

The Importance of Avoiding a ‘no-deal’ Brexit

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In considering the current state of affairs concerning Brexit, there’s widespread belief among commentators that we’re in a lull between crises. Whatever happens domestically it increasingly seems we’re likely to face another ‘cliff edge’ as we approach the next deadline for the UK’s departure for leaving the European Union (EU) on 31st October.

Unfortunately, what also seems clear is that as time elapses positions people adopted prior to June 2016’s referendum on EU membership seem to be hardening; especially among ‘leavers’. The belief that time, calm reflection, and careful consideration of predictions made as to the economic and social implications of departure, especially without a deal, have apparently not caused the widespread change in views that might have been expected.

One of the unforeseen consequences of former Tory PM David Cameron’s promise, as part of his party’s 2015 general election manifesto, to hold a referendum on continued membership of the EU, has been to create a paradigm shift in British politics. Brexit continues to impact on the fortunes of both the Conservative and Labour parties in ways that, even a couple of months ago, might have seemed incredible.

At the time of writing, twelve MPs are intending to take part in the contest to replace Theresa May when she steps down at the end of this week. This a situation, according to Father of the House’ and veteran Conservative Ken Clarke, is “in danger of becoming a rather tragic farce”. Given his proclivity for continued membership of the EU, it’s hardly surprising that Clarke is worried by possibility that whoever takes over from May is highly likely to be in favour of a ‘no-deal’ Brexit.

Clarke, interviewed on Monday's BBC Radio 4 *Today* programme, stated his belief that general sense fatigue among everyone is allowing many of the contenders for leadership of the Conservative Party to suggest that it is now the easiest and simplest way to achieve Brexit. A 'no-deal' departure from the EU is laden with potential danger, according to Clarke because it would result in the UK having to trade under WTO (World Trade Organisation) rules:

"...that means tariffs of 20% on our steel exports through Europe, 10% on our cars, and much higher figures on our agricultural exports, it means no agreement on the licensing of medicines, security, policing. It is a dangerous shambles, this no-deal thing."

Clarke similar to another elder statement of the Conservative Party, Michael, Lord, Heseltine, has been around politics long enough to appreciate the magnitude of the decision to leave the EU. In being the party in power, he contends that there are inherent dangers to overseeing a departure that involves 'no-deal' and thinks that it may be extremely harmful to its prospects in the long-run should negative effects that are predicted come to pass.

As the Commons' longest serving MP, representing Rushcliffe since 1970, Clarke, instinctively recognises the importance of healthy opposition. If Brexit has caused internal war within the Conservative Party, it has had no less impact on Labour which, under the leadership of Jeremy Corbyn, is using 'constructive ambiguity' in an attempt to appeal to both leavers and 'remainers'. As recent elections demonstrate, this is not working in its favour.

Following the outcome of the elections of MEPs to the European Parliament, both the Tories and Labour face a challenge from Nigel Farage's Brexit Party that, unlike the UK Independence Party of which he is a former leader, might achieve election of MPs. If the bookies are to be believed, Thursday's by election in Peterborough following the removal of former Labour MP Fiona Onasanya, will be won by local businessman Mike Greene who defected support from the Conservatives to join Brexit Party.

Recent opinion polls suggest that the Brexit Party, which has no members and, following the example of Italy's Five Star Party, is funded by subscription, could, if there were a general election

imminently, win a significant number of seats. This potentially means that Farage may become 'kingmaker' if there were negotiations to form a coalition with, for instance, the Conservatives to create a majority.

Farage recognises disaffection among traditional supporters of the Conservative Party, and to a lesser extent Labour, at the UK's inability in not having achieved Brexit. Farage, has deliberately not made manifesto commitments beyond getting the UK out of the EU on the basis of a 'clean' break by walking away with no arrangements in place.

In tactics straight from the billionaire Trump playbook, ex-stockbroker Farage, claims to be a 'man of the people' who's primary interest is in fulfilling the democratic wishes of those who voted to leave in the 2016 EU referendum.

However, as has long been suspected, Farage's ambitions go beyond merely achieving withdrawal of the UK from the EU. That he may become a force to be reckoned with as leader of a party over which he has total control, sets a challenge to both the Tories and Labour as to what they should do next in resolving Brexit.

No wonder Ken Clarke describes the process of choosing its next leader as "tearing itself apart". He also reckons both the Conservatives and Labour face a "very dangerous moment". Significantly, Clarke, as well as many others regarded as 'one nation Conservatives', stress the dangers of a 'no-deal' Brexit in presenting extremely severe challenges for those engaged in running businesses.

Business is the bedrock of any nation's wealth generation. Aside from notable examples of multinationals that utilise byzantine laws, British businesses contribute significant corporation tax which pays for essential services such as the NHS and education. Equally crucially, successful businesses provide much needed employment.

Accordingly, it's somewhat depressing to hear so many influential politicians – including a number of those who wish to replace Theresa May as Prime Minister – claiming that the UK's departure from the EU without having negotiated a deal for withdrawal will be unproblematic.

On Friday, Carolyn Fairbairn, director-general of the CBI (Confederation of British Industry), warned that such an outcome would result in “severe” damage to British business as the vast majority of firms can never be prepared for no deal”.

In an open letter to those candidates standing for leadership of the Conservative Party, Fairbairn presented the case for avoiding a ‘no-deal’ Brexit. She asserts that whoever assumes the position of leader and PM “can only claim the Conservatives are the party of business if they secure a Brexit deal that protects the economy, jobs and living standards.”

Fairbairn’s letter echoes many of the sentiments contained in Chapter Eight of *Brexit Negotiations After Article 50, Assessing Process, Progress and Impact* (published by Emerald, 2019), ‘Brexit and the Potential Business Impact on English SMEs’ written by Vicky Pryce, Beverley Nielsen and myself.

