Brexit Benefits

Prosperity not Austerity - Britain's New Economy

John Redwood

POLITEIA

A FORUM FOR SOCIAL AND ECONOMIC THINKING

POLITEIA

A Forum for Social and Economic Thinking

Politeia commissions and publishes discussions by specialists about social and economic ideas and policies. It aims to encourage public discussion on the relationship between the state and the people. Its aim is not to influence people to support any given political party, candidates for election, or position in a referendum, but to inform public discussion of policy.

The forum is independently funded, and the publications do not express a corporate opinion, but the views of their individual authors.

www.politeia.co.uk

Brexit Benefits

Prosperity not Austerity - Britain's New Economy

John Redwood

POLITEIA

2016

First published in 2016
by
Politeia
14a Eccleston Street
London SW1W 9LT
Tel. 0207 799 5034

E-mail: secretary@politeia.co.uk
Website: www.politeia.co.uk

ISBN 978-0-9955699-0-4

Cover design by John Marenbon

Printed in Great Britain by:
Plan – IT Reprographics
Atlas House
Cambridge Place
Hills Road
Cambridge CB2 1NS

THE AUTHOR

The Rt Hon John Redwood MP is Conservative MP for Wokingham and Chairman of the Conservative Economic Affairs Committee. He has held ministerial office in previous governments at the Departments of Trade and Industry and Local Government and served as Secretary of State for Wales. He was in the Shadow Cabinet as Trade and Industry, Environment Transport and the Regions, and Deregulation Secretary.

His publications include *After the Credit Crunch - No More Boom and Bust*, (2009), *Superpower Struggles: Mighty America, Faltering Europe, Rising Asia* (2005) and *Stars and Stripes: The Coming Conflict between the USA and the European Union* (2001). For Politeia, he has written *Trading Truths? The Treasury, Trade and the City* (2016) and co-authored *The UK and the EU: What Must Change*? (2015).

CONTENTS

Introduction
A Tale of Two Futures

This is an exciting moment for the UK. We can at one and the same time cast off the costly and bureaucratic embrace of the European Union, and take up a new economic policy for greater prosperity. Prosperity, not austerity, must be the guiding hand of Britain's new economic approach. This pamphlet considers how we can negotiate a simple and successful exit from the EU, and how we can adjust economic policy to put prosperity first. As Britain prepares to leave the EU, the country will need to adjust, making a range of changes - to education, energy, transport, taxation, budgets and trade - for the UK to bring out the best of all our talent and make the most of Brexit opportunities.

The Benefits of Brexit

During the referendum debate the two sides portrayed a very different future. The Remain camp regarded the single market as some priceless gem which they claimed was essential to continued growth and prosperity. They produced a number of negative forecasts of what the UK economy might look like, both in the short term and the longer term, in the event of leaving without accurately assessing commonly used WTO arrangements for trade with the rest of the EU. These have been criticised for failing to provide an accurate view of what is likely to happen. Their short term forecasts have already proved very wide of the outturn. By contrast, the Leave campaign argued that the UK would make more rapid progress if it could make its own trade deals with the rest of the world, spend its own money on its own priorities, insulate itself more from the trouble of the Eurozone, and, because the continent would not wish to lose access to the UK, probably keep much of its present access to the EU market.

The longer the time frame of the Remain forecasts, the less reliable they were. The evidence in fact indicates that when Britain first joined the EEC, and then joined in the single market project with its first completion in 1992, there was no increase in UK growth as a result. Indeed, the contrary is true. The UK's growth rate was slower after the completion of the single market in goods than before it joined the EEC. The inauguration of our time in the single market was particularly prone to disaster, coinciding as it did with UK membership of the European Exchange Rate Mechanism. Far from giving us a growth spurt and a more sustainable long term trend, the advent of the single market began with a deep recession and continued thereafter with a lower overall rate of growth. More bizarrely, we saw the growth rate in UK exports to the EU proceeded at a slower pace than the increases in US and Chinese exports to the EU from outside the single market.

As the EU sells us so much more than we sell them, it seems likely that once their disappointment and anger at our decision to leave dies down, they will come to the view that they must not damage their access to our market. In turn that means we will keep good access to theirs.

When I and others put the case against the UK joining the Euro, we faced the same wall of disbelief from many in the UK business and government establishment. They allied with powerful interests on the continent to tell us the City would be badly damaged if we stayed out, and that the UK economy would suffer as a result. They used a by now familiar mixture of false forecasts and wild threats. They said the City would be banned from Euro markets, and many businesses would wish to locate to within the Eurozone. The opposite happened. The City grew mightily outside the single currency, whilst many individuals and businesses on the continent were drawn to invest and trade here, given the liquidity of UK markets and the concentration of skilled staff available.

Brexit offers a threefold benefit. It allows us to spend our own money and boost our economy and public services as a result. It allows us to pass our own laws best suited for expanding employment and investment. It permits us to conduct our own trade negotiations with the major countries of the world outside the EU, where currently under EU control we have no trade deals. These opportunities will allow us to change current economic policy to create the conditions for increased prosperity here at home.

I
Economic Policy 2010-2016: An Appraisal

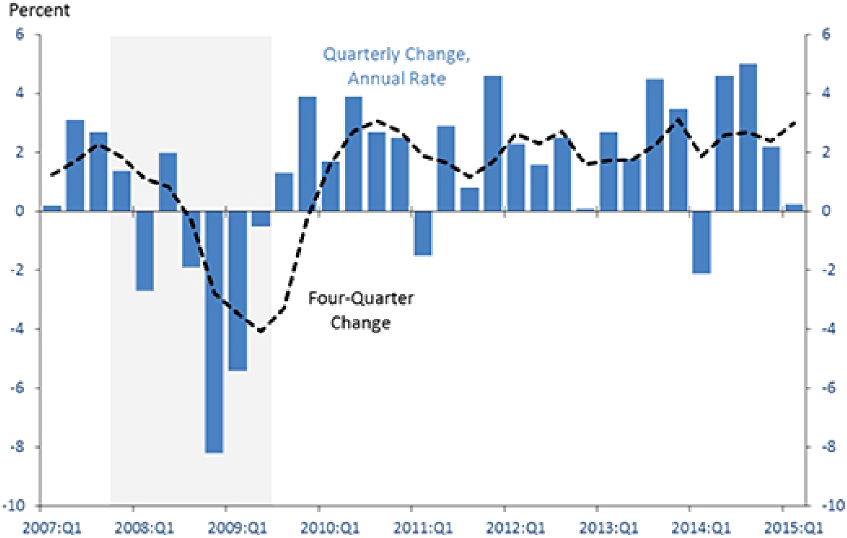
George Osborne made much of the need to eliminate the UK's deficit. He said he would do so primarily by cutting spending, with some front end loaded tax rises in 2010. In fact, he only managed half the deficit reduction planned for the Coalition years and seemed to be looking for reasons or excuses to back away from being in surplus by the end of the present parliament. His policy relied entirely on increases in tax revenue as he presided over small real increases in total public spending. He discovered the old truth that where he cut tax rates, as with the cut in the top Income Tax rate to 45 per cent, he did get some increase in revenue. Where he raised rates he often suffered from lower revenues or from less growth than he imagined. Higher rates of CGT and Income Tax in the early years both hit revenues. Higher taxes on banks, the North Sea, carbon dioxide output from industry and waste all had their adverse side effects and sometimes required adjustment to prevent too much damage to the underlying businesses.

