

Bruges Group Conference

Leaving the EU- Economic and Political Challenges

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For discussion

Part 1- Britain's Economic Challenge

Debt, distortions and spending promises

Part 2- Balancing the constitution

The second chamber, devolution and reducing the power of the whip's

Part 3- Leaving the EU – a win win for the UK and the EU

A Global Britain, A Federal EU (if that is what they *really really* want). Churchill's vision 60 years late

Conclusions

- Change can be exhilarating, but it can also lead to catastrophe
- 100 years ago today Tsar Nicholas II was, *by the Grace of God*, the Imperial Autocrat of All the Russians.
- But within 5 weeks, 100 years ago, it was all over.
- There was 6 months of exhilaration and ‘freedom,’ followed by over 60 years of tyranny.
- The lesson is change can beget change. Lets tread with care and get it right.

Part 1- The Economic Challenge

- BREXIT offers an enormous opportunity to re boot the UK economy towards growth, more appropriate regulation and agility. Most of all it renews self-confidence.
- But there remains substantial challenges:
- How do we bridge the fiscal public spending gap?
- How do we rebalance the UK economy- grow the regions, while maintaining the London jewel and solve the inter-generational challenge?
- How do we remain ‘of Europe but not part of it?’
- How do we keep the Kingdom United?

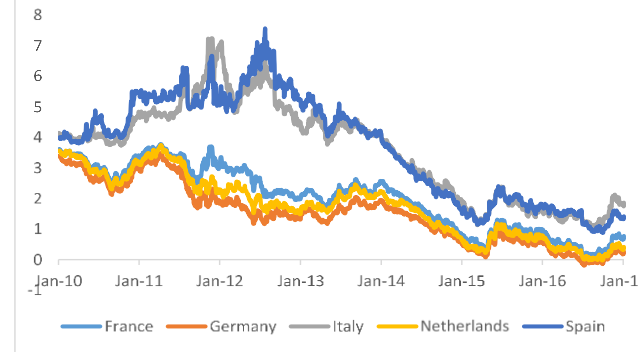
The UK needs to re-balance- there is a whole world out there

Cumulative GDP Growth 2005 =100

	2016
China	294
Ireland	126
Switzerland	125
Sweden	124
US	122
Norway	119
UK	118
Germany	118
G10	117
Austria	116
Netherlands	115
Belgium	115
France	112
Spain	112
Euro Area	111
Japan	109
Finland	109
Denmark	108
Portugal	101
Italy	97
Greece	81

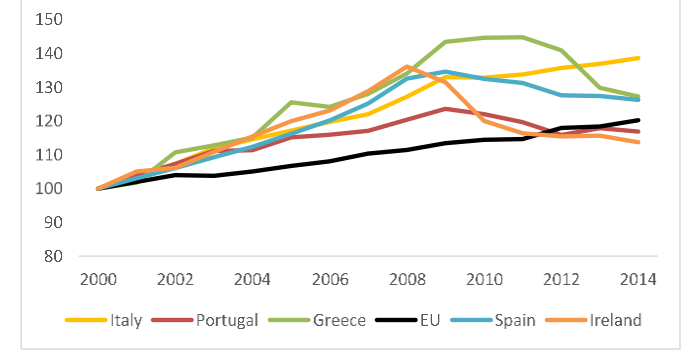
Source Eurostat

Key 10 Year EU Sovereign Bonds



Source Trading Economics

Peripheral Europe Unit Labour Costs post 2000

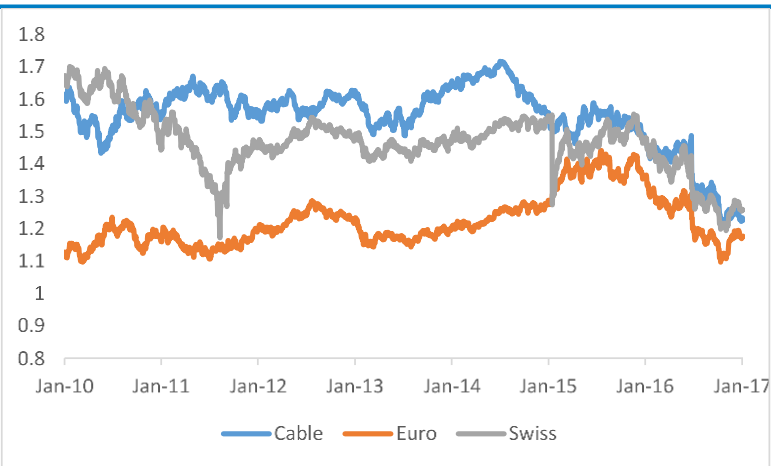


Source OECD

- The Eurozone is the slowest growing economy in the world over the last generation.
- The Euro has caused division, divergence, dislocation and introspection and has been a European tragedy.
- There may be monetary union, but there is no debt union, no real banking union, no fiscal transfer union.
- There is no European demos for true European Union. In this absence the ECB will simply kick the perpetually under-performing can down the road with a tail risk of dis-integration.

