



As the Reality of Brexit Sinks In, There Are No Good Options for the U.K.

Matthias Matthijs | Wednesday, July 12, 2017

What a difference a few months can make in British politics. In early May, a confident Prime Minister Theresa May looked well on her way to securing a much bigger majority for her Conservative Party in the House of Commons on a platform of “strong and steady leadership” and a promise to deliver on Brexit. Jeremy Corbyn’s Labour Party looked out of touch with the real concerns of most British people and seemed destined for electoral oblivion.

So the shock result of a hung parliament after the U.K. general election on June 8 not only transformed the British political landscape, it also cast a dark cloud of uncertainty over the shape that the country’s exit from the European Union would take.

Having reached a difficult deal with the Northern Irish Democratic Unionist Party, or DUP, to secure their support for a workable Tory-led minority government, May looks like she has again taken control of her party. But she is on borrowed time, essentially a glorified interim prime minister with the thankless task of bringing the Article 50 negotiations with the EU to a good end.

May has nevertheless vowed to forge ahead with her original Brexit plans, set out in detail during her Lancaster House speech and repeated in her official letter to EU Council President Donald Tusk triggering Article 50: to make a clean break with the EU. May’s red lines include stopping free flows of migration from the rest of the EU, regaining autonomy to conclude future free trade deals, ending the jurisdiction of the European Court of Justice, and significantly reducing British payments into the EU budget.

Despite her narrow electoral mandate, and incessant speculation that there is no actual public support for those red lines, it seems that virtually all of May’s Cabinet members agree on the end destination of Brexit. The logic of “taking back control” always implied leaving both the EU single market and the EU customs union. Being a member of the single market implies accepting the indivisibility of the EU’s so-called four freedoms: the free movement of persons, goods, services and capital. Being a member of the customs



British Prime Minister Theresa May and U.K. Representative to the EU Tim Barrow at an EU summit, Brussels, June 22, 2017 (AP photo by Virginia Mayo).

union means foregoing the ability to sign bilateral trade deals with third countries.

The main fault line within May's Cabinet is over how long it will take to get there. While the former Remainers in May's government prefer to talk of a long period of "transition," committed Brexiteers would like to see a much shorter period of "implementation."

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Meanwhile, popular support for a "hard" Brexit has waned since the June elections, as the reality has started to sink in that the economic consequences will be severe. British economic success over the past 30 years has depended on both high- and low-skilled labor from the rest of the EU, as well as free access to the EU's single market. Restricting immigration would create uncertainty for British businesses and put pressure on the country's labor market. Leaving the customs union would almost certainly introduce complications in the form of new customs procedures. Membership of the single market has meant that most rules governing that market, including safety standards and environmental regulations, have been set by EU institutions. Those would now need to be replicated in the U.K. and made compatible with EU rules.

The only virtue of a hard Brexit is that it is consistent with the Brexit campaign's slogan of "taking back control." By making a clean break with the EU, the U.K. will indeed be able to limit immigration and sign its own trade deals. But the questions are: What will be the economic cost? And does the U.K. stand to lose, rather than gain, sovereignty? After all, the May government wants the closest possible relationship with the EU after it has left the EU. That presumably means a free trade agreement in goods as well as services, along the lines of the deal Canada recently negotiated with Brussels. Such a deal most certainly implies respecting current and future EU regulations, including in financial services, over which the U.K. will no longer have a say after it has given up its seat at the table.

So what about a so-called soft Brexit, whereby the U.K. leaves the EU, but stays in the single market and/or the customs union? This seems to be the emerging "consensus" view among the business and financial elites in the U.K. The problem is that it is politically impossible to sell this approach to the British public, as it is vastly inferior to what the U.K. has now—namely, full EU membership with important opt-outs, including from the single currency and the Schengen open-border zone.

There are also considerable costs to a soft Brexit.

First, London will need to pay its Brexit “divorce bill,” which the EU Commission estimates at around 100 billion euro. Second, U.K. citizens who live in the rest of the EU will lose their EU citizenship rights, including the right to vote in local elections. Third, the UK will have to accept free migration from all members of the single market, including future members, over which it will no longer have any control. Fourth, the U.K. will not be able to sign any trade deals of its own with third countries. Even worse, it will not have a seat at the table when the EU negotiates future trade deals with, for example, the United States or China. Fifth, the U.K. will no longer have any say over future regulations governing the free movement of capital, goods and services. Finally, the ECJ will continue to have jurisdiction over all matters concerning the single market and the customs union, but there will no longer be any British judges on that court. For obvious reasons, such a deal would be a hard sell for the British people.

In the meantime, the political dynamics have changed in the EU. The eurozone seems to be emerging from its seven-year economic and financial malaise. France and the Netherlands have seen off populist challenges, and German Chancellor Angela Merkel eyes a fourth consecutive electoral victory in September. Both French President Emmanuel Macron and Merkel are determined to breathe new life into the process of European integration and want to keep the remaining EU member states united in the face of the Brexit challenge. Whether they will succeed is another question, but the EU chief negotiator, Michel Barnier, also has left no doubt as to what the EU’s red lines are in the negotiations. He fears, however, that those EU red lines have fallen on deaf ears across the English Channel. That means it is not given that a deal can indeed be agreed upon.

This leaves us with two other possibilities. One is the dreaded “cliff edge,” or “no deal” scenario, whereby the U.K. simply falls out of the EU on March 29, 2019. This would have catastrophic consequences for both parties, as all traffic of goods, services, capital and labor will come to a sudden halt. This clearly is in no one’s interest, and one can only hope that cooler heads will prevail at the negotiating table.

The last and most intriguing possibility is that the Brexit process could start going into reverse. The chances of this happening are still relatively low, but it is no longer unthinkable. With the U.K. economy worsening, and the sheer magnitude of the task ahead becoming clearer to the British people every day, pressure to keep prolonging the transition period toward a hard Brexit could become overwhelming. It is impossible to predict at this point, but stranger things have happened in European history.

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