The overall policy combined a fairly flexible fiscal policy with a fairly loose monetary policy, a mix which allowed growth to continue at a better pace than that in the Euro area or Japan, and similar to the USA once the UK got into its recovery.

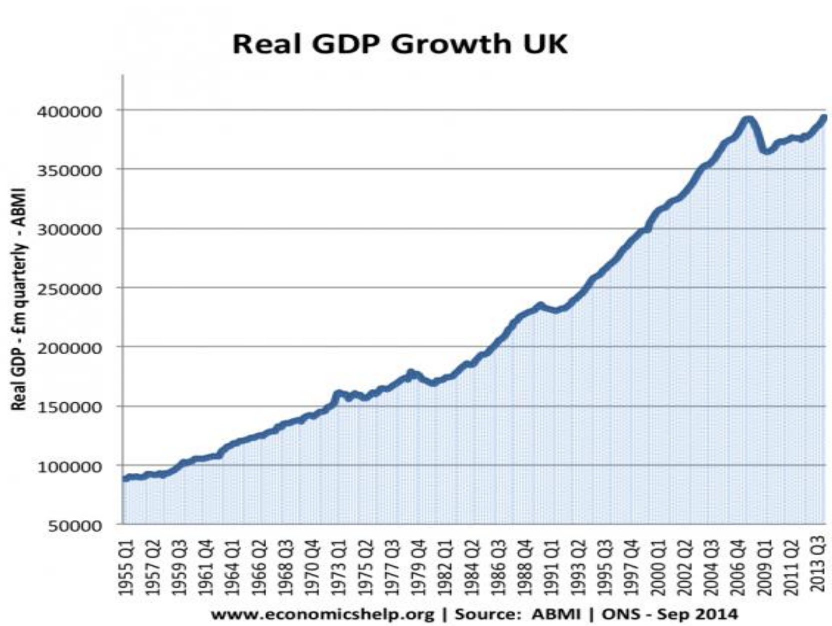
Japan GDP Growth Rate

SOURCE www.tradingeconomics.com | Cabinet Office, Japan

US Real GDP Growth, 2007-2015



Note: Shading denotes recession
SOURCE: Bureau of Economic Analysis
https://www.whitehouse.gov/blog/2015/04/29/advance-estimate-gdp-first-quarter-2015



As a result of UK GDP growth, tax revenues did grow, allowing the deficit to shrink despite the increases in public spending.

There were substantial changes in priorities in public spending, which meant that some areas did indeed suffer from cuts which were immediately labelled austerity by the Opposition. The government afforded high priority to increasing spending on overseas aid, and had also to increase spending on EU contributions. The decision to offer a triple lock on pensions was quite costly, guaranteeing the best of inflation, wage inflation or 2.5 per cent for each annual uplift in pensions. There were savings from raising the pension age as some offset.

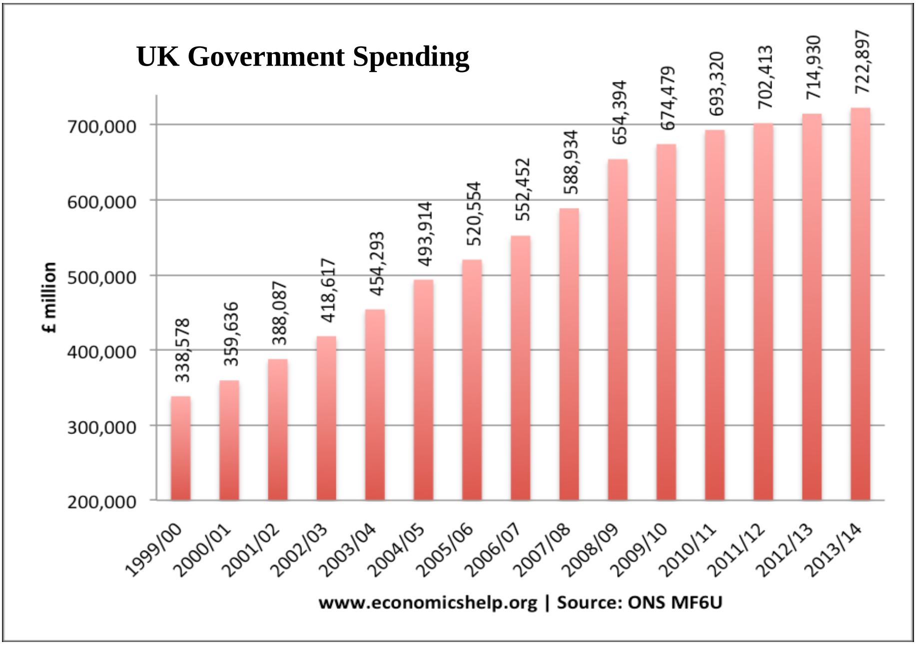
Elsewhere, there were budgetary cuts. The Coalition government saw substantial cuts in the defence budget. This budget was allowed to grow again before the 2015 election, as political pressures built up against the scale of the reduction. The UK was keen to preserve the minimum 2 per cent of GDP target under its NATO commitment which also acted as a spur to end the cuts. The welfare budget kept expanding, but was subject to a number of raids in efforts to keep it down. Some of these proposals were unpopular and difficult to achieve in Parliament, leading to rebellions and modifications. This was especially true of tax credits and disability payments. The Coalition government inherited severe cuts to capital spending from the outgoing Labour government. Progressively over the last parliament, Mr Osborne lessened the impact of these cuts. By 2015 he was keen to encourage further increases to capital spending. The government was chasing three large projects, HS2, the expansion of Heathrow and a new power station at Hinkley.

