



ECONOMIC INSIGHT

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Brexit: Politics is Winning At Last

In January I wrote a piece entitled 'In defense of Politics' invoking the idea of the late Bernard Crick that pluralist democracy should be about reaching, through public debate and compromise, a consensus (even if rather 'messy') that can be shared by many more people than a simple 50% plus one.

Figure 1 | **The Head of the Civil Service warns ministers on No Deal**



Source: via Daily Mail

The principal mistake

One thing that everybody seems to agree is that Mrs May has not managed Brexit at all well and I would argue that her principal mistake has been to eschew Politics as defined by Crick and instead. She has sought to impose her oscillating (contrary to her own mantra that 'nothing has changed') decisions on the Cabinet and Parliament in a form of 'Democratic Centralism' that Vladimir Lenin would recognize and that Jeremy Corbyn has been trying to inflict on the Labour Party.

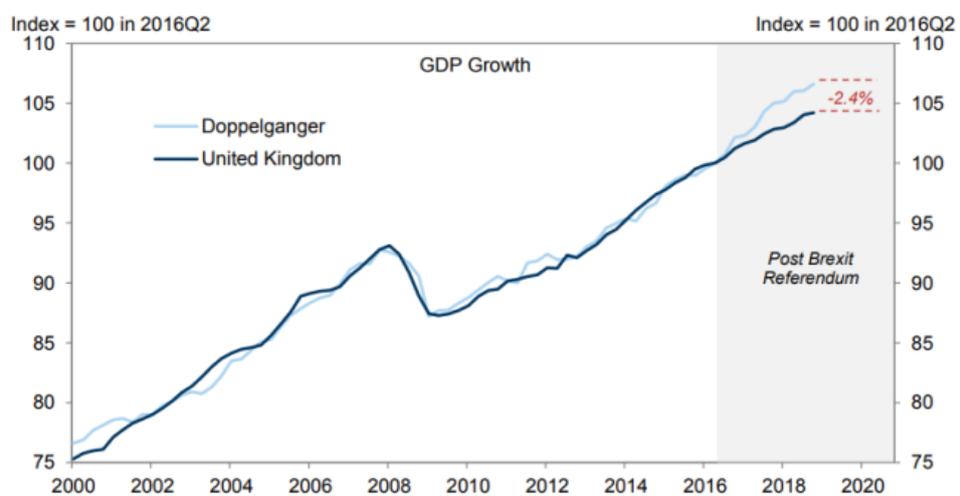
Her difficulty has been compounded by the relegation to the backbenches or their departure altogether from Parliament of the wisest and most experienced British politicians but this is to

assume that she and/or Mr Corbyn would ever take any heed of them. Mrs May's approach has eventually roused Parliament to reclaim over the executive power the ascendancy that was first enshrined in the Bill of Rights in 1689 in a desperate attempt to avoid a repeat of the bloody Civil War.

Perhaps the biggest surprise for Mrs May and Mr Corbyn has been the refusal of so many people to accept the result of the 2016 Referendum and the emergence of a strong pro-EU movement in the UK for the first time, which has given new heart to the Europhiles in their parties.

Figure 2 | **Project Fear or Reality?**

Exhibit 1: The UK Is Being Outperformed by Its Doppelgänger Post Referendum



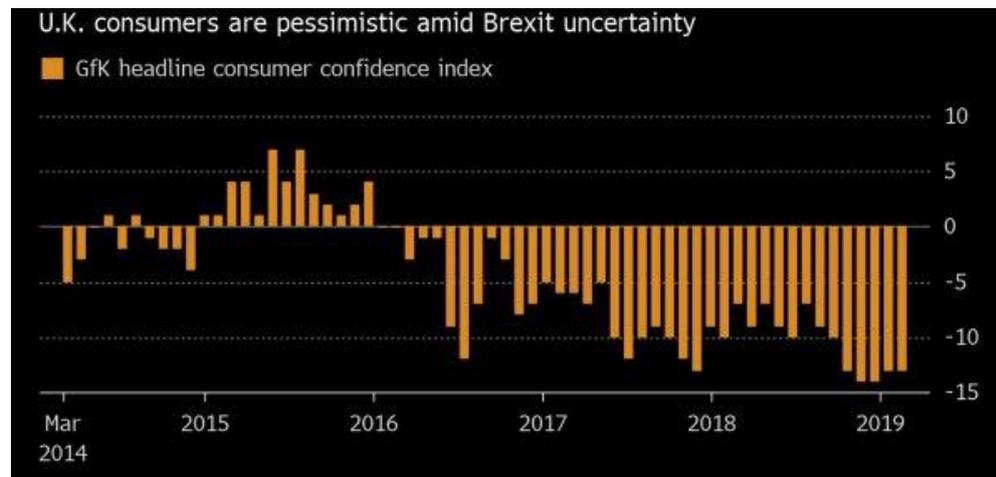
Source: Goldman Sachs Global Investment Research

