



PAPERING OVER THE CRACKS

BORIS JOHNSON DELIVERS FEELGOOD FACTOR WITH SPEECH, BUT BIG CHALLENGES LIE AHEAD

Against a turbulent backdrop of fuel shortages, supply chain problems and rising inflation, Tories headed to Manchester for their first party conference in two years.

Despite the raft of problems impacting the Government, the overall mood was relatively upbeat. Throughout the four days, however, you didn't have to try too hard to hear murmurs of concern amongst delegates and MPs that No 10 is slowly becoming engulfed on a number of fronts.

It was an unusual conference for a number of reasons, most notably the almost complete lack of policy announcements. Most likely they are being held back for the budget, by which time No 10 will be hoping some of the crises have started to ease.

The Labour Party conference last week showed signs the Opposition is finally starting to get its act together. This point was not lost on delegates in Manchester, although confidence remains high that the Government has a clear path to victory at the next election.

It's not going to be remembered as a significant conference in the years ahead, but Boris Johnson's barnstorming speech on Wednesday sent the party-faithful home happy. His speech was full of jokes that seemed to bear little resemblance to the problems currently impacting the country. But in trademark fashion, it was optimistic, ambitious and talked about a vision of everyone sharing in prosperity.

What we didn't hear on the policy front, we certainly did on the 'direction of travel'. As part of the vision set out, the PM pledged to move the UK to a new model of higher wages and controlled immigration – a departure from the economic orthodoxy of the last 40 years and a noticeable dividing line with Labour.

Johnson said the "new direction" on immigration will deliver on what was promised in the Brexit referendum and represents the change "people voted for". This wasn't just a departure from Labour, it was Johnson creating space between himself and his Conservative predecessors.

Throughout the conference there was a lot of talk of an early election, most likely in 2023, and the Prime Minister's speech sounded a lot like a party being placed on an election footing. Indeed, the speech even looked like a campaign rally – with the PM talking from a specially created stage and with delegates waving placards.

One of the biggest tests the Government set for themselves ahead of the conference was to put more meat on the bones of their cornerstone policy agenda – levelling-up – which has been widely lambasted as a slogan masquerading as policy.

Did they succeed? Not really.

The PM did provide further detail on what the problem is, talking about "aching gaps" in opportunity between regions. He argued that "there is no reason why the inhabitants of one part of the country should be geographically fated to be poorer than others... it is our mission as Conservatives to promote opportunity with every tool we have."

This theme was echoed by MPs and delegates throughout the conference, which shows strong message discipline. But in reality, we are still unclear from a policy perspective what tangible changes the Government will actually implement to rebalance the economy.

If the Government failed to elaborate on what levelling-up will look like in practical terms, it did little better in repairing badly fraying relations with business. Business leaders and free market think-tanks were quick to round on the Government for not using the conference to address the numerous problems it is facing.

Craig Beaumont, of the Federation of Small Businesses, said: "The party of business is just walking off the pitch. This might work in the short-term politically, but we need a grown-up government that backs risk-takers – entrepreneurs and the self-employed."

The Adam Smith Institute called the PM's speech "bombastic but vacuous and economically illiterate". The respected Conservative think-tank Bright Blue said: "The public will soon tire of Boris's banter if the Government does not get a grip of mounting crises: price rises, tax rises, fuel shortages, labour shortages."

The schism between business and the UK Government seems to be going only one way and the Labour Party's attempts to lure the private sector at their annual conference in Brighton last week means it could be a decisive area going into the next election.

This conference may be remembered for little else than the PM's rhetorical flourishes, but in many ways, when you consider the number of ongoing crises, it was job done for Johnson.

What Tory members and voters love about this PM is he makes them feel good – it is the thing that has kept him in the political limelight for so long. But while he was able to deliver his usual upbeat message, he gave his speech the same day that the £20 uplift to Universal Credit ended – the biggest ever one-off cut to social security, which campaigners say will plunge millions of people into poverty.

Although Johnson's optimism was enough to get him through this conference, there is no shortage of challenges that lie on the road ahead. Whether it's the impact of the welfare cuts, the threat of empty supermarket shelves, fuel shortages, trade wars with the EU, or manifesto-breaking tax rises, the PM will need more than colourful metaphors and upbeat language to navigate his way through the coming months.

TORIES AND BUSINESS: IT'S COMPLICATED

Once seen as the natural home for business interests, the relationship between the Conservative Party and the business world has cooled considerably in recent years as memorably summed up by Boris Johnson's "f*** business" quip.

This year's conference was a thaw of sorts with ministers keen to praise businesses for powering the economic recovery from Covid and positioning business as an indispensable partner in delivering the Government's levelling up and net zero objectives.

However, platitudes cannot mask the fact that fundamentally this is a Government that only values business to the extent that business is helpful in delivering its broader political agenda. Where business interests align with those of the Government, those businesses can count on a sympathetic hearing, and they are more likely to receive practical support.