Whilst acknowledging that British firms recognise the mandate to leave created by the result of the 2016 referendum, Fairbairn argues that it is imperative that there it should be based on a deal achieved through compromise, consensus and honesty. To do otherwise, with no arrangements in place, she believes, will create “Short-term disruption and long-term damage to British competitiveness” resulting in further undermining of confidence and causing damage that is likely to drive costs up and reduce sales:

“Billions of pounds in investment are being diverted from the economy, harming future jobs and prosperity.

“The CBI urges the next Prime Minister to build their approach to Brexit from the bottom up – from the clear, detailed evidence of firms, on the ground, managing the day-to-day implications for jobs.

“Only then will the UK have the foundations for a world beating economy.

“It’s time to restore the UK’s reputation as the stable and trusted country to start and grow a business.”

When writing this letter, Fairbairn might have been aware that UK manufacturing is starting to experience the consequences of uncertainty surrounding Brexit. The latest index figure from the purchasing managers' shows that in May, UK manufacturing fell from 53.1 points to 49.4 (anything less than 50 representing contraction).

Whilst this is unsurprising given that over-production and stockpiling in the period leading up to 29th March when the UK was scheduled to leave the EU, commentators suggests that discernible 'softening' of confidence among this most vital of sectors. Cips/Markit point out that this decline is one of the sharpest reductions in the index in six and a half years.

Rob Dobson, of IHS Markit, suggests that uncertainty about Brexit that is not going to be resolved anytime soon, will result in a continued "downturn of production". Such concern is echoed by Duncan Brock, Group Director at the Chartered Institute of Procurement & Supply:

"Supply chain managers voiced their deep anxieties over Brexit's continuing impacts as some supply chains were re-directed away from the UK resulting in a drop in total new orders for the first time since October.

"Clients from Europe and Asia were particularly reluctant to commit to new business across all sectors but the intermediate sector suffered the worst fall in seven years as the pipeline of work dried up. It has now become obvious that the stockpiling activities of the last few months were propping up the sector's performance."

More worryingly, evidence suggests that some firms are diverting production outside the UK elsewhere. According to Markit:

"New order inflows deteriorated from both domestic and overseas sources. New export business fell for the second month running and at the quickest pace in over four-and-a-half years. Manufacturers reported lower demand from Asia and Europe."

Reinforcing these warnings, Make UK, which campaigns on behalf of leading manufacturers, has stated that as far as members of its organisation are concerned, leaving the EU with no deal would be "economic lunacy". On the basis of a survey of 344 Make UK

members, only 6% were likely to increase investment in the second quarter of this year.

Stephen Phipson, chief executive of Make UK, representing 20,000 British manufacturers, representing 10% of the UK economy, was on a “clear weakening trend, which, if it continues, would push some elements of industry over the edge before too long”. Phipson reinforces the message that continued decline in UK manufacturing should be anticipated due to European companies pulling out of UK supply chains as well as “Asian customers balk[ing] at the unknown of what may exist as the UK leaves trade agreements which operate under EU rules.”

Seamus Nevin, Make UK’s chief economist, contends that the downturn being experienced by UK manufacturers is “clearly linked” to what is happening in the UK’s main trading market; the EU. This is due to the Eurozone PMI being negative for the fourth consecutive month as Germany and Italy deal with the consequences of a global economic slowdown.

“This is not a good time for our economy to be preparing to go it alone. Once again, the data is showing a consistently downward trend and, in this context, continued political uncertainty at home can only make an already difficult situation worse.”

In Sunday’s *Observer*, senior economics commentator William Keegan, wrote an excoriating criticism of Tory MPs hoping to take over from Theresa May as PM in their willingness to make “fools of themselves in competing to out-Farage Farage by championing the cause of any kind of Brexit” including one in which the UK leaves with ‘no-deal’:

“Such an outcome – involving the termination of decades of regulatory agreements and contracts, and chaos at the docks and airports – would almost certainly bring the economy close to a halt, and threaten goodness knows what in the streets.

“Ministers talk of “delivering Brexit” as if it were as simple as delivering groceries. If they delivered a so-called “hard Brexit”, they would foul up the delivery of many staple requirements. As the French

philosopher Bernard-Henri Lévy recently told a British audience: "Please don't go. Brexit will be a disaster for the UK. Stay!"

In considering the prospect of Nigel Farage's increasing influence on British politics there is a palpable sense that he is happy to be a disruptor of the established order. Many might argue that change is long overdue. However, it's vitally important to recognise the cost of such change, particularly if, as is being speculated, the UK leaves the EU with 'no-deal'.

It's salutary to recall maxims provided by Italian diplomat, politician, historian, philosopher, humanist, writer, playwright and poet of the Renaissance period Niccolò di Bernardo dei Machiavelli (3 May 1469 – 21 June 1527). In his seminal text, *The Prince* (written in 1513), Machiavelli stated his belief that whilst leaders wish to be both loved and feared, in order to maintain power, it is better to exert fear rather than adulation.

Though Farage is loved by supporters of a 'hard' Brexit, he is certainly creating fear among the two main political parties.

Machiavelli also claimed that "The first method for estimating the intelligence of a ruler is to look at [those] around him." A significant number of those who surround Farage are die-hard Eurosceptic ex-members of the Conservative Party whose influence caused the decision to hold the ill-fated referendum three years ago. Infamously, in 2013, an aide to former PM David Cameron referred to such Eurosceptic members as "swivel-eyed loons".

For all of our collective sake as well as the long-term prospects of the UK economy, let's hope that sanity among all leading politicians prevails. Let's hope they heed the increasingly vocal warnings of the absolutely damaging consequences of a 'no-deal' Brexit being made by organisations representing British business and sectors such as manufacturing.