Proper debate on trade-offs just started

On a more practical level, the UK's leaving the EU after 45 years of increasing legal, commercial and logistical integration was always going to be impossible to achieve quickly or without enormous cost. Mrs May and her ministers have shown an astounding level of ignorance of what is involved and some still seem unwilling or unable to inform themselves. It is hard to believe that up to 14 members of the Cabinet wish to resolve the Brexit crisis; and they have made it a crisis now by the UK's crashing out of the EU next week without an agreed deal. To be fair, Mrs May has consistently rejected No Deal, albeit with occasional ambiguous comments to assuage her right wingers but a succession of defeats in Parliament has forced her to confront reality.

As a result, only now has a proper debate started over the trade-offs between national (seemingly mostly English) sovereignty and short and medium term economic and social damage. **Figure 2** from Goldman Sachs compares actual UK GDP growth since the Referendum with what it would have been if the result had gone the other way. The current gap is running at 2.4% annually and widening. What matters with such modelling is not the precise numbers but the direction and pace. Goldman's numbers are consistent with most other models, including the Government's own. Consumption is the largest component in GDP at over 60% and **Figure 3** is also consistent with slower growth since mid-2016. Having said that, the last few months official data on Retail Sales and Consumer Credit suggest that while many Consumers may be mired in gloom some of them at least, are borrowing and spending.

Figure 3 | Could do a lot better



Note: Survey of 2,001 individuals from March 1 - 14

Agreement on some form of softer Brexit?

Nevertheless, Politics is winning and it is clear that most MPs, apart from the usual notorious suspects, are Crick disciples. The rest of us should surely welcome this development rather than hijack the opaque word 'democracy' to castigate the British 'political system'. However, Mrs May may not yet be fully converted. Yesterday, she appeared to have crossed a line that does put 'country before party' but only as far as eschewing No Deal but not Brexit itself.

This step seems already too much for a majority of Tory MPs and she will struggle to stay as Prime Minister even if Tory Party rules prevent her being formally challenged until November as Leader. The first of probably many ministerial resignations happened this morning. Mrs May might also be setting a trap for Mr Corbyn: either to share in the blame from any downsides from Brexit or to be castigated for blocking it.

As is widely accepted, Mr Corbyn is in favour of Brexit generally and a Tory-mismanaged one in particular, but he knows that Mrs May could soon be replaced by a Tory Leader who might well renege on any new deal both with him and with the EU. Mr Corbyn also has the problem that a large majority of Labour MPs and Party Members want a Second Referendum with an increasingly overt goal of remaining in the EU.

Mrs May has given new credibility to the man her Party has both publicly demonised as a Marxist and privately welcomed as an electoral liability to Labour. Understandably, he has accepted the invitation to the top table but he is unlikely to be rolled over. One of the many ironies is that the Tory Party cannot easily afford a General Election because many of the usual corporate donors are holding back over its Brexit policies and in any case private polls from the constituencies are not at all encouraging.

This is probably what swung the Cabinet debate yesterday and could yet prolong Mrs May's tenure as Tory Leader. It will not come naturally to Mr Corbyn to help sustain a Tory Government and he must increasingly fancy his chances in a General Election but the Brexit monkey would then be on his back and he would almost certainly need support from the SNP, Lib Dems and the 'traitor' Independent Group.

At the time of writing, it is possible that Mrs May and Mr Corbyn will quickly agree on some form of softer Brexit (permanent Customs Union, Single Market alignment and participation in EU agencies) but it is not clear whether that would pass easily through Parliament or convince the other EU leaders. There is also wide scepticism that they have either the intellect or the temperament to do so. More likely is that after Mrs May plays around with earlier dates that the EU insist on a much longer extension that can be ended sooner if a new deal is agreed.

Article 50 will not be revoked but the UK will participate in European Parliamentary Elections. The opinion polls and results of those elections may well influence the progress of the May-Corbyn negotiations and the deliberations in the UK Parliament. The two leaders may agree themselves or have imposed on them by Parliament a Second Referendum with a choice between any deal they have agreed and Remaining in EU. This surely represents some sort of progress unless one support No Deal and it is the result of Politics at work.

Figure 4 | **Brexit upside after all?**



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