

# Anyone for Meatloaf in the Hotel California?

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As has been my preference, the titles of blogs are laced with references to popular culture by the inclusion of songs or films. This week, however, the references to Meatloaf the American singer and song 'Hotel California' originate in statements made by commentators in the last few days.

Meatloaf got a name-check because of his 1993 single, 'I'd Do Anything for Love (But I Won't Do That)', from the album *Bat Out of Hell II: Back into Hell*. As a number of commentators have suggested, its title has resonance to the fact that the alliance of politicians opposed to a 'no-deal' Brexit in forming a government of national unity, is likely to fail precisely because though they'd do anything, they wouldn't do so by supporting a temporary government that has Labour leader Jeremy Corbyn as Prime Minister (PM).

'Hotel California' is a reference to the 1977 Grammy Award winning single by the Eagles which is the title track of their album of the same name. This is because of a belief being expressed by those who oppose the withdrawal agreement (WA) agreed by Theresa May and the other 27 EU members that includes the backstop that has once again come to prominence. According to those who oppose the backstop, agreeing to could effectively keep the UK in the EU forever. Accordingly, for such critics, the lines from Hotel California, 'You can check out any time you like, But you can never leave!' are relevant.

Previously this blog has described the economic circumstances that pertained in the late 1970s when Hotel California was a hit. This was a time of uncertainty that resulted in Labour PM James Callaghan having to seek a bailout by the International Monetary Fund (IMF) and policies implemented to control rampant inflation that led to conflict with the trade unions resulting in what became known as 'the winter of discontent' on 1978-79.

Brexit has created a political crisis that shows no sign of abating; quite the contrary. Moreover, Brexit if achieved by the UK leaving without an agreed deal threatens to create economic catastrophe that would make easily rival the intense challenges faced by Callaghan which, after his defeat in May 1979, led to the election of Margaret Thatcher and 18 years of continuous Conservative rule.

Traditionally August is the time of year when political stories tend to be few and far between; the so called 'silly season' when news that might otherwise be seen as too irrelevant to be worthy of note at other times of the year get picked up. Not this year. Despite Parliament being in recess until 3<sup>rd</sup> September there is no let-up in the attention that Brexit receives.

That PM Boris Johnson has not taken holiday, and told key staff that they should not take leave until after 31<sup>st</sup> October when the next deadline for the UK to leave the EU expires at 11.00pm GMT, suggests that the ten weeks are going to be frantic. Johnson's proclamation that he is prepared for an outcome his predecessor Theresa May clearly regarded as departure of the worst possible sort, leaving with 'no-deal', has heightened the sense that unless something dramatic happens in the next couple of months, we should prepare for difficult times.

The inclusion of a leaked document in this week's *Sunday Times* of a very recently report prepared by the Cabinet Office working on 'Operation Yellowhammer', originally conceived in June 2018 as a way to ameliorate the worst effects of leaving with out a deal and covering 12 essential areas such as transport, healthcare, energy, food and water, suggest that those who believe that such a departure could be potentially disastrous are right to be so.

According to the those who have read the latest Operation Yellowhammer report, the UK could face months of disruption at its ports after a no-deal Brexit and, despite what is being said by ministers including PM Johnson, the imposition of a hard border between Northern Ireland and the Irish Republic is highly probable; something that would undermine the principles of the 1998 Good Friday Agreement that brought a welcome, albeit imperfect, formal end to hostilities in Northern Ireland.