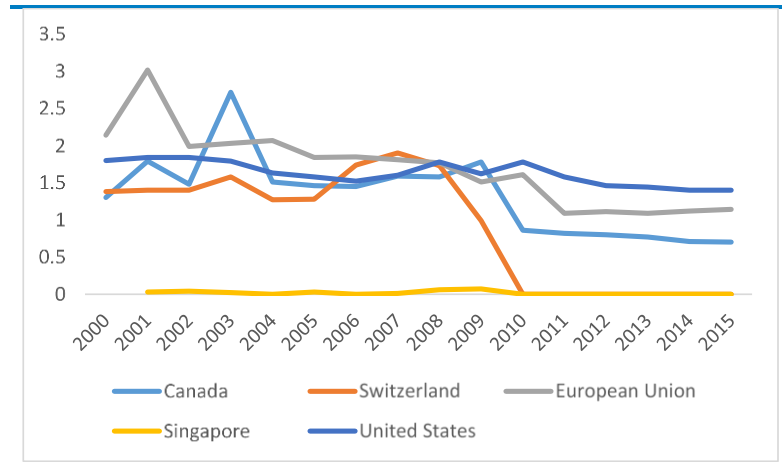
UK Trade- things can only get better.....

Sterling against key currencies



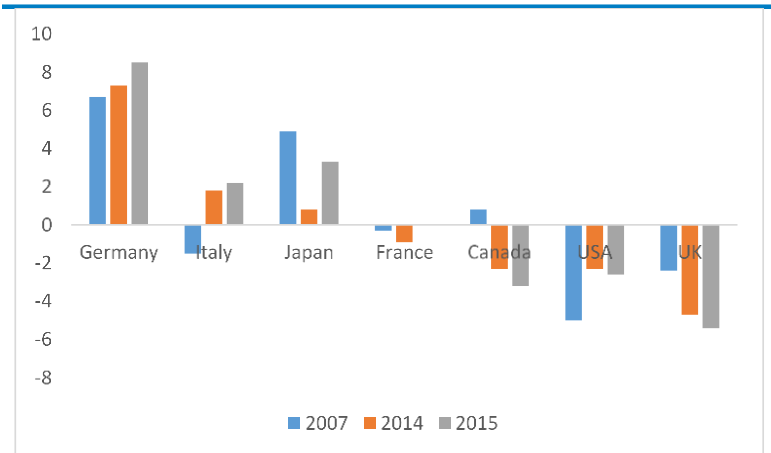
Source Trading Economics

Average Tariffs %



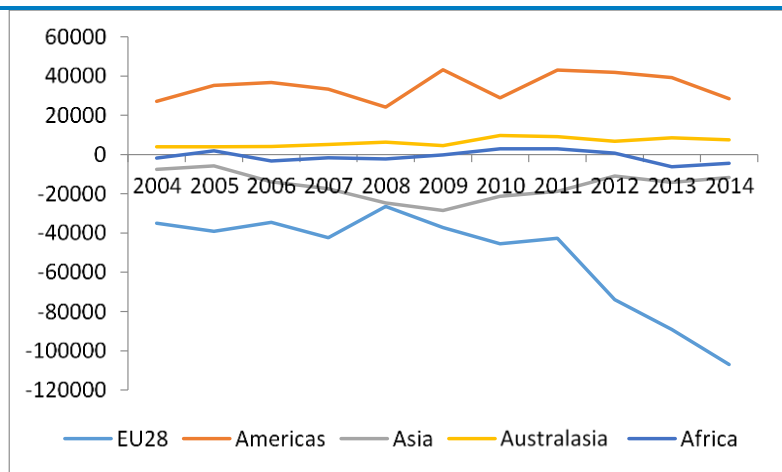
Source WTO

Current account balances of the G7 economies, 2007, 2014 and 2015, percentage of nominal GDP %



Source Pink book 2016

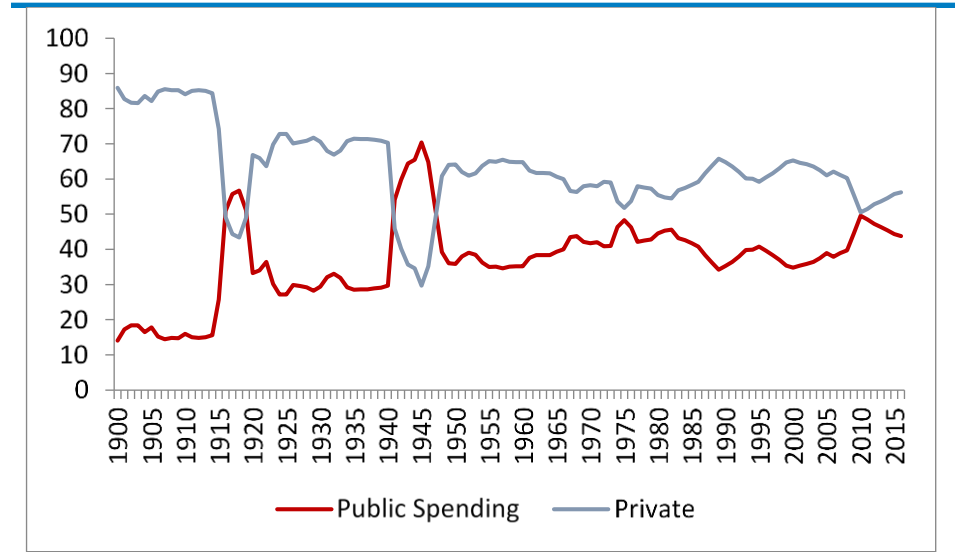
UK Current Account by Geographic Region £bn