Throughout the period, productivity performed poorly. Much of this was down to two structural changes. The continuing decline of North Sea oil output was compounded by the collapse of the oil price at the end of the period. Oil as a product has a very high value added with high labour productivity. Its fast decline reduced the average achievement of the economy. Over these years the financial and banking sector lost numerous highly paid jobs. Some went owing to banking contraction following the 2008 crash. Some went owing to the higher UK personal taxes, tempting businesses to relocate to Hong Kong or other lower tax centres. This too served to cut the average productivity figure. Meanwhile the UK economy, like the US, created numerous low paid service sector jobs and invited many migrants to fill these roles. That too helped keep down the average productivity figure.

Throughout, the balance of payments has been poor with very large deficits in recent quarters. This is partly due to the decision to make such large foreign payments under Overseas Aid and the EU contributions. Between them they account for around one quarter of the deficit. There was also a sharp deterioration in the balance on the investment income account. The UK suffered from low rates of return on its substantial overseas investments. At the same time the stock of foreign investment in the UK kept rising, as there needed to be inflows to pay for the payments deficit. This meant increasing interest and dividend payments from the UK to foreign owners of bonds, shares, properties and companies. A growing migrant workforce also increased their remittances of money back to their wider families in their home country. The government tended to see this as a balance of trade problem, more than as a payments problem: however, the trade imbalance was well under half the total deficit. Trade was only in deficit with the rest of the EU, not with the rest of the world

The main successes of the period were new job creation and low inflation. It is true inflation spiked half way through the previous Parliament, reflecting sterling weakness, but has since then fallen to very low levels. Past eras would be envious of the combination of steady growth, falling unemployment, low inflation and rapid job growth that we have experienced. Employment reached new record levels at over 31 million and the UK easily outgrew the Euro area. The government was understandably concerned about the relative strength of London and the poorer past performance of places further away from the capital. As the recovery advanced, so job growth picked up around the country.

Over the Osborne years, UK total public spending went up by £100bn a year whilst taxes went up by £160bn. This brought the deficit down by a bit more than a half.



Britain is ready for a change of approach. Welfare and health spending should be increased, especially to help the disabled and to promote better access to care. Tax rates on enterprise and hard work should be cut, to make working and venturing more worthwhile and to raise more money from the incentive effects. Both are necessary and both will reinforce the path to prosperity.

The next two chapters outline the fundamental changes in economic policy which can and should now take place.

II
Better Fundamentals, Better Life Chances

The new government's wish to end the use of the 'A' word should be welcomed: the word has been much used and abused over the last six years. It has been a rallying cry for the Opposition. It has been a misleading spin line used by the previous government under David Cameron and George Osborne. As a policy it has been lopsided and ineffectual. Mr Osborne, the last Chancellor, did not succeed in bringing new borrowing levels down as promised. He relied on tax rises rather than on overall spending cuts. Within spending, while making some cuts in welfare and defence which many had advised against, he also presided over large increases elsewhere. Throughout the last six years, neither the government's nor the opposition's political lines reflected the reality of the spending and tax plans, although I and others sought to explain the true position from the evidence of the published figures.[1]

What then will a prosperity driven policy look like?

To invest in major infrastructure, the government will examine how to borrow money very cheaply in today's markets though with two constraints. The first is the difficulty the UK experiences in reaching an agreement on and making progress with plans for much visible large scale development. There can, sometimes, be too much delay, with endless consultations and arguments over whether a road or railway line or airport can be built. If the government wishes to cut through and shorten times for such debates, the best way would be to offer much more generous compensation schemes to help those adversely affected in their homes to move or improve their property should they wish. It also helps if the government chooses those projects with more popular support to start with. The second constraint is the need to ensure that the infrastructure which is built generates a proper return. In the case of water, energy or telecoms, there remains a market test on whether the investment pays. In the case of roads and heavily subsidised railway lines, no such direct test exists, so the government must make an honest study of need and economic impact.

There is also a new life chances agenda, a package of policies designed to improve schooling, mentoring, training and access for all, to equip more people to develop the skills needed for better paid employment. No task is

[1] See www.johnredwoodsdiary.com

more important for raising productivity than to equip each individual with the advanced skills needed to do well in our economy, with emphasis on more small businesses, more entrepreneurship and better rewards for success. Tax policy is also important. The outgoing government was more generous to large corporations with cuts to Corporation Tax than to individuals risking all in their own business with CGT and Income Tax. A very large company pays tax at 20 per cent and a successful individual at 45 per cent.

More and Cheaper Energy

One of the first decisions by the new government was to abolish the Department for Energy and Climate Change, transferring Energy to a beefed up Business department. This is not just a symbolic change, but good news for the country. It reveals an understanding of how fundamental cheap and reliable energy is to industry. At a recent visit to a well automated manufacturing plant, I learned that energy costs were three times the wage bill. Most of the work was undertaken by robot or machine tool. Parts arrived by self driven trolleys, were transferred by automatic lifts, and welded, screwed or otherwise added without any human intervention.

Wind power is the worst kind of renewable electricity. Not only is it very expensive, but it is unreliable and too much wind on the system makes balancing the supply difficult. You need to construct other power stations to provide full back up for when the wind does not blow. The wind can disappear as quickly as it blows up. Tidal and hydro are better for renewable power because they provide predictable and sustainable power. More of these could help. The main thrust, however, must be to put in place a reliable low cost baseload from gas.

As we move towards more electric vehicles and even more factory automation, we will need more good value power to fuel this.

In deciding to review the Hinkley Point proposal for the Franco-Chinese nuclear power station project, the government had three prime concerns. The first was the very high cost of power to which Britain would be committing itself, given that the strike price per megawatt we would pay would be two times as high as current prices. Given that oil and gas prices have fallen significantly during the negotiation of this contract, the UK is therefore exposed to dearer energy. The second was the project’s potential risk and delay, given that the UK needs more cheaper energy sooner than 2025. This technology is not proven and there could be further difficulties in constructing and commissioning such a large and new plant. The third concern is whether the UK will have sufficient reassurance about access to the full technology and local control of the plant. The decision has now been taken to go ahead: cancelling at this relatively late stage would have its downsides. It would have been a setback for both French and Chinese relations, given that both governments have backed the project. Some would have argued, wrongly, that the UK was cutting itself off further from the world after the Brexit vote, or others may have sought to draw false inferences about the UK's lack of openness to inward investment and foreign business.

