It is inevitable given the way we work, earn and save. The money is recirculated, as it would be unhelpful if the elderly just sat on their wealth and did nothing with it. Many of them make conscious decisions to move it on by buying things and by giving it away to those who have more need of it. To those who do not, they leave it in a bank or savings scheme, so their money gets reused anyway by younger people who borrow it for their own purposes. I do not think there is a great intergenerational war. Most people see the elderly have money which they need to spend, and the younger people have energy to work, to earn that money. In their turn they will expect the same in their old age.

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## [The last stage of the EU negotiations](#)

The PM's critics say she does not know what she wants from the EU. Those who say this should read what she has written and spoken.

The following things are crystal clear in her statements:

The UK is leaving the EU on 29 March 2019

The UK is leaving the single market and the customs union – and this has been confirmed by two important votes in the Commons. She put Conservatives on a three line whip to vote down proposals to stay in the single market and customs union. It was also the clear statement of both campaigns in the referendum, and the position of the EU that you cannot stay in them without accepting all the other obligations of EU membership

The UK would like a comprehensive free trade agreement and trade partnership and is proposing no new barriers to our trade after we have left

She has also made clear – as she needs to do if we are to have a bargaining position – that no deal is better than a bad deal, and the UK will be ready to leave without a deal if necessary, though she strongly wants a deal.

I do not see how we can decide on a so called Transition period without knowing if there is something to transit to that both sides want. The March Council needs to be told we only accept transition if there is an Agreement and if it needs extra time to implement. The government should say to the EU we are offering no new barriers to trade – what barriers do they wish to impose on their trade with us? Were they to agree to no new barriers we could speedily translate that into a Free Trade Agreement and register it at the WTO.

I think the EU also needs to be told that the provisional generous agreement on money and other matters only comes into play if there is a comprehensive free trade deal which the UK likes. As someone who does not want to pay the EU anything extra, I would need persuading that any Agreement was value for money for what is an ex gratia payment.

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## Where will the new jobs come from?

It is fashionable to be gloomy amongst leading commentators and economists. One of the things many of them are now worrying about is what new jobs will emerge to provide alternative employment, as the robot and artificial intelligence revolution gets into full swing? My message is they should relax and study a little history. Past tidal waves of innovation have destroyed many jobs, only to create many others. Most people tending horses and running horse drawn services lost their jobs, but it didn't end the need for transport workers. Many of the jobs in factories moving parts to the line, assembling parts and testing the products have been replaced by robots already, but replacement activities have mushroomed as the society gets richer from automation.

Sometimes a new method does not extinguish all the old competition. The advent of the Channel tunnel did not end the ferry companies who fought back well. Whilst robots can make cars, the rich often want a different product that is much more hand made. Robots could cook and serve a meal in a fast food outlet, but that will not end the demand for silver service restaurants.

Today some worry that we are near the time when professional drivers are replaced by automatic vehicles. This is a strange worry for now, as the opposite is happening. There is more demand for commercial drivers, as internet retailing surges in importance. This requires many more delivery vans and drivers to take goods to people's homes that they would have taken there for themselves on the old model. If we do get to automatic vehicles in the ascendancy then there will be all sorts of jobs controlling, maintaining and instructing those vehicles, and doubtless plenty of jobs in regulating

and policing them.

One of the features of a higher income economy that is growing is the shift in consumption towards more items requiring higher levels of service. When people have enough goods for their home and a decent wardrobe of clothes, they have money to spend on events, leisure, eating out. They might want to buy an expensive coffee in a shop instead of making an instant at home. They may want a Sunday lunch for the family in a restaurant rather than round the kitchen table. They want better haircuts or beauty treatments. All these things have a higher employment content than buying more goods made in robot controlled factories.

I see technology as generally positive. The internet is extending our options, keeping prices down and changing the way business works. It need not herald an unemployment problem. The way you get unemployment is from governments and Central Banks that destroy credit, push up rates too high and impose damaging taxes, as we saw in 2008-10 in the west. Or you can get it like Venezuela from a government that does too much and taxes too much, killing off enterprise and private sector investment and innovation.