Source Walbrook Economics

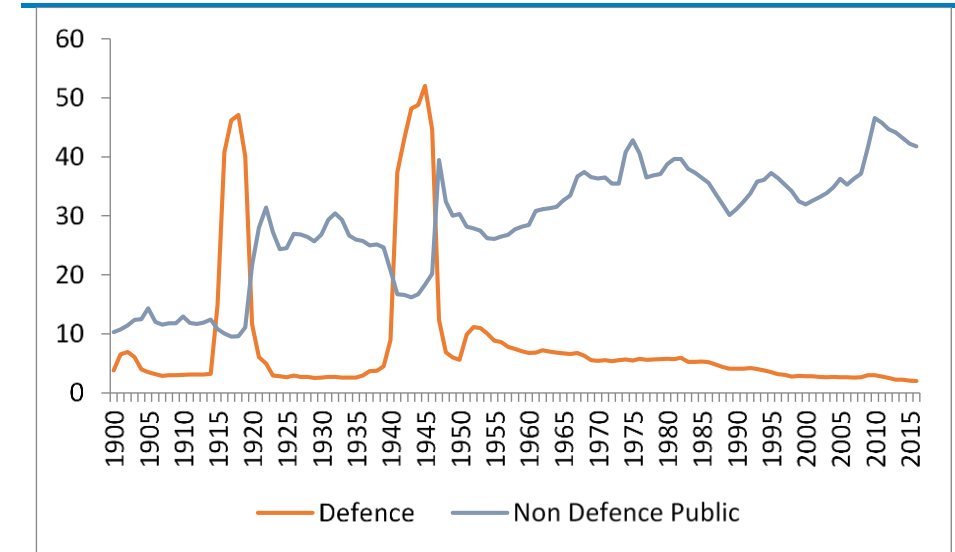
The One Hundred Year Growth of the State?

100 years of public spending



Source Walbrook Economics

100 years of defence and non-defence public spending % GDP

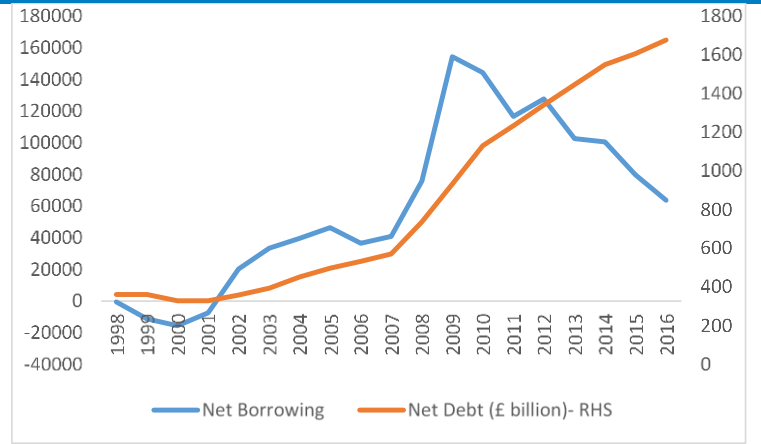


Source Walbrook Economics

- How do we manage expectations without ‘taxing until the pips squeak?’
- We are all getting older, expect more and are not prepared to pay for it.
- Taxes as a proportion of GDP are 37% and rising, the highest since 1986.

