John Redwood

Trading Truths

The Treasury, Trade and the City

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Preface

When we leave we will be able to spend the money we send to the EU and don't get back on our priorities. We can hire more doctors and nurses, create more jobs, pay more incomes in the UK. Even the IFS agrees that this will boost our economy by the amount we can spend.

When we leave wages should go up a bit for the lower paid. We will be able to take control of our own borders and limit the numbers of people coming in from the rest of the EU to take lower paid jobs. The Chairman of the Remain campaign, Lord Rose, has himself stated wages should go up when we leave and put in a fair and sensible migration policy.

Despite this obvious boost to our future out of the EU, daily the establishment publishes new gloomy forecasts of what might happen if we dare to assert our right to govern ourselves again as 165 other countries around the world do. We are told we will lose trade, when our partners are not going to want to impose barriers against their lucrative exports to us. They forecast falls in the pound and rises in interest rates with no good explanation of why Brexit would bring this about.

The Treasury and the Bank of England's decision to enter the forecasting arena, based on very specific, relatively short-term forecasts around such a politically sensitive subject, is unwise. The question that should be asked is how good have they been at forecasting currencies and economic outputs in the past? They now forecast a large devaluation on Brexit. The last time we had a really big devaluation of our currency was between the summer of 2008 and the early months of 2009. During that short period the pound fell 30 per cent against the dollar. The Treasury and Bank of England forecasts ahead of that event did not forecast any serious kind of devaluation whatsoever. So what can be learned from this?

Two important things stand out. First, that we can devalue, and we have had serious devaluation during our time in the European Union. The possibility of it falling outside the European Union would not be an experience unique to leaving of the EU. The other thing that should be concluded is that the Treasury can make mistakes. Thus, we must ask, is this a one-off or do they regularly make mistakes? When it comes to the big changes and movements, they definitely do make mistakes.

One of the most important things forecasters had to forecast, in order to try and anticipate changes in the world economy and the British economy over the last two years, was the price of oil. The oil price more than halved to under $30 a barrel. The Treasury's and the Bank of England's forecasts in 2014 were for $100 a barrel for the following four years.

What matters far more however, was their dreadful forecast made at the time of the European Exchange Rate Mechanism in the late 1980s. As a member of the government which embarked on that hapless and unfortunate course I was one of the very few to argue against it. The full weight of the Treasury, the Bank of England and the European establishment reigned against me and others who argued against entering into the European Exchange Rate Mechanism. We foresaw that it would either cause a big inflation or a big recession. It caused both, one in succession of the other. The authorities were absolutely sure that the Exchange Rate Mechanism would add to our GDP, would cut inflation, and would be a thoroughly benign process. Instead it caused a very large recession damaging people's jobs and businesses at the time.

The Treasury and the Bank of England are therefore in no moral or intellectual position to claim that they now have some unique insight into the future of our economy and trading patterns that make the British public want to listen and respect their view on this important question. This is especially so given their past experience and their forecast of the future of the euro, the future of the Exchange Rate Mechanism or the future of oil price and currencies. History seems to say that the Treasury will always assume the best when concerned with the European Union. History also seems to suggest that, unfortunately all too often, whether it be the Exchange Rate Mechanism, the euro itself or the pattern of regulation and banking control that has grown in the European Union, the worst usually happens. Our continent is ravaged by mass unemployment, particularly youth unemployment, and the EU does absolutely nothing intelligent to sort it out. There has been a long running banking disaster going on since 2005/2006 in the Eurozone and they still haven't managed their way through it. They still have a series of crippled banks holding back the economic output, and therefore the trade, of all those involved in the European Union.

On this crucial matter of trade two fundamental things are certain. Firstly, the British public ought to be reassured that our trade is not at risk if we leave the European Union. At a discussion with senior representatives of the German government late in 2015, at which the negotiations with the Government were being finalised, the German representatives made clear they did not want new tariff and non tariff barriers on their trade with us. Germany sells Britain twice as much as we sell them in trading goods. She fully understands the need to protect that trade by not imposing new barriers and to continue on the basis that the UK would not want new barriers on the service trade as part of that deal. It is therefore not in their interest to impose new barriers; they have no wish to impose new barriers; and it is unlikely that any British government would want to impose new barriers.

Secondly, the British public should be reassured that there is no ‘special’ threat to the City of London based on the notion that we have entered into some arrangements, which include the famous passports, which could be withdrawn thereby putting our jobs at risk and challenging our very successful city businesses. The government says that the passport is a unique way of doing business and that it would be lost if Britain left the European Union. Not only would they not withdraw it but it would be quite difficult for them to do so. The Government rightly says that the most successful and the most important passport for a product or service is under UCITs, (Undertakings for Collective Investments in Transferable Securities,) the directive which allows you to establish an investment fund in one place in the European Union and then to be able to sell it all round the EU under European regulations. This is a successful grouping of products under a European regulatory system and it is commonly used. But of course on closer inspection, it becomes apparent that the majority of UCITS funds are domiciled not in London but either in Dublin or in Luxemburg. So once we leave the EU, these funds will still be legal domiciled funds in two European Union countries and Britain will still have exactly the same contracts to work for them and to offer services to them that she has at the moment. These funds will not be legally impaired by our leaving the European Union. It therefore, cannot be said that the passport will be at risk given these results.

The other reason passports are not at risk is because when these matters were last developed and negotiated around the Brussels’ table, the USA representatives were also present participating in the negotiations. They insisted on the inclusion of an important clause in the financial regulations. The clause stated that if you regulate your financial services to an equivalent level to that of the EU, then you can trade freely with the EU, just as the EU can then trade freely with those countries- which is to the benefit of the European Union. This doctrine of equivalence therefore will protect our trade and services with the European Union once we have left - so will the way in which the passports function and the ability to continue with passporting products, especially when already domiciled in Dublin or Luxemburg.

One final thought to consider; were the forecasts made by HM Treasury and the Bank of England to be true and we were to enter into a period where sterling actually fell, wouldn't it turn the balance of payments around and generate jobs in Britain replacing imports? It would thus become a self-correcting mechanism. The Remainers seem to leave out all the items in the equation which result in more jobs, more prosperity and higher incomes. Above all, they always leave out the simple fact that once you start spending the £10 billion of net contribution that we give away, and don't get back on jobs and services here in Britain, there is an immediate 0.6 per cent stimulus to the UK's economic output in that first year and every other year. So in order to prove that we're going to be worse off, the Remain side has to find even more damage from some other erroneous forecast. If you spend your money at home, instead of giving it away to overseas countries, you will be better off.

Britain should not lose trade when we leave the European Union. More likely, it will increase our trade in other places as we negotiate free trade deals with the rest of the world that the EU has failed to do for us. There is no 'special' new threat to the City, although it is true that within the EU we often have to work very hard to protect the City from new regulatory threats which the European Union likes to visit upon. Above all it must be made clear that there is no threat of a Brexit-inspired recession based on a collapse in Sterling, nor the likelihood of the forecasts now being anticipated would materialise.

The economic argument boils down to this. Over the next fifteen years people in the UK on average will get pay rises. We will become better off. The long term forecasts from the doom mongers of Remain accept we will be better off out of the EU by 2030, though they think less so than if we stay. No-one can be sure by how much we will be better off, whether we are in or out. What we can be sure about is limiting numbers coming in should push up wages a bit. Spending more of our own money on our priorities will make us better off. We can end austerity earlier.

This is one of the reasons I am voting to leave. I could not recommend something which I thought would make people here worse off. I also want to restore our democracy and regain the right to make our own laws and set our own taxes. It is time to take back control.

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