

## **Sense and Sensibility**

***By John Wormald, Managing Partner of Autopolis Strategy Consultants***

In my [last blog](#), I suggested that the United Kingdom's traditional good sense had been overtaken by emotion. That it would have been entirely appropriate for the country to reflect soberly upon its capabilities and challenges, to explore its options, and to review its relationships with other powers and institutions – including, of course, the EU.

Something that should be done at sensible intervals – perhaps every 10 years, or if external circumstances have greatly changed. Instead of which we had a government bounced into a referendum by a group of agitators, who played upon some genuine grievances but also on imagined ones.

After the 1975 referendum on continued membership of the EEC, the Electoral Commission recommended that, in any future such exercise, the options should be identified, evaluated, presented, and voted upon in a reliable fashion. No such precautions were taken in 2016. There was a gross failure of quality control. The day after the vote, the New York Times wrote that the way in which it was conducted had destroyed the UK's reputation as a responsible democracy. This proved prophetic and the implications are even more serious than the impact of the referendum result itself and its interpretation in the form of a Hard Brexit, potentially without even a trade deal with the EU.

As I outlined, my sector, the automotive industry, is extremely sensitive to disruption. It over-competes within itself, at least in volume cars, leading to endemically weak profitability. It is also a very complex, hierarchical and tightly-run sector, because of the nature of its products and the enormous volumes in which they are produced. Perhaps no other industry has developed just-in-time production and global supply chains quite as far. Thus it is extremely vulnerable to the emergence of new or higher tariffs and to administrative delays.

A hard Brexit and especially one without an EU trade deal really puts its UK branch out on a limb. The irrational pursuit of an ideological commitment risks undoing all that was so rationally done to put it together again. Disruption at Dover and other transit points through the re-imposition of long-removed customs procedures risks not only the day-to-day operations of UK car assembly points but also the willingness of its their almost wholly foreign owners to continue investing here.

The writing is already on the wall: since the referendum, annual investment in the industry has fallen from £2.5 billion to next to nothing. If the UK industry finds itself outside the EU's 10% common external tariff for new cars and its government retaliates with a 10% tariff of its own, this will hardly please voters, notably the newly acquired Tory voters in the Red Wall constituencies. Not to mention the impact on jobs, which will hit them disproportionately.

All this is known, of course, although denied by the Brexit faithful. Covid-19 has made the situation suddenly far worse, notably through a massive collapse in demand, with new car sales among the most heavily hit. Beyond these short-term effects there may be long-term depressing factors, such as permanently reduced disposable incomes and a reduced propensity to move about physically.

Beyond the impact on any one sector – and there are many others vulnerable to Brexit damage – there are the aggregate consequences for the UK. The economic impact of a bad Brexit outcome have been widely discussed. All reputable economists agree that it will be negative and serious. Unaffordable to start with, catastrophic when compounded by the Covid-19 epidemic.

This is an enormous miscalculation, rooted in an outdated view of unrestrained world trade and a false belief that the UK, “freed” from the EU, can do better on its own by accessing markets growing faster than those in Europe, on WTO terms if needs be, and by negotiating its own FTAs. This completely ignores the reality of powerful trade blocs – starting with the EU. It also largely ignores the significance of non-tariff barriers and the value of proximity. Europe is not only physically closer, it is culturally more accessible. The UK shares more values, legal practices and business mores with it than with countries such as China.

Then there is the political dimension. The UK – or, more specifically, England – seems to have misjudged both the state of the outside world and its position in it. The political centre of gravity has indeed shifted towards Asia, principally China. But this does not make China more friendly or accessible. Events in Hong Kong and Covid-19, together with China’s aggressive intolerance of any criticism, make Europe look relatively more attractive than Brexiters would have it.

The UK’s sentimental and largely unilateral attachment to a supposedly special relationship with the United States is gravely undermined by the latter’s pivot towards Asia and the neo-isolationist attitudes of the Trump administration. The UK’s internal political culture has been severely downgraded. A system which, in the absence of written rules, relied on unwritten conventions and self-restraints (identified by Bagehot in his analysis of the Victorian constitution), is endangered by demonization and vituperation. The UK used to be famously non-ideological and pragmatic. That has been seriously compromised .

Thus there is a dangerous moral dimension to Brexit. Trumpeting superiority instead of reasonable adjusting to reality. Claiming to be persecuted by a perhaps over-extended but basically well-meaning European bureaucracy. Denying the moral dimension of the European project and insisting on its imperfections. Compromising the national virtues of tolerance and kindness identified by George Orwell. Recreating the cult of the personality and of unreason, the deliberate distortion of facts, the distant but perceptible threat to the rule of law. These may seem arcane matters of concern to intellectuals and Remainers. But they have a very practical and dangerous consequence: the undermining of trust.

For, until recently, the UK has run internally and externally very much through trust. It has heavily depended on FDI (foreign direct investment) to fund its massive trade deficit, to the point at which 9% of British businesses are foreign-owned but contribute 25% of national value added. So what price sovereignty ? The pound is now viewed on the foreign exchanges as the currency of an emerging economy.

What will that do for foreign investors’ confidence ? What is the hidden cost of the politicization of appointments in government and to cultural and international positions, in the name of loyalty to the Brexit faith ? What price the side-lining of the business community ? It is not angelic but nor is it in the main inherently wicked. It will play on local tax regimes and loopholes. It requires legislation and regulation to function properly. But it is in general open and results-oriented, and has in many ways led the way on internationalization and the breaking down of barriers.

How does all of this square with the laudable objectives of North-South rebalancing and of raising the national level of productivity ? It’s like a flight to an unknown destination with a fly-by-night airline, on a rickety antiquated aeroplane, with an untrained crew, through the stormy skies of a Covid-19 world.

We’ve seen how a government picked for ideological purity and a bumbling public administration have handled the pandemic. Fasten your seatbelts for the Great Leap Backwards.