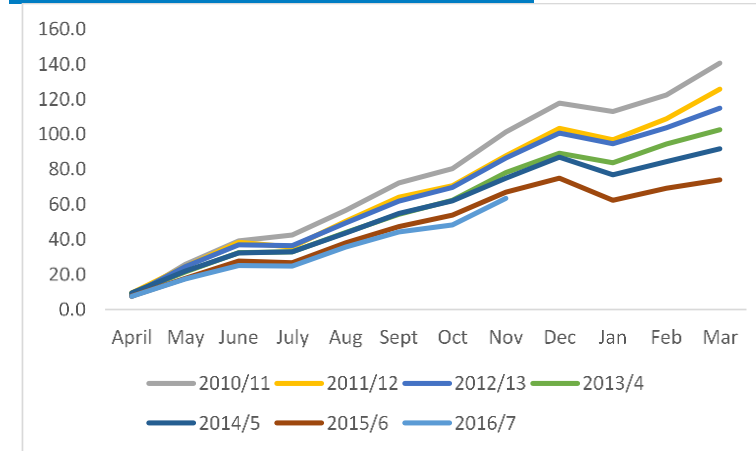
The Fiscal Deficit- something must give

UK cumulative debt £bn and annual deficit £m



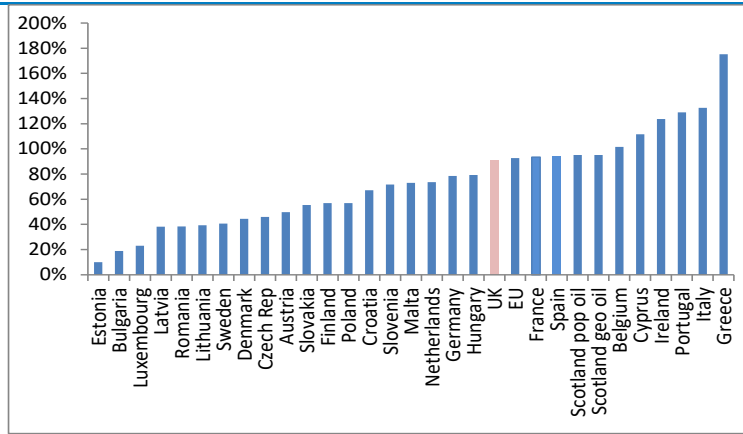
Source ONS

Monthly progress on borrowing normalisation £bn



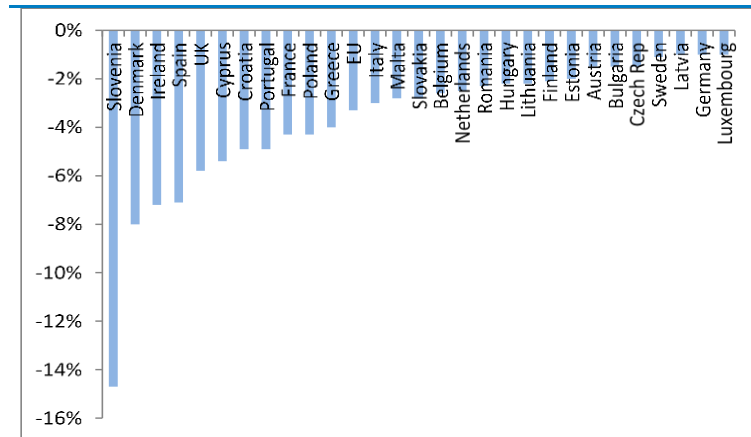
Source ONS

EU Nations Government Debt GDP %



Source Eurostat and Walbrook Economics

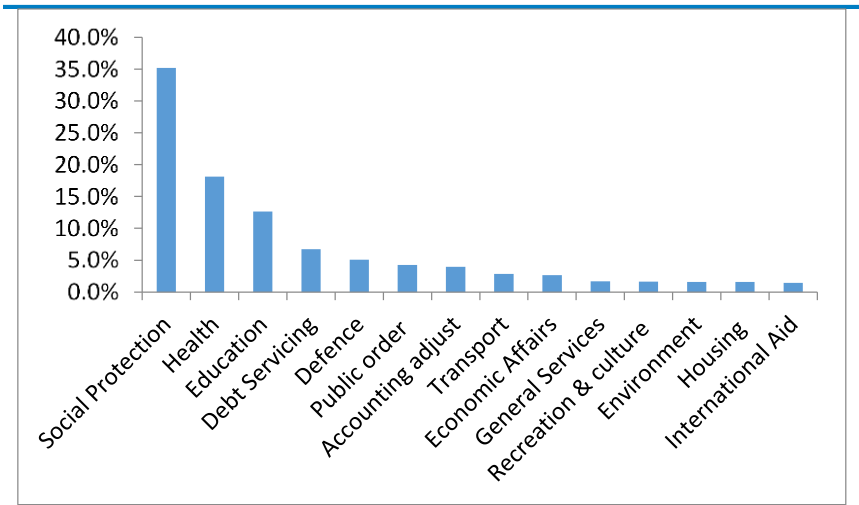
EU Nations Fiscal Deficit %



Source Bloomberg

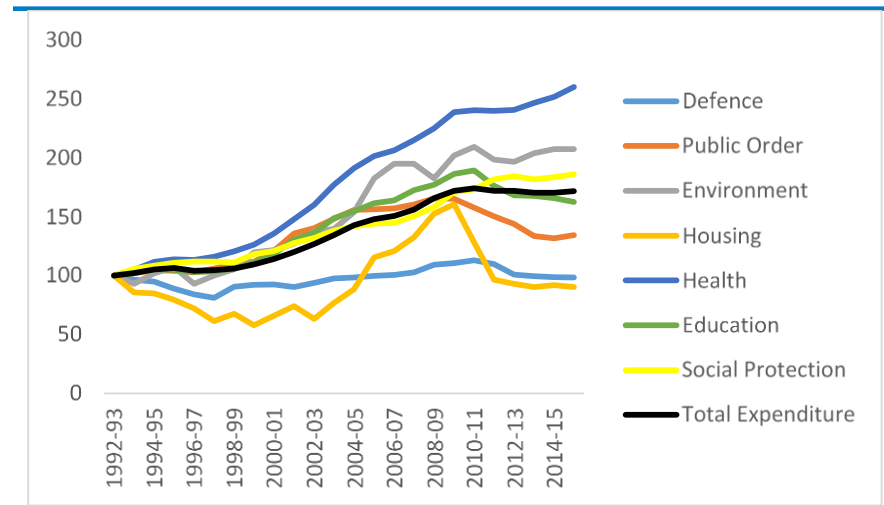
Spending is dominated by structural growth sectors

Spending by department as percentage of total spending



Source ONS

Departmental real rises in public spending 1992/3 = 100



Source Walbrook Economics and ONS

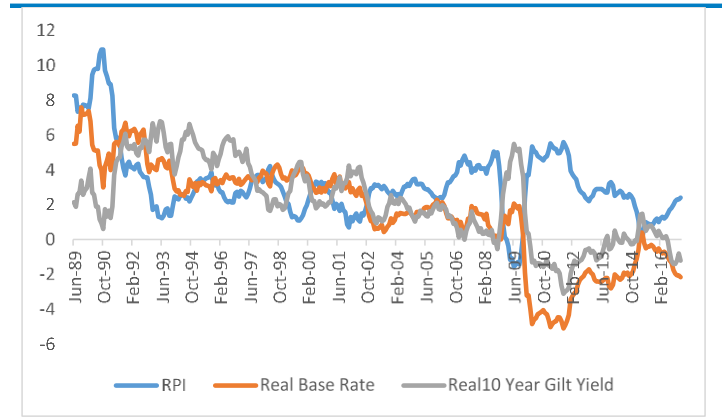
- 66% of all public spending is in health, education and social protection
- Health expenditure has increased by 260% real since 1992 with social protection by 186% and education by 162% over the same period.
- Since the war health spending is up 4% pa real- but we do live longer!

