The message from the markets

Yesterday saw a further big sell off in world stock markets. The decision of Saudi Arabia to pump more oil and slash oil prices, after a failure to agree production cutbacks with Russia, was the new development demanding a fall. Most share markets fell around 8%. Oil companies accounted for much of the decline. The big lock down in Italy, still chasing the Covid19 virus, led to additional weakness in Italy as people contemplated the economic damage clamp downs on travel and events will do. The Italian share market fell 11% on the day.

Brent crude oil was down 21% on the day and down 40% from the February peak. Whilst this means less inflation and more spending power for other items it also means lean times for the oil, oil service and oil financing sectors if the oil price stays down and the price war continues.

More extraordinary was the new low in interest rates on government borrowing. In the UK the ten year borrowing rate slumped to 0.08% at one point, and the 50 year ended the day at just 0.39%. Germany can borrow for ten years at minus 0.85%.

The UK authorities need to respond with a good package of measures to see business and individuals through the difficult times created by the virus. Companies need tax holidays to ease cashflow pressures, and access to credit to enable them to pay wages and other bills whilst turnover is impaired.

Cutting interest rates is not a lot of use from here, as the 50 basis point Fed cut showed. The Bank of England needs to cancel its increase in capital buffers for a bit, make more money available through a Funding for lending scheme, and work with commercial banks to get businesses with a decent business model for the future through temporary interruptions to revenues. It needs to change its restrictive guidance to commercial banks. I was critical of the way the Bank of England slowed the U.K. economy too much by these tightening policies. The further impact of the virus on output makes cancelling these measures essential.

Individuals need a tax cut to boost their spending power.

Museum farming

When Owen Paterson set out how we can use our new freedoms out of the EU to have a better environment and a stronger farming industry, he majored his remarks on the need for innovation.

He characterised the Common Agricultural Policy as one based on protectionism to keep us in a museum of out of date farming practices. He drew attention to how the ban on neo nics had led to a fall in rape seed production in the EU, making us more dependent on imports from the Ukraine which uses neo nics. He made the case for selective gene editing , and argued that gm progress is necessary. It is after all a version of selective breeding which has characterised past agricultural progress inside the EU, done with more precision, understanding and speed.

He reminded us of the damage done to our landscape by EU inspired policies of abandoning pumps and refusing to dredge ditches and water courses, leading to extensive flooding. Owen himself made an effective case when in government to revert to proven water management techniques with modern high capacity pumps and dredgers to free the Somerset levels of excessive water. He studied how the Fens were still well drained and usually kept out of flooding despite being very low lying, and how the EU/Environmental Agency system abandoned this approach elsewhere to the detriment of residents and farmers.

Agriculture offers great scope for improvement as we leave the EU. We have a huge food deficit running at more than £20bn a year. We are made to put high tariffs on important food items from outside the EU. Setting our own policy should produce more home grown food and lower overall prices for consumers. we will impose lower tariffs than the EU but will impose them on the whole world once we have left.

More training and jobs for UK citizens

Sir Iain Duncan Smith gave a good paper to the Seminar on Friday about controlling our borders and doing more to promote better paid work for people already legally settled in the UK.

He told us that when he was Work and Pensions Secretary he drew attention to the large numbers of people in the UK in entry level jobs who do not go on to receive training and promotion as we would like. He highlighted the way for example we have been importing people to be lorry drivers. It is a short course to convert a car licence into a truck permit. This qualification opens up better paid jobs for those who try it from having no formal qualifications. He asked his department to buy up training places and making them available to UK residents. They told him no-one would want to do it. He bought 100 places for a pilot and there was plenty of demand. His officials told him it would be wasted money as they would not stay the course. 85% successfully completed it. He proved that we can train our own lorry drivers at home.

He then turned his mind to the shortage of nurses, where the UK has been raiding the health services of other, often poorer nations, to find us the nurses we need. It of course takes a lot longer to train a nurse. The same experience repeated. There were plenty of UK volunteers to train as a nurse.

We need a system where the state pays if the person undergoing the training pledges to work for the NHS for a stated period after training. If they wish to avoid working for the NHS then they should have to repay the training cost.

Some UK companies are great at training and growing their own talent. The public sector and the other private companies need to get better at it. It is high time we ended the cheap labour from abroad model, and spent more time and money on nurturing talent and encouraging qualifications at home. I understand why big business think free movement of labour to scoop people from low pay countries is a good idea, but it is more difficult to grasp why the Lib Dems are so keen on it.

Iain recommended requiring everyone advertising a job here to advertise in the UK first. He backed the principles of the government's points based system for migration, saying we would need to monitor levels. He supported ending right to benefits until someone has worked here for a number of years or become a citizen. He used Migration Watch figures to demonstrate the net cost to the UK of inviting in people to do poorly paid jobs.

UK/EU talks

I held a conference in Westminster yesterday on the EU talks.

I was able to praise the government for its opening approach. They are right to insist on talking about all issues in a series of simultaneous working groups. They are right to say we want a Free Trade Agreement, not a comprehensive Partnership Agreement or Association Agreement designed for countries seeking to converge and join the EU. They are right to stress there is no read across from say fishing to free trade. Each has to be settled on its own merits.

The EU still seems to think the UK is the weak party to the talks and needs to make more concessions. It also seems to think the UK will be so desperate for a deal it will crack and concede on fishing, convergence of laws, powers of the ECJ and all the rest of their federal agenda.

The Conference provided unified advice. We do not need to pay to trade. An FTA is very much in the EU's interest. We need to take control of our fish and land many more of them at home. We want to free ourselves of the controls of the ECJ, and will establish the right to shape our own laws as we see fit. Canada and Japan have FTAs with the EU but do not accept EU laws and the ultimate power of the ECJ. Our defence arrangements should be under our control, and our main collaboration through NATO. We should not impose any border between Northern Ireland and GB and not accept any continuing EU jurisdiction over any part of the UK from January 1. 2021.

[Why I am not worried about UK state debt levels]

The UK government bas put in a new control on UK state debt. It is a sensible one. The interest on the debt should not be more than 6% of total public spending. This appears to be quite a tough target, as very year bar one from 1945 to 2000 saw interest higher than 6% of spending.

Today debt interest is around 4% of public spending, or under 2% of GDP. It is down at this level mainly because UK interest rates are so low and look likely to stay low. UK rates remain higher than the Euro area and Japan though below the US.

State debt at the end of last financial year was £1.82bn or a quite high 85% of National Income. This was a gross figure. The Bank of England, 100% owned by the state on behalf of taxpayers, owned £435 bn of that. If you deduct that, state debt was a more realistic £1.39tn or 67% of GDP, a low figure by contemporary standards.

Refinancing UK state net debt today at rates under 1% for up to 30 year borrowing would leave the state with an net interest bill to pay of under £13.9bn or under 2% of state spending. There is every reason to get on with funding the debt longer and refinancing . It is clearly affordable. It is, however, as some will rightly point out, no reason to waste money. Tax cuts are a particularly good idea.