

The White Cliff-Edge of Dover

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This blog re-examines the notion that the EU is “bullying” the UK by failing to make concessions, even though it appears to be in their own economic best interest. Far from being inflexible, internal weaknesses mean that the EU is simply unable to offer greater flexibility to a non-member than its own member states. As such, German industry will not ride to the rescue, forcing the EU to make concessions and failure to properly appreciate the internal constraints faced by the EU mean that the UK government risks leaving the EU without a withdrawal agreement. As such, Dominic Raab’s recent assertion that the EU needs to “get serious” in Brexit negotiations reflects a lack of understanding of the constraints faced by his negotiating partners. If adopted in official negotiations, this perspective runs the risk of adding unnecessary antagonism to an already complicated set of talks and, ultimately, failing to secure a much-needed withdrawal agreement.

Media reports suggest that Michel Barnier has confidentially informed MEPs that Brexit talks are now “frozen”^[1] and preparations on the continent for a no-deal Brexit are being accelerated. This is in stark contrast to official UK government documentation, which claims that “A scenario in which the UK leaves the EU without agreement (a ‘no deal’ scenario) remains unlikely given the mutual interests of the UK and the EU in securing a negotiated outcome”^[2].

The latter appears to be an article of faith on the part of the UK government and represents at best a rather naïve misreading of the payoffs for each side. In game theoretic terms, the UK government appears to believe (and is behaving as if it believes) that it is engaged in a game of chicken. Whilst it is true that the UK is vastly more exposed to Brexit than most of Europe^[3], it is also true that the economic losses for the EU from a no deal Brexit are likely to be substantial (see, for example, the work of the think-tank Oxford Economics Oxford Economics [4]). As such, there is surely a strong incentive to avoid such an outcome on both sides and the only reason for a “no deal” scenario to unfold is a miscalculation. There is thus zero incentive for the UK government to make any concessions prior to the last possible moment.

As stated, I believe this fundamentally misreads the game. The EU is externally strong but internally weak. Many have noted that the EU is in a strong negotiating position, both because of its size and because the UK wishes to retain access to (and membership of) large parts of the European project. The EU is one of very few political actors large enough to be able to go toe-to-toe with Trump's America and Xi Jinping's China in international negotiations. Ironically, if it really did feel in a strong negotiating position then there would be no reason for the EU *not* to come to an accord with the UK. After all, the UK government appears to desire to remain within the Single Market for goods – which would also benefit the EU. The indivisibility of the Single Market is, according to this view, merely “dogma”^[5]. The EU's failure to offer the UK a satisfactory “deal” along these lines is, according to this view, evidence of a desire to “punish” the UK – a line taken by much of the Eurosceptic press in the UK.

I argue, however, that this external strength masks dramatic internal weakness. After all, if the EU were really seen as such a valuable construct by all member states (and their populations), then there would be no reason to insist on the indivisibility of the Single Market. If everyone sees the value of the whole package then why not allow the UK to cherry-pick just parts of it? The reality, of course, is that large parts of the package are deeply unpopular in a number of member states.

Large numbers of French and Italians have reservations about state-aid regulations (and, given widespread perceptions around their proclivity to find ways of avoiding such restrictions, these reservations appear to be shared by many within the state apparatus). Similarly, German trade integration for services is one of the lowest in the EU and much of Europe appears to have reservations around freedom of movement of people (but, of course, we all enjoy freedom of movement for ourselves!) Indeed, it is a deep irony that the UK was one of only 3 countries to immediately grant EU citizens from Eastern European unfettered access to its labour market in 2004. The then leader of the German opposition – Angela Merkel – famously argued that even the 7 year period during which such migrants were denied full access to Germany's labour market was not good enough^[6].

Today, the EU faces a populist revolt on many fronts. Parts of the Italian government are deeply Eurosceptic and are openly defying

Brussels' desire for budgetary restraint. In France, Marine Le Pen (no friend of the European Union) won over 1/3 of the vote in the second round of France's 2017 presidential election. There are serious threats to the rule of law in both Poland and Hungary and even Sweden – long held up as a bastion of Nordic tolerance – is facing political uncertainty after the meteoric rise of the far-right. The populist forces represented by Brexit are not the exception: they are the rule.

As a result, for better or for worse, these internal weaknesses mean that the EU is *unable* to concede on the integrity of the Single Market. After all, if it allowed the UK to carve out only those parts of the Single Market that it liked what incentive would Italy or France have to adhere to those parts of the Single Market that large parts of their populations are sceptical of? No wonder then that there is a consensus amongst many European leaders that a cliff edge (no deal) Brexit would be preferable to damaging the EU's Single Market⁽¹⁾. The EU is not playing chicken, its playing for survival. Unless they're careful, the UK's political leaders may take us to the cliff-edge and drive right over it.

End Notes

1. Boffey, D., *Brexit transition period too short unless deal on table soon, says Merkel*, in *The Guardian*. 2018: London.
2. Department for Exiting the European Union, *Guidance: UK government's preparations for a 'no deal' scenario*, D.f.E.t.E. Union, Editor. 2018, HMSO: London.
3. Chen, W., et al., *The continental divide? Economic exposure to Brexit in regions and countries on both sides of The Channel*. Papers in Regional Science, 2018. **97**(1): p. 25-54.
4. Oxford Economics, *Over the cliff? No deal Brexit would cut UK growth by 1 point a year*. 2017.
5. Kohler, W. and G. Müller. *Brexit, the four freedoms, and the indivisibility dogma*. 2017; Available from: <https://voxeu.org/article/brexit-four-freedoms-and-indivisibility-dogma>.
6. Bittner, J., *Is Merkel to Blame for Brexit?*, in *The New York Times*. 2018: New York.