The aim should now be to bring forward well worked through plans for a fleet of new combined cycle gas power stations. These should be allowed to operate most of the time and deliver much cheaper power than the nuclear station. These plants would be much cheaper and easier to build using well proven existing technology. They would also spread the risk more widely by having several smaller plants rather than one big one.

Both in the short and long term, HMG's aim should be to build more capacity in total than Hinkley, to increase the resilience of the system and to provide more power for industrial growth in the UK in the years ahead. More and cheaper energy is fundamental to industrial success.

The Disabled, Low-Income Families and the NHS

Public spending decisions could include removing the need to cut disability benefits and tax credits further, and allowing sufficient funding for the smooth introduction of universal credit. It is never sensible to introduce major changes, such as that for the new benefit system on a shoe string, as parsimony can be the enemy of gaining acceptance to new benefits and principles. The underlying aim of the new credit is to make sure working is always worthwhile. This will be easier to achieve with sufficient money to compensate those who lose out in the initial handover.

The NHS will need extra cash to train, recruit and employ more staff to handle the rising caseload. Early introduction of better migration controls will start to ease demand pressures. Further work to stop health tourism and exploitation of free care by foreign visitors will also help.

Transport
Instead of focusing on HS2, there is a stronger case for improving existing rail links. We need money for a series of transport improvements that deal with the immediate capacity crises on commuter trains into main cities like Manchester, Birmingham and Leeds as well as London, and on the Great Western. HS2 provides too much extra capacity on routes where there is less of a capacity problem than on many commuter short haul journeys into the main cities. It will mean fare erosion and competition for too few passengers between the new line and the existing lines when it comes on stream.

Skills and training
Central to the government policy must be the aim of helping to develop the skills, aptitudes and motivations of all. Continuing curriculum and schools reform is important to foster the right atmosphere for learning and self-development. Reform of adoption, foster care and social care for minors by the state should concentrate on ensuring that children have the protection of loving and positive backgrounds when support or family life is sought from outside the original families.

Having made my way in the world by scholarships and free places, I recall that teachers, librarians and local academics offered informal and friendly guidance as to how the system worked. I came from a family where none of the adults had been to university, but thanks to other adults in the community I was guided to Oxford. They also taught me one other essential lesson - that my education was down to me. I had to show a love for learning in what I read and thought. They could not do it for me. Learning to me was a journey of discovery of what the best and most famous brains had concluded in the past, and what we can add to that corpus.

Ensuring that no child need be left behind, and no child should be left out, is, and must remain, a focus for future policy.

A Nation of Homeowners
Today it is too dear for many young people to afford a home. My generation started buying in their early twenties, though it is true we made financial sacrifices to do so. My first home meant no meals out and no TV set. House prices had just doubled in a couple of years and mortgage rates were high. Today’s ‘generation rent’ faces dearer homes relative to incomes than I did, though mortgage rates are much lower. Curbing numbers of people coming

here will help cut back on the high levels of demand. Continuing low interest rates will help with affordability. The various schemes to cut the price of new homes and to help get the deposit together introduced by the outgoing government now need beefing up. The construction of affordable homes needs speeding and scaling up.

No task is more important than facilitating home ownership. People can then look forward to an old age rent free. They have an important asset which can help them if and when they need to borrow to build a business.

There will also be concern about the balance of payments. The first and easy way to cut the outflows is to repatriate our EU contributions, slicing £12bn off the balance of payments deficit. Spending the £11bn net public sector contribution here at home would give a welcome boost to jobs and output. That should be brought forward even if there is delay in cancelling the payments. Let us have the removal of VAT on domestic fuel, and the extra spending on the NHS with more nurses and doctors as identified in the Brexit budget published during the referendum campaign.

In addition to this, there should be no more punishment policy. The new Chancellor has rightly abandoned the idea of a special punishment budget post the referendum to raise taxes and cut spending. We need to do exactly the opposite of that.

Monetary Policy, The Bank of England and the Evidence

Britain also needs a sound and optimistic monetary policy.

On 14th July in the aftermath of the referendum, the Governor of the Bank of England thought better of the much touted idea that he would cut interest rates by a further 0.25 per cent, a decision that was right. Another cut at these tiny levels could undermine the value of sterling further without doing much positive, something I and others had argued beforehand.

There has, however, been a problem about Mr Carney's inability to forecast anything accurately including his own conduct. He gave three separate pieces of guidance heralding increases in rates, only to change his mind and ignore his own triggers for raising them. This time he changed his mind on cutting them.

Unfortunately, Mr Carney a month later, in August, went on to unleash a major package of monetary measures, which could have damaging implications for sterling. He cut the official interest rate to 0.25 per cent (from 0.5 per cent). He will provide up to £100bn of cheap money to the commercial banks to boost their lending programmes. He announced a further £60bn of purchases of government bonds, to drive the longer term rate of interest down more. He proposed buying £10bn of selected company bonds or debt instruments, to lower the costs of company borrowing for companies making an investment commitment to the UK.

While such a range of measures will boost credit and output, which is a good thing, the danger is that if they go too far, they could weaken the pound more than is desirable. The current value of the pound has created a perfectly competitive currency. Too big a fall from here will increase price inflation more than is desirable, cut real incomes as imports become dearer, and run the risk of shifting the Bank to have to take action to support the pound and tighten credit again.

The new Chancellor's decision to drop the word 'austerity' in favour of promoting prosperity is right.

The property market has improved after the strange shake out from open ended commercial property funds. Consumer spending was strong in July and should pick up more after any summer and weather induced lull. There is no need for panic measures. Early transactions in the commercial property market since the vote confirm strong buying interest at similar rent and capital values to prior to the vote, as we have seen with the sale of the Debenhams store on Oxford Street for £400m and the Wells Fargo commitment to a new London City HQ at £300m. Late in September valuers who told us property prices had probably fallen sharply in the aftermath of the referendum have decided those same prices are now where they were before the vote.

Since Brexit, the markets have given us our best ever credit rating as measured by our very low borrowing costs. That is a further improvement in our public finances. Government bonds are at all-time highs. We should be optimistic with the bond markets, and look for ways to free investors and companies to innovate, train and add jobs across our land.

The Bank of England should cheer up. The Bank's Report and measures are too mired in gloom. I have no problem with the Bank allowing banks to extend more credit to businesses and individuals. I support them making liquidity and foreign currencies available to commercial banks so they can do their jobs.