Where they are not aligned, the Government will be less helpful, as evidenced by the dismissal of concerns around supply chain issues with antagonistic briefings about the need for businesses to simply pay higher wages and move on from their dependency on "cheap and unskilled foreign labour". This is regardless of the specific circumstances across different sectors and the extent to which alternatives (e.g. domestic recruitment, upskilling, automation) are viable.

This may be a popular position with voters, particularly those tempted to vote Conservative for the first time post-Brexit, but these concerns are widely shared across the business world. Next CEO Lord Wolfson has described labour shortages as a real problem and warned they could lead to goods shortages and rampant price inflation, adding "if

the problem is that employees are simply not available in sufficient numbers, then cash alone cannot conjure up more people." As a pro-Brexit Conservative peer, he is less easily dismissed than business figures who backed Remain.

Wolfson's concerns speak to a wider uncertainty over Conservative economic policy which is currently trying to accommodate both traditional low-tax, sound money and free market principles as well as the more interventionist and higher-spending principles that appeal to former Labour voters in the 'red wall' seats that delivered Johnson's majority.

The consensus among economists is that far from transitioning to a higher wage economy, skills shortages will drive up prices, eroding any gains from higher wages, and initial economic data appears to support this.

Johnson has done very well betting against the expert consensus – in recent weeks he has smoothly pivoted from claiming there were no significant shortages of goods to saying this was a global issue to now claiming this is deliberate government policy to drive up wages. Even with tangible economic disruption affecting day-to-day life, voting intention polls have remained relatively stable, suggesting voters do not (yet) blame the Government.

Johnson will be hoping that the UK can ride out the current economic turbulence, or if not, that its core voters will continue to give him the benefit of the doubt. As regards relations with the business world, the calculation is that with an 80-seat majority they have no choice but to continue to play by the Government's rules for now.

REACTION



Tom Tugendhat
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Conservative MP for Tonbridge and Malling

Rising wages are great unless prices rise faster. Inflation matters - it's about what we can afford and how families make ends meet in a tough month.



Laura Kuenssberg
@bbclaurak
BBC Chief Political Correspondent

There is concern in some corners of government, including among some cabinet ministers, that Number 10 is brushing away concerns about the economy too easily... confidence can tip into complacency - a sentiment that few voters would reward.



Isabel Hardman
@IsabelHardman
The Spectator

To his critics, Johnson will have appeared dismissive, perhaps even delusional. But perhaps his upbeat tone was more for the party than the public, an attempt to lift the spirits of members and MPs high enough that they'll cope with the coming winter of discomfort... his strategy for dealing with it seems to be to try to entertain people through it, hoping they won't notice it too much.



Dehenna Davison
@DehennaDavison
Tory MP for Bishop Auckland

The Prime Minister today has set out a really positive, optimistic vision... We've had a bit of critique that there aren't many policy announcements. That's because we're already getting on with stuff. We're doing the policy and have been doing it right throughout.



Iain Martin
@iainmartin1
Columnist, The Times

The problem with the Johnson routine, and the Tory conference in general this year, is that with the economy and the world's geopolitics looking so precarious, it has looked facile, silly and fundamentally unserious.



Stephen Bush
@stephenkb
New Statesman

We now have a pretty clear idea of what Johnson means by 'levelling up': equality of opportunity and a diffusion of high-quality jobs and career opportunities outside London and England's other great cities. But we are far from having an idea of what levers Johnson will pull to deliver that, and how much money he is going to spend on it and where.

FROST SETS THE STAGE FOR RENEWED CONFLICT WITH EU

The Tories may have won the 2019 election on the basis of 'getting Brexit done' but now comfortably ensconced in power, they are looking to unpick the Northern Ireland Protocol (NIP) which they argue they only signed under duress.

The NIP has already affected trade flows, with some supply chains now reconfigured on an island of Ireland basis as opposed to an intra-UK (Great Britain to Northern Ireland) basis, thereby keeping Northern Ireland more closely bound to the EU economically.

While entirely predictable and indeed predicted, Lord Frost has cited this as evidence the NIP is not working as intended, even as it has meant Northern Ireland has avoided the supply chain issues that have affected the rest of the UK.

In the run-up to conference, it was rumoured Frost would use his speech to formally trigger Article 16, the safeguard mechanism, which allows for remedial action in the event of trade diversion. Ultimately this did not happen, but he warned, "We cannot wait for ever. Without an agreed solution soon, we will need to act... to address the impact the protocol is having on Northern Ireland."

The EU is currently considering the alternative proposals put forward by the UK and will table its formal response soon. However, they are unlikely to accept the fundamental re-engineering of the NIP the UK is insisting on. There are two plausible outcomes. One possibility is that the UK banks what concessions and easements the EU does offer and spins them as a huge negotiating win.

However, the domestic political incentives point in the opposite direction and so it is more likely that the UK will formally trigger Article

16, unilaterally suspend key aspects of the NIP, and brace for retaliation from the EU side while the matter is referred to arbitration. In terms of timings, mid-to-late November appears most plausible as the UK is hosting the UN's COP26 climate conference in Glasgow in early November and will want to avoid this being overshadowed.