The Bottom Line

- Public spending remains in structural growth with ever increasing demands.
- Taxes are all ready very high and focused on a small mobile pool.
- It just about adds up if there is 2%+ GDP growth for ever. The deficit would balloon if there was a recession impacting not just public finances but the yield curve and cost of borrowing. Things are very finely balanced.
- An urgent need to assess what is essential for HMG to do and what is not is required to avoid a crunch in the long term.
- EU budget and Overseas Aid costs around £25-30bn net but the total budget is £753bn! Areas to address is a political decision but root and branch analysis of what Government should do is required. We have some ideas!

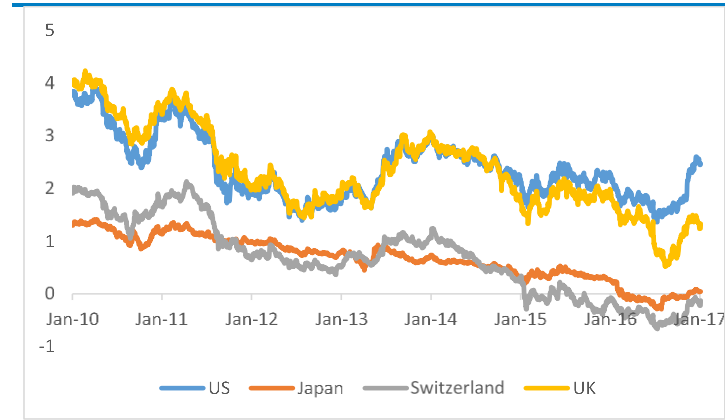
Monetary Policy- maybe an imperative, but some arbitrary effects

Real Price of Money



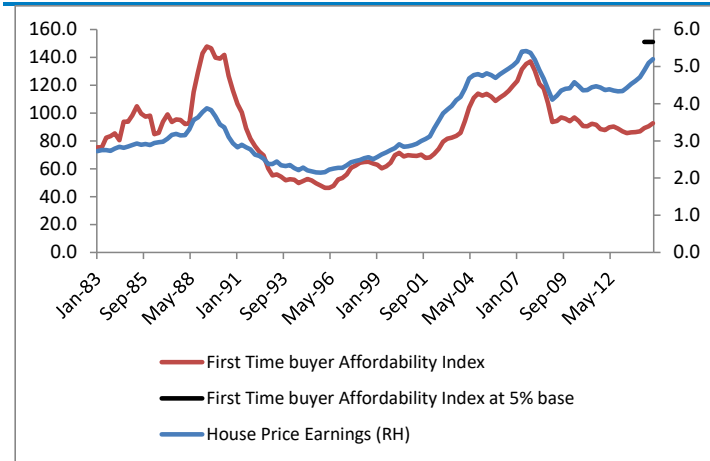
Source: Trading Economics and Walbrook Economics