People, however, expect to see a balanced commentary from the Bank, but the Bank instead appears to accentuate the falls in banks shares, possible problems with property investment and the fall in the pound. Nor does it appear to have thought through the lower borrowing costs as a result of the surge in UK government bond prices. Never has the UK’s credit rating in the market been so high. Yet the Bank does not stress the positive side of the fall in the pound, one which will promote exports and inward investment and amounts to a monetary loosening. It does not point out that at lower interest rates the UK government will save money on the interest charges on its debts as it rolls over old debt and incurs new debt. That gives the government the option of a lower deficit or more money to spend.

Fiscal Policy, Tax, Incentives and the Treasury’s Predictions

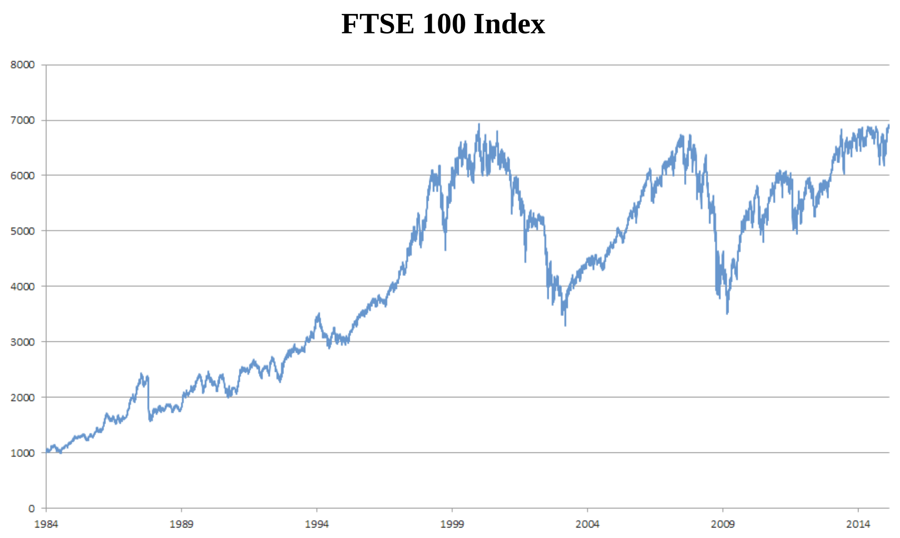
Brexit gives us the opportunity to lower tax. I am all in favour of lower taxes after Brexit. People voted to get rid of VAT on domestic fuel, so the Treasury should get on and do that. Lower Corporation Tax rates were not part of the offer. The new government may continue with the planned cuts to Corporation Tax without adding to them as the outgoing Chancellor proposed. They should also legislate to remove VAT on domestic fuel which would boost consumer spending power and help the lower paid most.

The new government needs to look at the impact of tax on incentives to work, to invest and to grow businesses. The best way to get more tax out of the rich is to set rates they are prepared to pay and will make them stay in the UK. The best way to encourage more strivers to make the journey from a council estate to an executive detached is to lower marginal rates of Income Tax and National Insurance on them. The best way to help people out of poverty is to avoid charging them any tax on their incomes.

The post Brexit outcome was so much better than Treasury predictions:

- They said the exit would drive up the cost of borrowing. Instead the government cost of borrowing has fallen and private sector loans are available at the same rates as before.

- They said asset prices would fall undermining investor confidence. Instead, shares of our large companies on the FTSE 100 are higher and people are out buying homes again at prices 5 per cent up on a year ago. Even the FTSE 250 Index of smaller companies, to which they shifted in their wish to find some bad news, has hit new highs.



SOURCE : Yahoo Finance
https://commons.wikimedia.org/wiki/File:FTSE_100_index_chart_since_1984.png

- They said the UK deficit would rise. Instead the Treasury can now cut its forecast for future state borrowing costs as the price of future state borrowing has fallen.

- They said there would be a rush to cancel investment projects. So far there has been no such rush.

- They said consumers would cut back their spending. Why? Who is doing that? The latest Bank commentary concedes in the small print that there are no signs of a fall in consumer spending.

The only thing they have been right about is that sterling has gone down. This is a substantial monetary stimulus to our economy. It means foreign buyers of UK assets now find them cheaper and better value. It will boost export activity and make inward investment more attractive.

It means we will buy more home goods and fewer imports.

Mr Carney need not offer lower official interest rates. That is unhelpful, pointing to an extra monetary easing we probably will not need. This country does not want negative talk from those in charge of our economy. The danger is such talk will lower sterling too much.

The immediate post Brexit figures showed continued growth, with no sharp falls in demand as forecast by the Treasury. It is difficult to see why some think that there will be a recession or a sharp slowdown from here. Money and credit are growing more quickly. In the longer term the Autumn Statement allows the government the opportunity to expand capital investment in roads, energy supply, broadband and other areas where more capacity is needed. It allows cuts in tax rates on work and enterprise, and increases in spending on public services.

A New Fiscal Stance

The government should continue to reduce the overall public deficit, but with a gentler slope to the graph than that envisaged by the outgoing Chancellor. If there is any slowdown this year reflecting a world wobble and post-Brexit issues, then the deficit should be allowed to run at a higher level using the fiscal stabilisers. It is likely that the official forecasts anticipate a slowdown and this will make for worse deficit figures. As the slowdown is unlikely to materialise it would be particularly silly to tax more or spend less to tackle it.

Three public spending changes have been mentioned in the previous section (pp. 10-14): to stop the cuts in disability benefits and to tax credits and to support the introduction of the universal credit; to increase NHS spending on training and recruiting new staff, and to cancel HS2 in favour of urgently needed transport improvements.

Tackling the Balance of Payments

The first action must be to cancel the EU contributions which account for one sixth of the balance of payments deficit and take back our contributions quickly from the EU to spend on our priorities

Moreover, the recent announcement to refocus overseas aid should be followed by a fresh examination of how far the large overseas aid programme has a potentially adverse impact on the balance of payments by increasing the UK component in aid spending. Where we are undertaking water or health projects and other developments, the money should be spent on UK expertise and goods where it cannot be spent on local expertise and goods in the country being aided.

The second is to review all measures that can help UK competitiveness. The UK has just received a major boost by a 15 per cent devaluation of the pound. We can add to this by the government doing more to cut energy prices, central to industry of any kind and especially to heavy energy users such as cement, glass, chemicals, tiles, ceramics, bricks, steel, aluminium and many others. The regulations and incentives should be revised to ensure we build a series of combined cycle gas power stations, which will be considerably cheaper than the renewables and nuclear. It also needs to press ahead with the extraction of domestic gas and oil, including the new onshore reserves that we are likely to find. The decision to go ahead with Hinkley helps with security of supply, but means costlier energy. It is, therefore, even more important that subsequent additions to capacity come from cheaper sources.

