

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.

There's merit in the gig economy

There are two main ways people can choose to earn a living. You can sell your time to an employer, or you can sell goods and services to customers.

Traditional employment – having a job – entails agreeing to be at your employer's place of work, or in other places at his request, during stated hours. In return for losing your freedom over what you do for around 40 hours a week, the employer agrees to pay you for weeks when you are on holiday, and for weeks when you are sick. The employer also has to let you go home at a stated time whether the work is done or not. The employer stops you working for anyone else during the stated hours of your employment and may even stop you working at other times for another employer.

Self employment, or being a contractor, means you sell a company a given service, product or output. The company normally has no right to require you to be in a given place at a given time, and cannot stop you working for others or doing other things as and when it suits you. It means that the individual is not paid when they are sick or on holiday, because they are not then supplying the good or service.

Parliament has always regulated these two different ways of working differently, and taxed them differently as well. The Labour party has concentrated in the past on improving working conditions for the large majority who opt for the job model rather than the contract model. Conservatives too support decent conditions of employment for those in jobs, and agree with a framework which limits hours, requires minimum pay rates, and provides decent terms for sickness and holidays.

Labour now wants to try to make many who work under the contract model work under the jobs model. They say some companies abuse the freedoms of the contracts model, effectively turning what should be jobs into self employed contracts to avoid holiday and sickness pay and the rest. They ignore the fact that many people working under the contact model have chosen to do so and do not want to be forced into an employment contract instead.

The last three taxi drivers I have talked to about the contract model have all been in favour of remaining as contractors. One likes the contact model because he can earn more and work more hours as it suits him. One liked it for the very opposite reason. He values his time more and only works the hours that fit in with his other interests, working less than he would have to under the jobs model and going home when he wishes. The third was starting his own business which is not yet anything like self sustaining, but requires him to be able to have hours off during the working day to see new clients

and customers as need arises. The gig economy contract work pays the bills whilst he gets going with the new business.

The danger of the Labour approach is it will eliminate choice. I don't want people to have to take precarious contracts when they want a job, but I do want people who have good reasons to work as contractors to be able to do so. There is room in life for the full time employed taxi driver and the self employed contractor driver. There is room for the staff journalist with holiday pay and the freelance journalist paid for each article. If we make everyone into an employee more of the entrepreneurial freedom loving types will go to another country.

[The UK should stop the fiscal and monetary tightening](#)

The UK economy has slowed a bit this year. This is the direct result of Treasury and Bank policy, which has been tightening.

In 2016 the then Chancellor decided to slow the housing market by hitting Buy to let hard with new taxes, and by imposing higher Stamp Duties on the high priced end. This policy did indeed slash transactions volume with knock on effects to conveyancers, removal companies, furnishings, decorators and the rest.

In 2017 the current Chancellor decided to hit the dearer end of the car market, at a time when cars were selling well with good growth in the market. His high levels of VED have knocked sales of higher priced cars ever since.

The Bank of England has reinforced these trends by issuing warnings over consumer credit, certain mortgages and car loans. There has been a macro prudential tightening, as messages have been sent to banks and finance houses to rein in credit.

The Chancellor is still out to tighten the fiscal stance, taking a tough line on more spending and revenue.

The Bank has recently been successful in talking up sterling, particularly against the dollar and yen. Whilst this has some desirable effects, it is also a clear monetary tightening.

There is no need for more tightening, and some need for a more balanced policy. The quickest way to get the deficit down faster is to grow faster. Both the Treasury and Bank need to be kinder to enterprise and growth in their approaches.

Dealing with the deficits

The UK has been running a substantial balance of payments deficit for many years. The main origin of this is the large balance of payments deficit on trade account with the EU, which has persisted throughout our time in the single market and is partly related to its asymmetric construction in ways favourable to continental agriculture and industry and against UK services. In the twenty years before we joined the EEC our balance of payments on current account was roughly in balance. During our time in the EEC up to the completion of the single market in 1992 our current account was typically in modest deficit. After 1992 in the single market our current account deficit ballooned to £40bn to £90 bn a year. Under Labour in their later years the UK also ran a budget deficit which became enormous with the banking crash. Since 2010 the budget deficit has been brought down from 10% of GDP to under 3%. The balance of payments deficit has stayed at around 5%.

I am more worried about the balance of payments deficit than about the budget deficit. There are only two ways we can finance the overseas deficit. Either we have to borrow money in foreign currencies, or we have to sell more and more of our assets to foreign interests. So far this has proved relatively easy, as foreign investors have found UK assets attractive. They like our property, technology companies and the rest. Our markets are particularly open allowing them to buy up businesses and real estate.

Where we borrow to sustain our excess consumption of European imports we run currency risk of having to repay in a foreign currency that has got dearer against sterling. Where we sell more assets we forgo future profits and dividends, and may see the foreign buyer transfer some of the economic activity elsewhere if they wish to help their home production at the expense of a former UK competitor.

This is why stopping EU payments is doubly important. If we stop all the EU payments but spend all the money saved at home we still make a big reduction in the external deficit as this is money which no longer has to be sent across the exchanges to overseas. Every pound we save on net contributions is a pound saved from the balance of payments deficit. I would like the Treasury to be more concerned about the government's role in boosting the external deficit, and keener to bring it down.

The Treasury does want to cut the budget deficit. That too is easier to do if we cut the amount we are sending abroad. If more of the overseas aid money was spent on the wages of UK public sector who go to help abroad, and more on UK supplies and equipment which we give to the aid recipient, the aid budget would be less of a strain on the balance of payments. If more of the actual costs incurred by our military and NHS in helping abroad was properly accounted as aid spending that would help the general budget. If more people who come to the UK for asylum were given housing and other financial support

as part of the overseas aid budget that too would assist in cutting the overall deficit.

The Treasury needs to tighten up on the money spent abroad, as it imposes a double strain on our accounts.

The German election and the collapse in support for Mrs Merkel

Mrs Merkel lost a lot of ground in the German election, plunging from 41.5 % to 33% . She lost around 93 seats. In her place the anti Euro AFD soared to 13% to give it 88 seats, where it had none before. This is a contrast to the UK Conservatives rising from 36% to 42 % for their share of the vote in the last election.

Mrs Merkel may be able to soldier on at the head of a difficult coalition, but she has lost substantial authority for her EU policies as a result of this voting collapse. If she and the potential alternative left of centre coalition both refuse to include the AFD one of them would have to govern as a minority. Only a further CDU/SPD coalition can get her to a majority. This Grand coalition between the two main rivals is not easy, especially now both parties see how damaging it is for them electorally. So far indeed the SPD have said no deal. Germany has voted itself into weak and unstable government. The BBC calls this a Merkel win!

The UK government has to see this is a further strengthening of its negotiating position. It looks as if the EU has rejected Mrs May's generous offer and suggestions in her Florence speech, as appears to be the case from Mr Macrons words and from the reactions of the EU Commission. The UK government should in the event that the EU does confirm it refuses to widen talks and seek a positive future agreement soon make clear the offer is withdrawn given the lack of any positive response. The position anyway should be being reconsidered in the light of the German election.

The Prime Minister made a very generous offer but made clear all had to be agreed before any offer is confirmed. Circumstances are now different so the UK needs to firm up its position and intensify its preparations for no deal to show it is serious. Then the EU may start to talk about the things that matter to both sides. If they continue in saying they will not even talk about trade and the future relationship there is no point in being generous. We should neither pay to get talks started nor pay for a trade deal.