Key Global Bonds



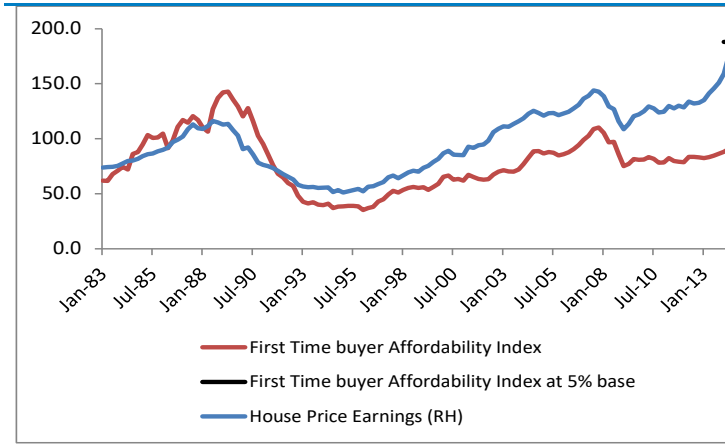
Source: Walbrook Economics

UK house price affordability



Source: Nationwide

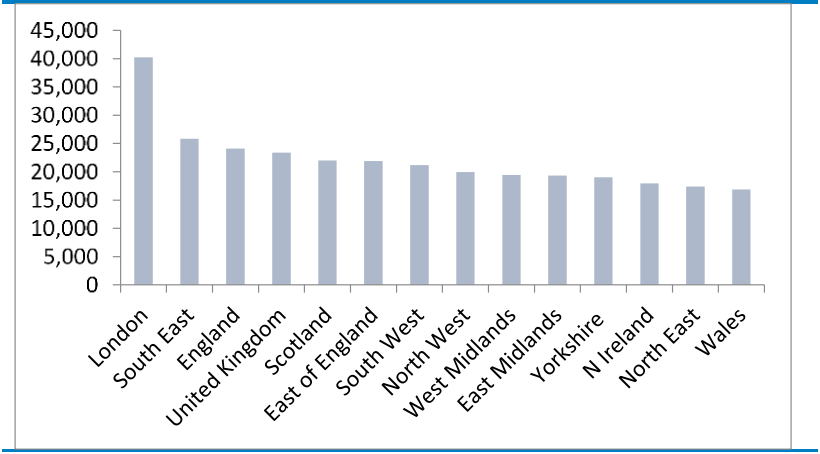
London house price affordability



Source: Nationwide

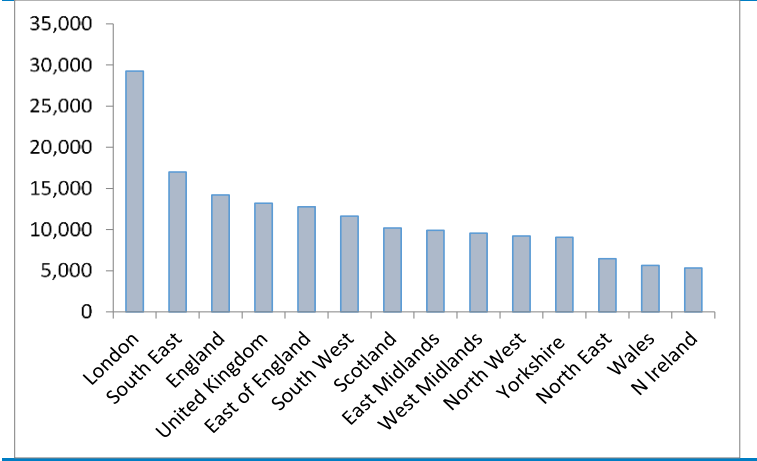
It's a cliché but its true- London dominates

Regional GVA per head 2016



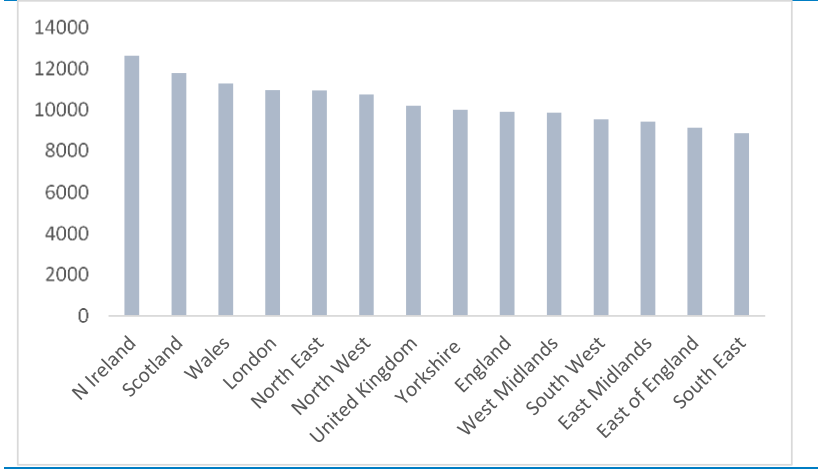
Source ONS

Size of regional private sector 2016



Source ONS

Identifiable Public Spending per head 2016



Source ONS

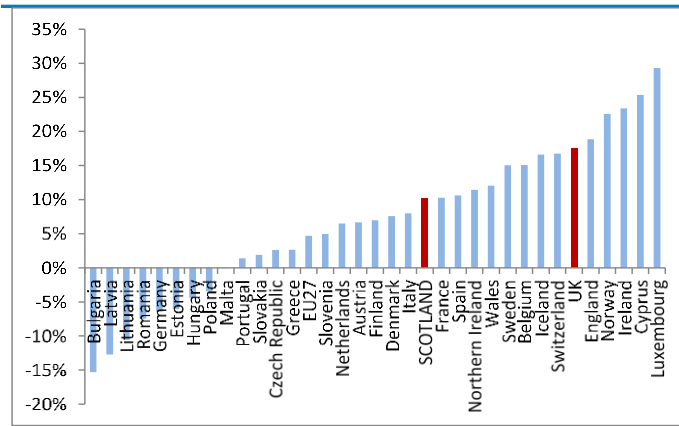
Regional spending (%GVA) and Regional GVA 2014