More can be done to facilitate the provision of land for new factories and offices. HMG can take a lead in bringing back brownfield sites as before and ensuring a smooth and rapid planning system that allows progress in zones where commercial development is encouraged. Every town should have its own industrial area or series of business parks with the capacity to expand.

Good transport links should be encouraged with HMG taking a lead. Businesses need good haul routes to get raw materials and intermediates into factories and the finished product out to market. Good commuter travel for the workforce is needed for people to travel to work without stress and arrive on time. Substantial new investment in extra commuter train capacity, and in freight rail capacity are needed, as well as the additional provision of roads across the country to eradicate the jams and delays that have become all too commonplace. Individuals planning working days by home visits now have to plan fewer to allow for congestion: the plumber or care worker or repair man can fit in fewer customers because they spend more time in traffic jams getting from job to job.

The City post Brexit

I am one of the few MPs who will stand up for investment bankers. At their best they do good work in financing projects and companies, in underpinning and helping create new jobs and activities. I have no problem with them earning big money provided that they live by the market and suffer financially by the market if they get it wrong. Paying them bonuses in good times is a good idea provided these are removed in bad times, as that can make their businesses somewhat more stable. The EU's policy of curbing bonuses has simply led to a big and unjustified increase in base pay, which makes the underlying businesses less stable in a downturn with higher fixed costs. No public subsidy or government guarantee should be offered to them.

It is odd that some of the foreign owned investment banks openly resent the UK's exit from the EU. The very essence of good corporate and investment banking is managing risk and change. Such businesses are usually ace at finding their way round rules without breaking any, outwitting lumbering governments and bureaucracies, and legally avoiding tax. They piled in for Remain, and their dire forecasts may have helped the leave side, but it also gave the country another reason to dislike them. Now they appear confused and seem to be demanding how, post Brexit, they will manage without the passport system of access to the EU market.

Five points should be made in response:

First, why should the assumption be that the UK will lose the passports? As Germany wishes to avoid a WTO 10 per cent tariff on her cars, it is most unlikely that she would wish to alter arrangements that suit her, in return for not altering arrangements that suits many here. Why would the UK agree to ending the passports?

The second is that whilst there are 5,476 UK companies using passports to undertake business in other EEA countries, there are 8,008 companies from outside the UK using passports to gain access to the UK market. Why would they want to lose their passports?

The third is that even if the formal EU passport were withdrawn, Britain would under MIFID II be free to sell services and product in the EU, like other non-EU countries with equivalent financial regulations. The UK will clearly qualify, as our regulations will not only be equivalent but identical, as most of them are now based on EU law.

The fourth is that the number of successful passported products is limited. The best example, used by the government, is the Undertakings for the Collective Investment of Transferable Securities (UCITS) investment funds. Practically all of these EU funds are domiciled in either Dublin or Luxembourg. So they will remain when we leave the EU. The UK will still be able to continue our contract work for these EU domiciled funds, which will retain their passport status.

The fifth point is that most of these grand investment banks that complain have other subsidiaries around the EU in addition to their London office, so they will always have a brass plate address to qualify.

I have every confidence that these bright and motivated people will flourish out of the EU in London. Some of the same people and their predecessors told us that if we stayed out of the Euro they would all have to move to Frankfurt or Paris. They didn't and London did even better by staying out of the single currency.

They may be bright and good at what they do, but some of them do seem unable to grasp the simple realities of how the EU works and of modern politics.

Trade Relations after Brexit

The good news is that the EU sells us so much, they will find it difficult to agree amongst themselves on new tariffs and barriers they could legally impose on us without doing themselves too much harm. The UK should get on with leaving the EU by repealing the 1972 European Communities Act. We should propose no new barriers to our mutual trade and see what, if anything, the others wish to alter.

Already and as expected, the rhetoric on the continent is changing. The President of the European Parliament, Martin Schulz, recently challenged the pre-vote rhetoric of the Commission by saying 'The UK should not be treated as a deserter but as a family member who is still loved but has decided to go in another direction'.[2] The EU leaders are urging Mrs May to speed up the UK's plans for exit, and saying they want to get on with it. Let us agree with them! It is in the EU's interest to sort this out quickly, and definitely in the UK's interests. It need not be a difficult negotiation. We have no wish to negotiate over our borders, our money or our laws with 27 other countries. We just need to take back control. They want to integrate their economies and political systems more, to sort out their banking troubles and tackle slow growth in the Eurozone.

Only one prime outstanding issue remains: a better trade agreement. Will the rest of the EU want to carry on exporting to us tariff free, or do they wish to go over to the relatively low average tariffs under WTO rules? The UK will be quite happy not to impose new tariffs, and to continue to accept the rules and regulations over products and services for our trade with the rest of the EU, so we are not seeking any changes despite being in substantial deficit with them.

There is a good case for an early exit, an early legislation on borders, and an early cancellation of our subscription to spend the money at home. Any changes the other states want to their trade arrangements with us could be debated after we have retaken control of all these other important matters. The UK could live with Most Favoured Nation (MFN) status under the WTO arrangements, as China does in its very successful trade with the EU, though of course we think it is in their interest even more than in ours to continue with current tariff free arrangements.

Naturally, the EU would like us to continue paying money into the EU budget and to accept free movement. However, this has been ruled out in the referendum, so once the EU realises this is not on offer, they then have a simple decision to make. How many barriers do they want on their exports to us - up to WTO permitted levels? The sooner they decide that, the sooner we can decide whether to accept their proposals or simply walk away. Those who tell us the negotiation is difficult, will take time, and requires us to give in over free movement, are unhelpful.

---

[2] Martin Schulz, 'The EU must not treat the UK as a deserter – we can negotiate without rancour', in *The Guardian,* <https://www.theguardian.com/commentisfree/2016/jul/12/brexit-eu-uk-negotiate-without-rancour>

Long delay is costly. At £11bn a year net contribution (probably rising), that would amount to a massive £40bn over the balance of this Parliament which we could spend to good effect at home. Delay in placing sensible controls and a fair system of work permits globally could also lead to a substantial increase in the UK's domestic budget to provide the level of housing, transport, health care and education we would want to offer to recently arrived workers on low incomes.

A successful negotiation should be a simple and quick one concentrating on the only area where the EU has a role in future policy: trade terms.