Such a move would further damage the UK's fraught relations with the EU but the calculation in No 10 appears to be that the domestic politics will work in its favour (Tory MPs, activists and pro-Government media thrive on conflict with the EU). President Joe Biden would also be angry, but the thinking is that a UK-US trade agreement is off the table for now anyway, while the security relationship is important enough that it would not be affected.

The EU's retaliation could come in the form of the EU suspending parts of the UK-EU Trade and Cooperation Agreement and imposing tariffs on certain UK exports – with Frost in turn warning of a "robust" UK counter-response. The UK strategy would be to tough out any such trade war while daring the EU to put up a 'hard border' on the island of Ireland to prevent Northern Ireland from becoming a back door into the single market and customs union.

If Dublin and Brussels were not to impose checks or erect new border infrastructure, it would enable the UK to argue that its unilateral measures are perfectly workable. The arbitration process would take months to run and even if the panel were to rule in the EU's favour, there is no means of forcing the UK to reverse course.

Either way, brace for volatility.

REACTION



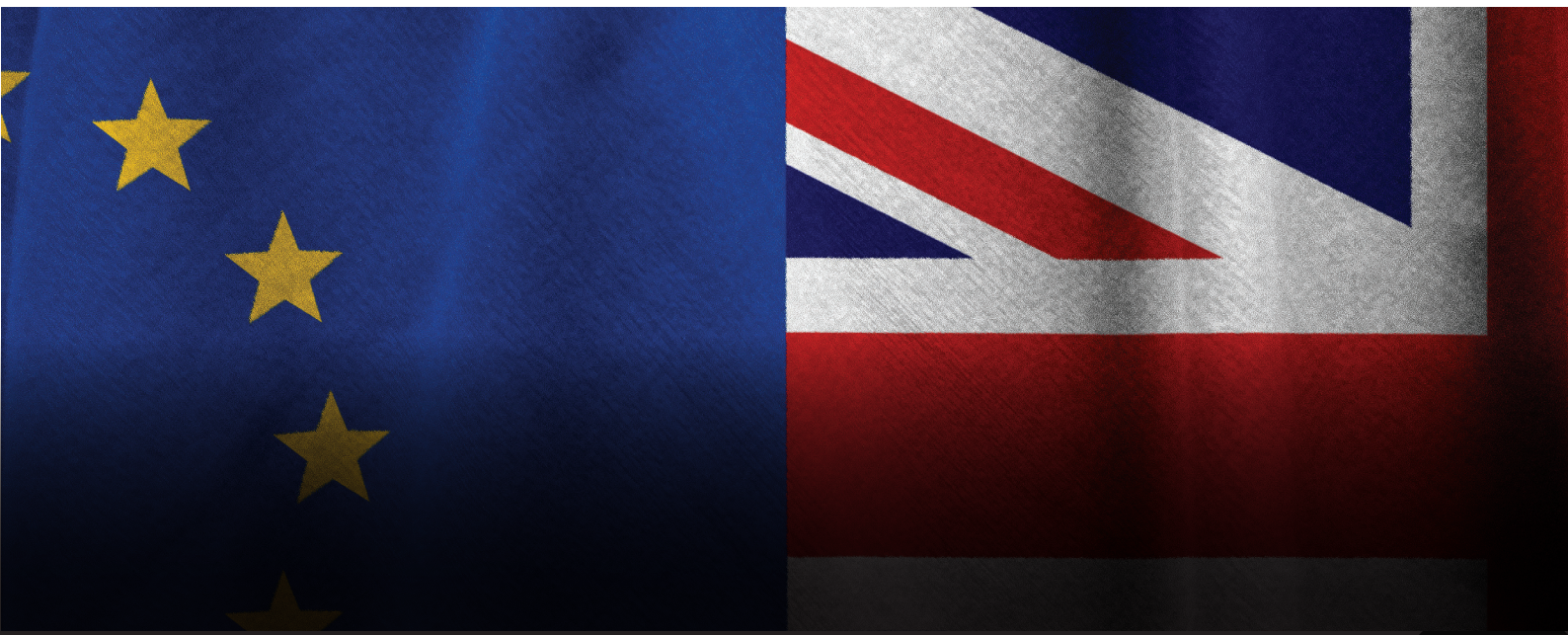
Simon Coveney
@simoncoveney
Irish Minister for Foreign Affairs

My understanding is that the British government is not likely to trigger Article 16 any time soon... What we're trying to do here is ensure that [the Protocol] is implemented in as flexible away as possible to reduce its impact, and I wouldn't read too much into the tough talk at a Conservative Party conference.



Sam Lowe
@SamuelMarcLowe
Senior Research Fellow, Centre for European Reform

Some confusion over what UK wants for NI. To simplify: Currently under the Protocol, goods entering NI are treated as if they are entering the EU, unless proven otherwise. UK wants to shift burden of proof and for goods to be treated as remaining in UK, unless proven otherwise.



ADVOCACY AND PUBLIC AFFAIRS

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