As well as these consequences, the BBC's website reported on Sunday (18<sup>th</sup> August) that the contents of the dossier leaked, it's alleged by a former minister, to *The Sunday Times* of what a no-deal could lead to include the following:

- Fresh food becoming less available and a rise in prices
- The need for a 'hard Irish border' sparking protests
- Fuel becoming less available and 2,000 jobs being lost if the government sets petrol import tariffs to 0%, potentially causing two oil refineries to close
- UK patients having to wait longer for medicines, including insulin and flu vaccines
- A rise in public disorder and community tensions resulting from a shortage of food and drugs
- Passengers being delayed at EU airports, Eurotunnel and Dover
- Freight disruption at ports lasting up to three months, caused by customs checks, before traffic flow improves to 50-70% of the current rate

Though Theresa May and others, notably ex-Chancellor Philip Hammond, are being criticised for not being more willing to threaten leaving with no-deal they will undoubtedly have seen reports similar to that which has been leaked. It's worth recalling that back in January 2017 when Theresa May was setting out her so called 'red lines' for negotiation with the EU at Lancaster House, she stated unequivocally, "No deal for Britain is better than a bad deal for Britain"

Despite stating this, it's also worth recalling that contained in May's 12 point Brexit plan set out in her Lancaster House speech were the intention to "Provide certainty about the process of leaving the EU", "Rights for EU nationals in Britain and British nationals in the EU", "Protect workers' rights" and to achieve "A smooth, orderly Brexit".

On making her speech in early January 2017 analysis was carried out into what the effects of a no-deal would actually mean. Apart from those who advocate no-deal, it was widely accepted that the consequences of the UK leaving the EU single market and customs union without a deal would be utterly disastrous.

Car manufacturing would suffer because of dependence on agile supply chains that are not resilient to delays. The need to comply with WTO (World Trade Organisation) rules would undermine manufacturing and farming. Estimates over two years were that the UK's economy would take a hit of between 2.6 per cent and 5.5 per cent of GDP; between £50bn and £110bn, by 2020.

Theresa May was criticised for suggesting that the UK would be willing to walk away from the EU without a deal. As the subsequent two years before she resigned, events demonstrated that she clearly recognised that threatening an outcome likely to create consequences not in the UK's interest was not sustainable for someone who, perhaps, history will eventually judge to have been dedicated to what was best in the long-term for the country rather than her career.

On the basis of what we've seen in the four weeks since he was elected to be leader of the Conservative Party and, of course, more crucially, PM, Boris Johnson has no qualms about the prospect of a no-deal departure by the EU. Johnson undoubtedly fully appreciates one of the fundamental maxims of economic game theory which is that unless you are prepared to walk away from the negotiating table, you reveal that you are the weaker party and can ultimately be rolled over.

And so, some three years and two months after the June 2016 referendum on continued EU membership, and having seen two Conservative PM's tenure as PM ended by Brexit we are increasingly at a position of apparent stalemate. Boris Johnson has repeatedly stated that any WA that includes the backstop will be impossible to accept. That he has achieved his lifetime ambition precisely because of May's unwillingness to leave without a deal is a moot point.

Johnson cannot be seen to back down. He knows that as sure as night follows day, should he be seen to deviate from the he stated line of leaving on 31<sup>st</sup> October, "do or die", members and MPs within his own party will devour him in the same way that did for his predecessor. Hence, Johnson continues to claim, erroneously, that if this country were to leave with no-deal, and trade under WTO rules, it would be possible to do so under Article 24 (Article XXIV) of the General Agreement on Tariffs and Trade (GATT).

Johnson believes that it is possible to unilaterally apply zero tariffs to goods being imported from the EU in order to minimise disruption to trade and prices. This is not so. In June EU chief negotiator Michel Barnier categorically stated that future trade talks cannot commence until agreement is reached on three issues; citizens' rights, the Irish border and the UK's financial obligations.

Equally, at the time EU Trade Commissioner Cecilia Malmstrom cautioned Johnson about his claim that Article 24 could be used to avoid tariffs without an agreement and made it plain that he was "completely wrong":

*"They will have to trade with us and other countries, until there are trade agreements – and we hope that will be a trade agreement – on the 'most favoured nation' basis. And that will mean new tariffs."*

Equally, the EU has repeatedly made clear that any WA cannot jettison the backstop and it cannot be seen to dilute its resolve to maintaining the principle that the backstop is critical to protection of the GFA that is internationally agreed.