Too many people in government and the professions seem to think that the UK is a weak petitioner which must be very careful lest it is expelled from the single market; some even talk of bartering free movement and continued payments into the EU against keeping a variant of membership of the so called single market. Not only that, in much of the mainstream media, the bedeviled Referendum debate continues.

The facts are very different. Getting Britain's contributions back, deciding our own laws and having our own migration policy were the three central points of the Leave campaign. These are all non-negotiable. Now Britain should just get on with implementing them.

There then remains the issue of what access we have to their market, and what access they have to ours. We do not wish to be members of the single market, for that would mean accepting the EU's future control over things British people wish to control themselves.

The UK should offer the EU no new tariffs or barriers on their exports to us, accepting that the UK complies with their rules and regulations when selling to them, as it does to other countries, because they are the customer. In turn they should offer us no new tariffs and barriers on our exports to them.

If, perversely, the EU wanted to place barriers and tariffs, these would be limited to an average tariff of around 3.5 per cent by WTO rules. We should retaliate within the framework of WTO rules. Fortunately we can place a 10 per cent tariff on cars and high tariffs on agricultural products, two areas where they are big suppliers to us. That should make it very unlikely that they will in practice want to place barriers on our exports, to avoid such a response. Half of WTO trade is tariff free. Business and farmers on the continent will be lobbying strenuously against any such stupid action by their own governments.

Trade services are tariff free anyway. The EU has not got very far in pulling down non-tariff barriers to trade in services. Languages will always be a barrier whether in or out of the EU. The rest of the EU is likely to want to keep passports for financial services, but there are ways round if they do not.

Some then say we cannot simply pull out owing to the law of Treaties! This is not the case. Article 50 expressly says we can withdraw using our own constitutional procedures, which means in our case an Act of Parliament. Moreover, it is inconsistent to suggest that the EU is so ghastly that Britain would be constrained by a Treaty it has voted down, especially given the great fanfare made for the EU’s general claims to promote democracy and human rights.

Controlling Migration

The present government is pledged to cut net migration to tens of thousands. This requires something like a two thirds cut in current levels. Vote Leave argued for slower rates of inward migration than now, with a fair system offering the same restrictions on EU migrants as the rest of the world.

Recently in the Commons, the Opposition proposed a motion to reassure non-British EU nationals in the UK that they may stay after Brexit. Vote Leave asked for such an assurance. It is implied by international law. The UK would be rightly scandalised and seeking to mobilise international law and world opinion if one of the other EU states threatened the UK nationals legally settled in their country. The government has made clear it will not threaten the status of EU citizens here if there are no threats to UK people on the Continent.

I have proposed in addition that the UK government makes a statement to explain that for, any EU migrants arriving after the referendum vote, they will be obliged to comply with a new system being introduced as soon as it is in place. The new Home Secretary must make clear that we cannot accommodate a rush of people intent on gaining UK citizen rights, after 23rd June 2016 so she will need to change the law as soon as possible and define transitional arrangements to give the UK the reassurances people rightly want.

More Trade Deals

There are several requests from countries to initiate trade talks with a newly independent UK. The Cabinet Office should rapidly make available the briefing for HMG and the prime minister on how to exit the EU quickly and smoothly, and how to keep decent access to the markets of other EU countries in the process.

Apparently, as a result of the previous prime minister's orders, the civil service did not prepare a brief on how to exit during the referendum campaign, as normally they would be expected to do in a general election campaign, when civil servants are not obliged to work for Ministers on new policies or announcements. Rather the rule is that they prepare briefs on how best to implement the manifesto policies of each leading party. In the referendum they should have done the same for Brexit.

Given that things were left as they were, they must work rapidly to catch up with the new PM. The good news is that the many civil servants currently working on negotiating new laws, policies and budgets with the EU can be switched over to handling the transition to self-government, and assisting in the negotiations. These officials are already familiar with the people and the issues.

The priority for the new International Trade Department is to set up an effective trade talks unit. The old DTI always had one, and other departments, Business, the Treasury and the FCO can re-deploy their officials now working on the implementation of EU trade policy.

Some suggest that a large number of trade negotiation specialists is needed. While high level political and official leadership is needed from those who know how to negotiate, have a track record of success, and have mastered the detail of trade matters (or have access to those who do), other matters can be handled by general civil servants or business people. They will become experts in the field, and could take responsibility for general issues of trade talks, and detailed matters of tariffs and other barriers.

Many model agreements across the world can serve as the basis for such deals. After all, the UK will inherit 53 agreements from the EU as they revert on such agreements to us and to the rest of the EU on exit. As the UK aim is to reduce as many barriers as possible, the list should start with the current barriers and work away from there. That is not difficult. Why pretend it is? In the case of UK trade arrangements with the EU the binary choice would make things simple. Either keep things exactly as they are, or they convert to standard WTO terms.

Businesses on the continent want neither new tariff nor non-tariff barriers in the way of their trade with us, and they understand current arrangements can continue: they can still have tariff free trade if in turn they do not seek to impose any on the UK. This has been clear in numerous discussions with continental business people. Why do people say this has to be such a difficult or long winded negotiation?

The UK need only ask the continental businesses and trade organisations, what are the tariffs they want to impose on their trade with the UK? They will understand that only if they seek to impose tariffs on the UK then the UK can impose high tariffs on some agricultural exports from the continent, and a 10 per cent tariff on cars, which the rest of the EU will not want

V
The EU Project and the Crisis of Government: Moving the UK to the Politics of Change

Project Fear seems to be backfiring.

The EU project is destroying party choice and democratic government.

Those parties the EU would destroy are first driven into coalition. In Germany the old rivals, CDU and SDP are in a grand coalition. It is proving especially stressful for the SDP who now wish to differentiate from the government line in a number of areas. The anti-Euro AFD is on the rise, rallying the growing number of voters who think the Euro and the open borders are not policies working in Germany's interest.

The EU's interference in law making, budget setting and much else is crushing the traditional parties in many European countries. The collapse of the two main rivals is at its most pronounced in Greece, where the grotesque austerity enforced on the country has removed Pasok as a party of government (Labour like) and badly damaged New Democracy (Conservative like). In both Spain and Ireland the two traditional parties that contend for power received only around 50 per cent of the vote between them in recent elections, leaving their countries without governments.

In the UK being out of the Euro moderates the impact of the EU somewhat. Even here the vote share of Labour and Conservative together has fallen, but last time there was still a small majority for the Conservatives. However, to get the many EU laws, taxes, budgets and measures through against the opposition of a large number of Eurosceptic Conservative MPs, the government has had to rely on Labour and SNP votes, or on their abstention. These tensions within the Conservative Party are likely to end, now that the UK no longer has to put through EU taxes, charges and laws we do not seek.

