

# How more EU damages political parties

The traditional parties like the Christian Democrats and Social democrats in most continental countries, and Labour and Conservative in the UK, have a history of changing leaders and changing policies whenever their popularity falls or their electoral success is threatened. That is the nature of democratic politics. Parties that want to govern have to please enough people enough of the time.

So what is bizarre is the way the EU holds them in thrall, in the case of the continental parties to the point of self destruction. Undue support for the austerity policies of the Euro has swept aside the traditional parties of Greece, Italy and France, throwing up new parties that have taken over government. In both Spain and Germany the two old giant parties have been deeply wounded by their adherence to the EU/Euro scheme.

The UK parties have been less damaged because self preservation – and a lot of pressure from a few of us in Parliament – kept them out of signing up to the Euro. At the last election the promise both made to take us out of the EU took support for Labour and Conservative back up to a combined high 83%. It is not surprising to see Conservative support now falling with the PM trying to persuade people of her delayed and partial exit in the Chequers proposals. Many Conservative voters from 2017 feel let down, as they voted for a party that would get on with Brexit.

Mrs May needs to remember just how much damage too much EU has done to the Conservative party before. Mr Heath who took us into the EEC lost in 1974, the first election that followed that fateful decision. It was not just the EEC that cost him, but Labour offered a renegotiation and a referendum which proved more popular, as people thought Mr Heath had done a bad deal. Sir John Major sacrificed his party and did huge damage to the UK economy by insisting on joining the Exchange Rate Mechanism. This duly plunged us into high inflation followed by recession, as I predicted at the time. This in turn meant the Conservatives spent the next 18 years from the 1997 election without a majority in Parliament, with 13 years in opposition with few seats, paying the price for the economic incompetence too much EU delivered. The false explanation that he lost in 1997 owing to disagreements about the EU can be easily rebutted by looking at the opinion poll graphs. The Conservatives lost support heavily as soon as the economic damage of the ERM was revealed, and never regained it – nor lost more – during the rows that followed.

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## Stamp Duty receipts fall

As forecast here, Stamp Duty receipts are now lower than before Mr Osborne's big increases in the rate of Stamp Duty on second homes, and dearer properties.

Other tax receipts will also have fallen from the sharp reduction in transactions that has resulted. It means less income and corporation tax from estate agents, removal firms, and home improvement businesses that do well out of people moving.

So why not cut the rates to raise more revenue?

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## Beware the draft Withdrawal Agreement

It is difficult to see why some in government are so keen for us to complete negotiating a Withdrawal Agreement. The one the EU has in mind is a one sided grab of powers and money. Some in government seem to think we need another 21 months in limbo, technically out of the EU but in practice bound into it by a new Withdrawal Treaty on more penal terms than our current membership. What is they can agree after March 2019 that they have been unable to agree in the 2 years nine months from the vote until next March? Why not just get on with it with March 2019 as the deadline?

Mr Raab has tried to inject some negotiating counter into the proceedings by saying there needs to be a Future Relationship Agreement to justify this very generous Withdrawal Agreement for the EU. The problem is the UK civil service seem to accept that the Future Relationship Agreement will be a flimsy Head of Terms, effectively little more than an invitation to another 21 months of probably unfriendly and fruitless negotiations. Meanwhile the EU is understandably keen to get the UK to sign the Withdrawal Agreement in solemn Treaty form, so we are bound in and have to make the payments.

I have seen nothing so far on offer from the EU by way of a future relationship that justifies paying them another £39bn after we have left. Canada did not pay them for their FTA, so why do we need to pay them for something similar, if that turns out to be their best offer in the end? Nor do I like the idea that any future partnership would take the form of a complex and binding Association Agreement. These are used to impose EU rules and practices on states that would like to become members in due course.

The more I look at the UK economy and public services, the more important it seems to me that we have that money back soon. Then we can pull off what is needed for greater prosperity – tax cuts, spending increases and a fall in deficit.