However, for those who wish to remain optimistic, there are glimmers of hope. Johnson is not stupid and, it can reasonably be assumed, does not want to be seen for engendering the calamity of a no-deal as contained in the leaked *Sunday Times* Operation Yellowhammer report. Though it has taken time, the bellicose noises are, possibly starting to be replaced by the sort of very subtle signals that, some progress may be possible.

On Tuesday, Reuters news agency reported that German chancellor Angela Merkel, on a visit to Iceland, has intimated that the EU is prepared to find a solution to the backstop issue:

*"The moment we have a practical arrangement on how to preserve the Good Friday agreement and at the same time define the borders of the [European Union's] internal market, we would not need the backstop anymore. This means we would naturally think about practical solutions. And I've always said that when one has the will to find these solutions, one can do so in a short period of time. The EU is ready to find a solution."*

As Reuters also reported, Merkel believes that this would not require the WA to be re-opened. Rather, it was a question for the so-called political declaration on future relations which, as those who have read it will attest, is pretty fluid in terms of aspirations. Boris Johnson though sticking to the line that he is still prepared to countenance no-deal is presenting slightly more conciliatory messages.

Though he claims that when he meets with Angela Merkel and Emmanuel Macron separately and collectively at the G7 summit in Biarritz that is being held later this week, he will stress that the backstop must go, he still believes that a WA deal is possible.

As usual Johnson employs his usual chutzpah in promising to use “a lot of oomph”. Johnson continues to insist that alternatives to the backstop may be negotiated in the future talks on a long-term trade deal:

*“You know what? At the moment it is absolutely true that our friends and partners are a bit negative. I saw what Donald Tusk had to say, and it wasn’t redolent of a sense of optimism. But I think, actually, we will get there. I think there’s a real sense now that something needs to be done with this backstop. We can’t get it through parliament as it is. [...] I hope we will be making some progress in the course of the next few weeks.”*

Johnson, however, will be well aware that over the next few weeks he may lose control of events if those opposed to a no-deal were to agree on a strategy that effectively blocks him from using the threat of no-deal as a bargaining tool. If there were to be agreement across the political spectrum that it was possible to replace Johnson by a temporary government specifically dedicated to anything that avoids no-deal, his ability to force this outcome through would be undermined. As he told Sky news on Tuesday, he is cognisant of this:

*“One thing that slightly, I think, complicates the picture is that our EU friends still clearly think that there is a possibility that parliament will block Brexit. And as long as they think there’s a possibility that parliament will block Brexit they are unlikely to be minded to make the concessions that we need. So it is going to take a bit of patience.”*

One thing that can be guaranteed is that a summer in which news has been dominated by Brexit will turn in an autumn that is no less so. We face the prospect of another 'cliff edge' on the 31<sup>st</sup> October that only the foolhardy would bet against being absolutely final.

But as the last three years or so has demonstrated on many occasions, Brexit has a habit of throwing up surprises. Boris Johnson has also shown that, if the circumstances dictate and he can use it to his advantage, he is more than adept at engaging in a *volte-face*. Therefore, nothing should be ruled in or out at this stage in the process.

In the meantime, we can expect continued frenzied discussion of what the backstop means and whether it can be avoided. We can also anticipate much anguished debate concerning the relevance of continuing effective trading between the UK and EU.

That all the portents based on economic indicators suggest the very strong possibility of a world slowdown because of the 'trade war' between the US and China which will impact on Europe, and is already having a negative effect on Germany's economy, makes the imperative of achieving a WA that can be supported by Parliament even more critical than it has been previously.

For those who are interested, the song 'Hotel California' was described by singer Don Henley in a 2013 documentary *History of the Eagles*, as being about "a journey from innocence to experience... that's all..." Let's hope after October our collective experience of the impact of the 'Brexit journey' is not as dreadful as predicted in the Operation Yellowhammer report leaked to *The Sunday Times*.

Anyone fancy a slice of meatloaf?