This past reliance on a grand coalition in Parliament to deliver EU laws and taxes has created rows within the ruling party and within the opposition. In the referendum the same truth underlay the Remain campaign. They could only hope to win if Mr Cameron attracted a majority of Labour and SNP voters to his cause, as many Conservatives were strongly against the EU and its works.

Government coalitions tend to erode confidence and respect for main parties, as the parties have to dump manifesto pledges and compromise principles people thought they held dear. Though many say they would like parties to work together more and find more compromises, in practice the results of that are often perceived as being bad faith and untrustworthiness. This is intensified if the compromises are to accommodate laws and taxes imposed by the EU rather than ones stemming from large bodies of opinion at home.

There are many critics and criticisms of two party choice democracy. I think it the least bad system, the lesser of other evils. The problem with multi-party democracy is that it can so easily lead to a weak government or no elected government, more bureaucratic and EU control, and more scorn for parties who are forced to renege on some their most closely held beliefs and cherished policies. The EU is creating a crisis of government in its large area. It is undermining the authority of parliaments and destroying the ability to elect strong majority governments. Many people now object to EU policy but have no way of changing it, even when they change their own national government in an attempt to do so. It is also fueling parties that want to split up their nations, encouraged by the Europe of the regions rhetoric and grant regimes. Now Leave has won the vote, the UK can hope to restore the politics of choice in the Commons.

Such politics will allow the country, its parliament and its government to change course and to govern in the interests of the whole country for trade, the economy and prosperity.

VI
An Ownership Revolution

Prosperity, not austerity, is what Britain wants. Mrs May's new government understands strivers. It also knows how people from low income backgrounds can travel to the heights in politics, the professions and business. It needs to unleash a new generation of strivers by allowing and encouraging excellence for them.

At the same time, proper support must be offered to those who cannot reach the pinnacles but have plenty to contribute. Changes to tax and improvements to the benefit system are needed to reward the many who want to work hard, to gain new skills or abilities, to aim for promotion. The tax and benefit systems must do even more to encourage an explosion of new business and small business. People find it worthwhile to work for themselves and easier in terms of compliance. A good plumber or electrician should not be expected to be a specialist in employment law, taxation and regulation. Nor can he or she afford all the best advice these varying fields require.

In short, the government should be on the side of those who want to own their own home and save for their retirement. New measures are necessary to expand affordable housing for sale, as the previous government had started. The UK needs an ownership revolution. Everyone as owner will create a happier and more prosperous society.

What's the Point of the Human Rights Act?
Dinah Rose QC

The UK Government Spending Ratio: Back to the 1930s?
David Smith

Magistrates Work! Restoring Local Justice
Stanley Brodie QC, John Howson, Simon Reevell

Zero Plus: The Principles of European Renegotiation
Martin Howe QC

Working Systems: Towards Safer NHS Nursing
Tony Hockley and Sean Boyle

Latin for Language Lovers: Ancient Languages, the New Curriculum and GCSE
D. Butterfield, S. Anderson, K. Radice & D. Sullivan

The Financial Sector and the UK Economy: The Danger of Over-Regulation
J. McFall, K. Matthews, P. Minford, D. Green, J. Dannhauser, J. Hodgson, S. Cochrane, D. Smith

Primary Problems for the New Curriculum: Tougher Maths, Better Teachers
David Burghes

University Diversity: Freedom, Excellence and Funding for a Global Future
Martin Rees

Going for Growth: The best course for sustained economic recovery
Norbert Hoekstra, Ludger Schuknecht, and Holger Zemanek

Realistic Recovery: Why Keynsian Solutions Will Not Work
Vito Tanzi

Freedom, Responsibility and the State: Curbing Over-Mighty Government
J. Rees-Mogg, M. Vickers, Z. Goldsmith, J. Morris, J. McCartney, J. Stevenson, C. Whittaker, F. Bruce, S. Reevell, D. Mowat

Crisis Managed: Monetary and Fiscal Frameworks for the Future
Michael Bordo and Harold James

Working Lives: Making Welfare Work
Chris Grayling

Subscribe to Politeia's Publications!

For £35 a year (£30 standing order) you will receive an electronic copy of each of our publications, plus hard copies of two new publications on request, and, if you wish, free hard copies of your choice from our back catalogue. You will also receive advance notice and invitations to Politeia's conferences and flagship events, with guest speakers from the UK and overseas.

More information can be found on our website: www.politeia.co.uk. Or, write to The Secretary, Politeia, 14a Eccleston Street, London, SW1W 9LT or at secretary@politeia.co.uk

A Selection of Recent and Related Publications

A Blueprint for Brexit: The Future of Global Financial Services and Markets in the UK
Barnabas Reynolds

How to Leave the EU: Legal and Trade Priorities for the New Britain
Martin Howe QC

Ruling the Ruler: Parliament, the People and Britain's Political Identity
Sheila Lawlor

Joining the World: Britain Outside the EU
Nigel Lawson

Banking on Recovery: Towards an accountable, stable banking sector
Lord McFall, S. Kamall, G. Lyons, F. Capie and others

Dumbing Down the Law – The SRA's Proposals for Legal Education
Anthony Bradney

The British Bill of Rights: Protecting Freedom Under the Law
Jonathan Fisher

Paying for the Future: Working Systems for Healthcare and Pensions
Ludger Schuknecht, Matthias Dauns, Werner Ebert

Working Welfare: Contributory Benefits, the Moral Economy and the New Politics
Frank Field

History in the Making: The New Curriculum, Right or Wrong
David Abulafia, Jonathan Clark, Robert Tombs

Nuclear Options: Powering the Future
Roger Cashmore, David Mowat, Simon Taylor

Theresa May's mission is to bring Britain out of the EU and to change economic direction to the benefit of the whole country.

John Redwood, one of Britain's senior and most distinguished MPs, proposes how this can happen. In *Brexit Benefits: Prosperity not Austerity for Britain's New Economy,* he explains the basis for new arrangements for trade abroad and for rebuilding the economy at home.

Not only will Britain be free to strike its own trade treaties after Brexit, and be in a strong position to secure the very best deals - something now prohibited under EU rules - Brexit should also open the way to fundamental economic reforms at home.

Redwood proposes that monetary and fiscal policy should change course. Fundamental reform is needed across a range of areas, from education and training to energy, transport and housing policy. There needs to be an ownership revolution so that all will be able to have a stake in the new economy.

£5

POLITEIA