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## The Bank of England tightens money further

Over a year ago the Bank of England decided to tighten money policy considerably. It removed all the special credit lines for commercial banks designed to encourage lending. It issued stricter guidance over car loans, mortgages and consumer credit. It went on to raise interest rates from 0.25% to 0.5%. It achieved its aim, with money growth halving to just 3.5% from the 7% level in 2016. The car market duly fell sharply, and the top end of the property market was damaged, primarily owing to tax rises, but assisted by the credit tightening. Money and credit still look too tight to provide the backdrop for decent expansion.

Yesterday they decided to go further, by increasing interest rates to 0.75% and introducing the concept of an Equilibrium rate of interest considerably higher than today's rate to guide markets towards expecting more monetary tightening. It is difficult to see why from the numbers being reported. Growth has slowed. There is no surge in inflationary pressures. Banks are better capitalised. On the Bank's own forecasts the UK economy grows more slowly than it used to with no inflationary problems ahead. They themselves concede that if they kept interest rates at the new level of 0.75% instead of raising them further prior to 2020, output would be higher, unemployment lower, and inflation only 0.2% higher than on their preferred course of slow growth and more tightening by that date.

The Equilibrium rate is an unhelpful abstraction or distraction from the day job of keeping inflation under control whilst promoting better growth. The Bank accepts that the so called Equilibrium rate "cannot be directly observed" – a polite way of saying it does not in any normal sense exist. They accept that "there is a wide degree of uncertainty around the estimated level" of the real equilibrium rate. By choosing a range of 0% to 1% real they are trying to get markets to accept more tightening, but then they back off a bit by leaving the timescale imprecise.

Inflation is being kept down by the open nature of the UK economy. A large inward migration is keeping wages down, whilst massive imports of goods and services are keeping general prices down. The Bank forecasts those features to continue. They are aided in this by internet competition, and by the emergence of big discounters in a range of markets. The Governor himself gave a good lecture some time ago which I commented on effectively debunking the main part of the MPC's analysis. Their theory is that they can measure capacity, and that we are now close to capacity. They therefore expect inflation to rise as we hit capacity. As the Governor pointed out, in an open global economy like the UK you can always import anything you need which domestic output cannot provide. So why is the MPC still preying in aid the idea that we will soon have exceeded capacity, and therefore need to be

reined in? How do you measure capacity reliably these days, when the internet and changing consumer fashions and transforming what we need and the supply to meet demand? The Bank is doing us no favours by being too pessimistic about the outlook and then taking action to ensure a disappointing outcome.

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## What happened to the record temperature?

A week or two ago the media was full of stories of an exceptional heat wave that would take temperatures to new records. We were told that we should expect drought and intense heat. A few days on and temperatures slumped, with plenty of rain over the weekend. There has been little news reporting of the change of weather, and no pieces apologising for getting the forecasts wrong about new records by last week end. If as expected temperatures pick up again and there is no more rain we might hear about that.

I thought at the time of the forecasts that the weather was more like the weather in dry hot summers I remember in the past, so I looked up some of the figures. According to the Met Office 30 year numbers the average summer temperature has been 14.3 C and the average rainfall 241 mm. Every summer in the last ten years save 2013 has been wetter than the 30 year average, with 2011, 2012 and 2015 cooler than the average. 1976 was clearly much drier and hotter than recent years, as were some summers prior to that.

After the recent hot spell the highest temperature records for 1976, 42 years ago, remain intact. 2003 also recorded a high temperature for Faversham in 2003 which some say was slightly higher than 1976 for England.

Many things influence the weather, making it difficult to come up with a reliable model which accurately predicts what might happen next. Wind speed and direction changes, water vapour content in the air alters, cloud cover is very variable, solar activity alters in intensity, the jet stream moves around. Short term weather forecasting has got better because the experts have greater visibility of clouds on their way to us, and can calculate from wind speed and direction what is likely to happen. As any sailor can tell you, however, the wind is very variable minute by minute. altering the course and pace of clouds across our landscape. It is even more difficult making a long term forecast when the clouds which will dictate so much have yet to be formed.