Source ONS & Walbrook Economics

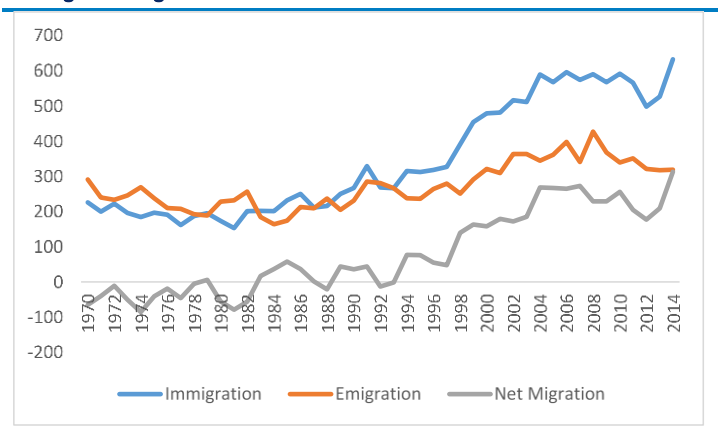
Controlling Migration – reduce the pull

Projected Demographic Change % 2010-2035



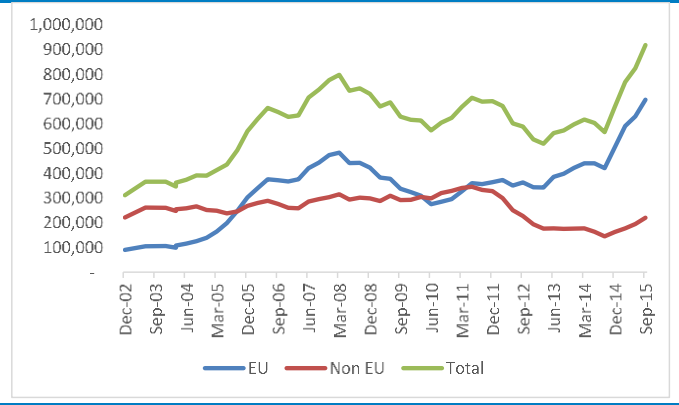
Source Eurostat & ONS

UK long term migration k



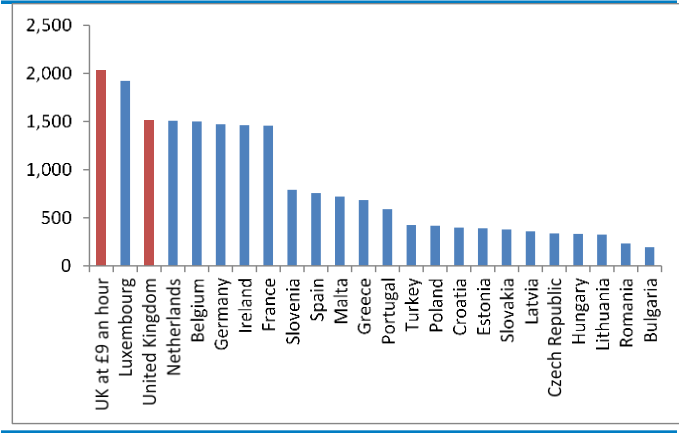
Source ONS

National Insurance number allocations from adult nationals entering UK, thousand



Source NINO

Minimum Wage by EU nation (and Turkey) € per month and implied UK position at £9 an hour (assumed 40 hour week)



Source Eurostat and Global Britain

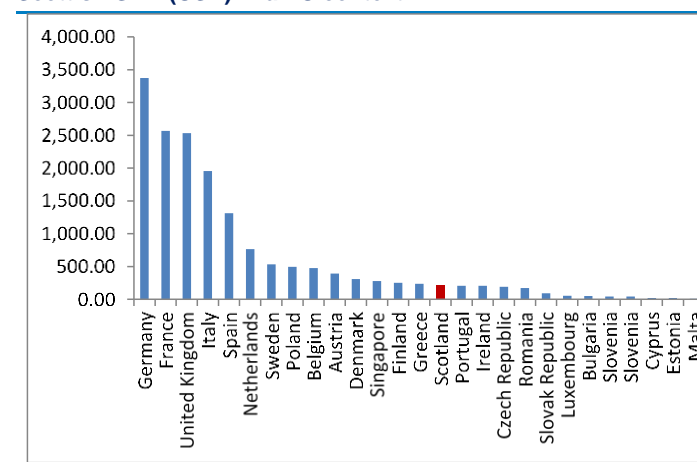
Part Two: Balancing the Constitution

- We live in a high volatile unpredictable world with multiple risks and opportunities. We need a constitution to guard against violent swings of mood.
- The power of the Executive v Legislature?
- How do we get sufficient checks and balances on power.
- A meaningful Revising Chamber within the British context.
- Increasing MP independence and reducing the power of the Whips.
- A United Kingdom.

Dividing the UK would not be clever post BREXIT

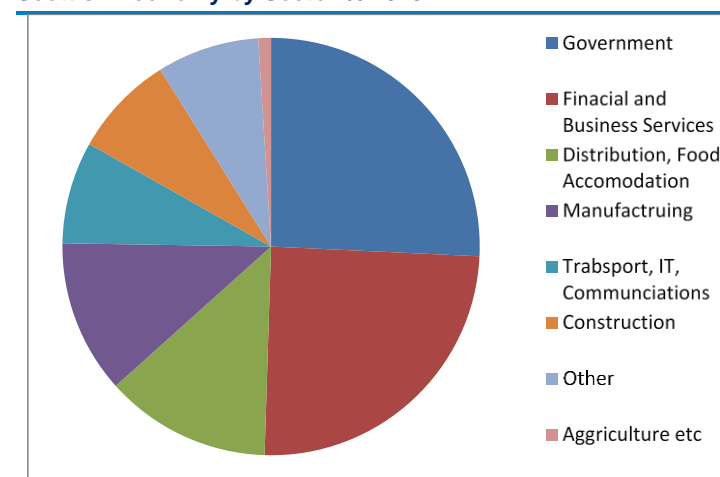
- Long term leaving the EU should secure Scotland's place in the UK Union. It forces Scotland to choose between London or Brussels, Sterling or Euro, British Army or a Battalion of a EU Home Guard.
- It forces Scotland to choose between historic ties and deeply uncertain new ones where failure is punished (Ireland/ Greece etc)
- Scotland comes from a position of acute economic weakness- oil, public spending and a bias to finance which requires Sterling.
- 40% of Scots voted for BREXIT. Many others voted to remain as they were concerned about the future of the UK. Sturgeon is wrong when she says Scotland is manifestly pro EU.
- But culture and *the unpredictable* can sway a result. *Gaing warily*. Referendums are unpredictable so let's not put it to the test!
- A break up of the UK would be very bad news for UK's global standing, at many levels, especially post BREXIT.
- The SNP bubble is high but shows signs of bursting. There is little desire for a Second Referendum – it was decided once and for all – May would be well advised to say No. It is her call after all.

