Divergence and the Reality of Brexit

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We're now over two months on from the election and, as expected, for many people Brexit's importance is fading faster than our hopes of seeing another Brit win Wimbledon anytime soon given poor Andy Murray's well-documented fitness problems.

Getting Brexit "done" was the key message of the Conservative Party during the election. Indeed, having secured an unexpected and whopping majority, PM Boris Johnson made clear that his intention was to get the Withdrawal Act Bill through Parliament with as much speed as possible to allow departure from the EU that had the outcome of the referendum in 2016.

As Johnson and his cabinet like to claim and hope the majority of the public believe, Brexit's been completed. The matter of trade deals and future arrangements to govern the relationship between Great Britain and, perhaps, Northern Ireland is not meant to occupy people's attention as the psychodrama that Brexit became in Parliament this time last year.

For those outside of politics and economic analysis, leaving the EU will make practically no difference this year during the transition period that is due to end on 31st December. Next year, however, depending on the outcome of negotiations between the remaining 27 members of the EU and the UK government, could potentially be very different.

It has to be said that for most, restrictions of their freedom of movement will be treated with complete indifference. Indeed, for those who believe in the virtues of leaving the EU, this restriction, which will equally affect citizens from all other EU countries, will be a good thing if it ensures reduced immigration.

The reality of what Brexit will mean may be felt by the public when they realise that what they purchase becomes more expensive. Leaving the EU that is, according to detractors, obsessed with control through bureaucracy and regulations intended to ensure alignment essential to the single market, was touted by leavers as the by which the UK would be free to negotiate trade deals with whichever country it wished. This would, according to leavers' logic, allow cheaper imports.

Michael Gove's announcement to delegates on Monday at a Cabinet Office event, 'Preparing Our Border for the Future Relationship', that whatever happens in negotiations during transition, trade barriers will be imposed will, wherever else we get produce from, would certainly indicate that trade with Europe will become more difficult. Given the volume of foodstuffs that we import from the EU, this will add to inevitable costs.

According to journalist Josh Holder writing in The Guardian last August, approximately 30% of all food "consumed in the UK," worth in excess of £30 billion in 2016, come from the EU though in the case of spinach and olives, we are almost entirely dependent on the EU. In the event of a no-deal Brexit, the prospect of which is once again increasing, would result in the imposition of World Trade Organization rules for import tariffs. For foodstuff this would be an additional 22% as well as inspections that will add further costs as well as delays for produce that has short shelf life anyway.

Any concerns that businesses may have with the prospect of such changes taking place were given short shrift by Gove who claimed that businesses that do trade with Europe must accept that there will be "friction" that is an "inevitability" of leaving the EU:

"The only way in which you could avoid those customs procedures and regulatory checks would be if you were to align with EU law and if you were to align with EU law we would be undermining the basis on which the prime minister secured the mandate at the general election to affirm our departure"

So, there you have it. Whatever happens in terms of increased prices, difficulties in travel to the EU including the possible loss of cover for standard health cover by the EHIC (European Health Insurance Card), increase in cost of using mobile phones, expense for visas are an inevitable consequence of the decision by voters in the 2016 referendum to leave which, as Gove contends, was reinforced by the outcome of December’s election.

Such changes will be unwelcome. Though, on average, wages are currently rising marginally faster than prices, any sudden hike in costs resulting from the imposition of trade barriers and, possible tariffs would hit those on limited incomes hardest. Those belonging to the ‘precariat’ or ‘JAMs’ (Just About Managing) as former PM Theresa May called them, have a very limited elasticity in their spending power.

Ironically, Johnson’s phenomenal election victory in December was, in large part, especially in traditional Labour areas, it’s is widely believed, made possible hard-pressed voters convinced that his commitment to get Brexit complete. As Johnson argued so vociferously, ending uncertainty would create a resurgence of pent-up economic activity that, combined with investment in infrastructure, increase wealth and overall prosperity.

The ‘mood music’ coming from government suggesting that life is going to be more difficult for those businesses that carry out trade with the EU does not bode well for those who are employed by such firms. If costs rise considerably many companies engaged in manufacturing that rely on seamless supply chains with the EU may either be forces to consider relocation or potential closure which would be devastating for people who depend on them for their livelihood.

Tuesday’s announcement by the Office for National Statistics (ONS) on the economy would suggest that whilst there is some reason for cautious optimism as far as growth is concerned, underlying environmental conditions are fragile. Overall for 2019, the economy grew by 1.4% (in 2018 it grew by 1.3%). However, in the final quarter of 2019, probably caused by the ongoing travails of Brexit, the economy flatlined.

Worse, for a nation that hopes to become a citadel of growth in developing and making products that, as well as reducing dependence on imports will increase revenues from exports, the news that the manufacturing sector contracted for a third consecutive quarter is not a good portent. Gove’s announcements on Monday will not make life easier for businesses that depend on the EU for trade; quite the contrary.

The economic ‘headwinds’ that Chancellor Sajid Javid must cope with in presenting his budget next month are, to say the least, not auspicious. Javid’s claim that the economy will grow by around 2.75% and that he will set out plans in the budget to achieve this are widely seen as overoptimistic. In fact, National Institute of Economic and Social Research (NIESR) believe that achieving such growth, last experienced in 2006, are s “quite unrealistic” and have just a “one-in-five “chance of success.

Moreover, NIESR consider that the continuing effects of uncertainty caused by the negotiations between the EU and UK will be likely to outweigh the benefits of increased public spending that Javid is going to announce by around 10 to one.

The UK economy has been limping along for the last decade and, in many parts of the country, has never fully recovered from the effects of the GFC (Global Financial Crisis) of 2008. There is a widespread belief that the world economy was, on the ‘law’ of averages, due another slowdown. The effects of Coronavirus in China as well as its continuing uneasy trading relationship with the US under Trump will continue to militate against growth.

In what are extremely troubling times there’s a danger of being a harbinger of doom. No one wants to listen to those who warn of difficulties ahead though they are always in demand to explain what went wrong in the aftermath of any crisis. Therefore, it must be said, it’s somewhat worrying to hear that Ann Pettifor, Director of Policy Research in Macroeconomics (PRIME) who correctly predicted the GFC five years before it occurred, the condition that caused it, government and debt, is even worse now and we may be on the precipice of an even worse crash that we’d be even less well able to cope with than last time.

Should such a crash occur, those who were most negatively affected in the aftermath of the 2008 GFC, the poor and those who, having felt they were left behind and voted to leave the EU, should expect to be once again directly in the firing line. Pettifor, like many others, points out that what is needed is to improve living standards through wellpaid employment as well as investment in training, innovation and creativity to boost productivity.

This is what Johnson, Javid and many others in government claim that they want to achieve. Easy to say but, as every government in living memory will attest, highly problematic and extremely difficult to achieve.

What can be said is that, all in all, it's maybe not the best time to be considering cleaving our economy away from one of the biggest trading blocs in the world. Johnson and his cabinet should remember that if you head into a storm you had better ensure you have sturdy lifeboats.

Additionally, it might be said, with respect to all the "wonderful" trade deals around the world that are supposedly possible once we've fully diverged from EU standards and regulations, the government should remember the old adage that a bird in the hand is worth two, or as many as you believe, are in the bush.

Dr. Steven McCabe is co-editor of *Brexit and Northern Ireland, Bordering on Confusion* (published by Bite-Sized Books, ISBN-13:978-1694447807)