Scottish GDP (USD) in a EU context



Source UK

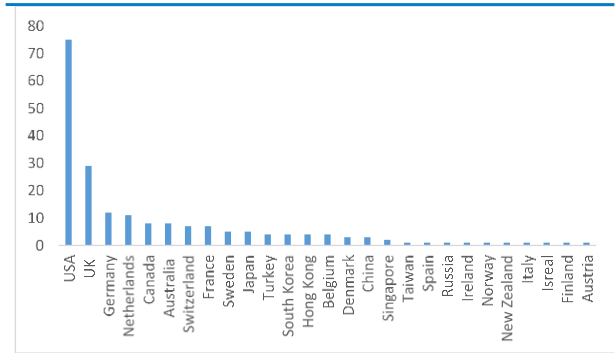
Scottish Economy by Sector % 2015



Source Scottish Government

Part 3 Leaving the EU- we have much to offer.

Top 200 Universities by nationality



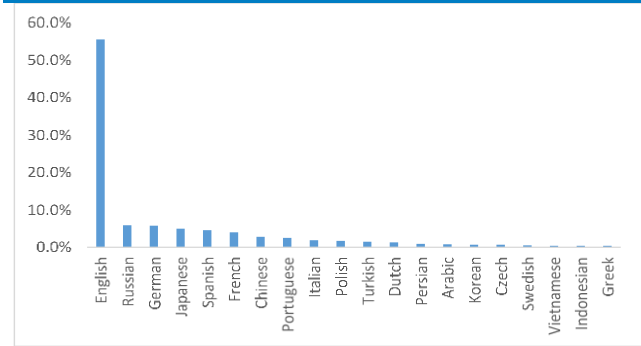
Source Times Higher Education

The Soft Power 30 2015

- UK
- Germany
- US
- France
- Canada
- Australia
- Switzerland
- Japan
- Sweden
- Netherlands
- Denmark
- Italy
- Austria
- Spain
- Finland

Source Portland Communications

The language of the internet- % of sites using language



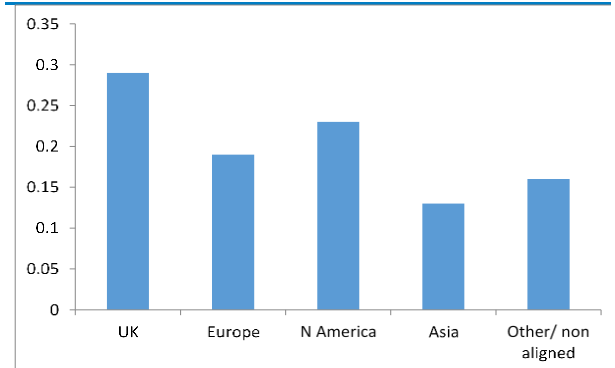
Source w3Techs.com

The Global Financial Centres Index 2015

- 1 London
- 2 New York
- 3 Hong Kong
- 4 Singapore
- 5 Tokyo
- 6 Seoul
- 7 Zurich
- 8 Toronto
- 9 San Francisco
- 10= Chicago
- Boston
- Geneva
- 13 Frankfurt

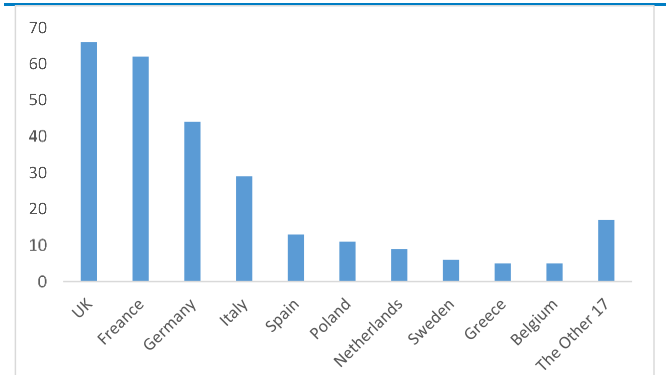
Source Zyen Survey

FTSE 350 Estimated geographic exposure %



Source ONS

European Defence Spending \$bn



Source EuroStat

Leaving the EU – a win win scenario

- Europe, perhaps the greatest pillar of global civilisation, is failing. That is a cultural tragedy.
- Best a new European relationship is set but *if* EU nations really want to keep the Euro the EU needs to Federalise much more significantly. British withdrawal makes this easier. Both parties should welcome this opportunity.
- The UK has a unique set of cultural, economic, business and political assets.
- We will continue to co-operate fully in European affairs – acting as the financial clearing centre, a major military support bilaterally via NATO and as an Atlantic Bridge. London is the world’s global City- a huge asset.
- We leave as friends and doubtless this new relationship will deepen those bonds, in time. Our opportunity is great, but we must understand our frailties too.

Conclusions- Britain in good shape

We have much to be optimistic about.

But lets understand our challenges:

1. Squaring the fiscal deficit and reasonable taxation.
2. Understanding the side effects of monetary policy- particularly the impact on intergenerational wealth and the regions.
3. Balancing the constitution to provide checks and balances to ensure the Executive is not all powerful (Lords and Whips).
4. Let Scotland be proud to be Scots and British- cement the Union.
5. Understand EU sensitivities but ultimately this is in their interests and ours.

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