

The Brexit impasse

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The UK government's approach to Brexit has floundered along ever since Theresa May's infamous 'Brexit is Brexit' comment in July 2016, which sought to foreclose Britain's negotiating options even before the talks had started. It excluded the possibility of a Norway-style relationship between the European Union (EU) and the UK, under which the latter would continue to participate fully in the single market. This would have minimised the disruption to both British industry and finance consequent on leaving the EU and would have left the legal status and rights enjoyed by migrants (both EU migrants in the UK and UK migrants in the EU) unaltered. The downsides, of course, would have been: first, that Britain would no longer have any say in decisions by EU members about the future internal and external relations of the organisation; and second, that a contribution to the EU budget would still be required from the UK government. It is hard to believe that a Brexit of this kind would have been very difficult to arrange. It was, however, ruled out from the start by the May administration, largely because two of the most baleful consequences of EU membership for the Brexiteers would be unaffected. They were (1) : freedom of movement (and therefore unrestricted immigration) from EU states into the UK, and (2): subjection to the rulings of the European Court of Justice (ECJ). The May government therefore sought a new relationship with the EU. This has never been set out with clarity but appears to involve 'access to the single market' without any obligations. The government appears to believe that the size of the British market, and the embedded positions within that market of many EU firms, would ensure that economic rationality would prevail in the EU and lead to a bespoke deal for the UK.

It seems very clear that this approach has always been a non-starter. Time and again the European Commission in Brussels and politicians from leading EU members – Germany, France and the Netherlands in particular – have made it clear that no trade talks can start until the UK agrees to a divorce settlement with the EU large enough to compensate for the end of its annual budgetary contribution. They have also stated explicitly and repeatedly that there can be no 'bespoke deal' and that the best UK negotiators can hope for, now that they have ruled out the single market, is an arrangement similar to the recent Comprehensive Economic and Trade Agreement (CETA) with Canada.¹ This does cut tariffs dramatically but leaves trade in food subject to

¹ Daniel Boffey and Jennifer Rankin, 'Leaked EU paper dents May's hopes for bespoke Brexit trade deal', *The Guardian*, 16 November 2017 <<http://tinyurl.com/yc5pq7ws>> or <<https://www.theguardian.com/politics/2017/nov/16/leaked-eu-paper-dents-mays-hopes-for-bespoke-brexit-trade-deal>>.

quotas and controls relating to plant health. There is no access to the single market for financial services. It took seven years to negotiate CETA, notwithstanding that Canada's GDP is not much more than half that of the UK (1.53 trillion US dollars in 2016, compared with the UK's 2.62 trillion US dollars in the same year).² This all led May herself to state that CETA 'would . . . represent such a restriction on our mutual market access that it would benefit neither of our economies'.³

Britain's efforts to establish a post-Brexit relationship with the EU better than the one embodied in CETA have generally led to a dialogue of the deaf. Signs of real progress have only become apparent after London recently indicated that it might be prepared to consider a financial settlement in the region of £50 billion, far more generous than the £20 billion (equivalent to two years' budgetary contributions, in other words the payments expected in 2019 and 2010) envisaged in September 2017.⁴ Yet moves of this kind, in the direction of compromise with Brussels, have been consistently attacked by those wanting a 'hard Brexit'. Influential backbench MPs such as John Redwood and Jacob Rees-Mogg have been vociferous, as have Cabinet Ministers like Liam Fox, Boris Johnson and Michael Gove (the last two quite shamelessly placing their own ambitions ahead of the national welfare). Pressure groups such as Economists for Free Trade (EFT: basically the liberal economic ideologue Patrick Minford), encouraged by unjustifiably generous media treatment given the outfit's actual size and weight in the field of applied economics, have not helped. The combination of their lobbying activities with evident disagreements concerning the EU question in the Tory Party has prevented the government from coming up with an approach to the Brexit bill, the position of EU migrants in the UK and the Irish border question, designed to neutralise these issues and open up the next stage of the talks, dealing with trade. The upshot is that no agreement is in prospect, with (at the time of writing) just 16 months left before the UK is due to leave the EU.

Why has the May administration embarked on this course? The answer lies in the internal dynamics of the Conservative Party. Ever since the eclipse of the Liberal Party by Labour in the 1920s, it became the political home of British capital. Entry into the European Economic Community (EEC) became an objective of large-scale business and finance in the UK during the late 1950s and early 1960s, as profits to be made from trade with the fast-growing European market overtook those being derived from commerce with Britain's Commonwealth and what was left of the Empire. 'Going into Europe', and therefore ensuring that UK firms had tariff-free access to the EEC customs union, became a central feature of Ted Heath's attempt to modernise the

² <<https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?>>

³ 'PM's Florence Speech: a new era of co-operation and partnership between the UK and the EU', <<http://tinyurl.com/yb3tocfh>> or <<https://www.gov.uk/government/speeches/pms-florence-speech-a-new-era-of-cooperation-and-partnership-between-the-uk-and-the-eu>>.

⁴ <<http://uk.businessinsider.com/brexit-theresa-may-to-offer-eu-20bn-divorce-bill-2017-9>>

British economy after 1970, and was backed by all the country's main business organisations.

Yet the Tories have never been comfortable with membership either of the old 'Common Market' or of its later metamorphoses, the European Community (EC) and the EU. Back in the 1960s there were many who opposed 'going into Europe' because they saw the move as a desertion of Britain's closest allies in the Commonwealth, countries which had stood by the UK in two world wars and then became its most important trading and financial partners. These sentiments were frequently expressed by firms with interests in the Commonwealth, and backed by concerns in the City which viewed the EEC as protectionist and likely to restrict the traditionally global reach of British banking capital. But they were outweighed by the power and wealth of domestic corporate capital and unable to divert Heath from his mission. From the 1980s onwards, however, opinions changed under the impact of the neo-liberal revolution driven through by the Thatcher and Reagan administrations. There was what was euphemistically called a 'shake-out' of the economy as many firms either closed or rationalised. The power of organised industrial capital, strong in the 1960s and 1970s, started to wane in the face of a challenge from small business, the self-employed, the service sector and City banks less interested in Europe than the Far East. Here there were abundant opportunities likely to arise from the opening up of China and from cultivation of both the *entrepôt* position and the development potential of former colonies such as Hong Kong, Singapore and Malaya.

During the 1980s there was increasing evidence of a reorientation of capital, much of it commercial and financial, away from Europe. By 1993, 80 per cent of Britain's £1.3 trillion portfolio of overseas assets was held outside the EU, a point made by Margaret Thatcher.⁵ She was no longer Prime Minister when she made the comment, having resigned in November 1990, but Thatcher's prestige in the Tory Party – especially among the grass roots – was immense. Here there was an enthusiastic response to her frequently expressed suspicions of what were seen as the federalist ambitions of the EC and the EU, along with its apparent liking for regulation and intervention. Belonging to Europe implied (so it was argued) not just an end to the free market capitalism espoused by Thatcherism, increasingly connected to a liberal global market, but also to the British nation-state. The health of capitalism in the UK and the future independence of the country itself required a new start, a Brexit.⁶ These views were also articulated by the growing number of Conservative MPs with professional backgrounds in finance and services during the post-1979 era, who outnumbered those from corporate industry.

⁵ See Scott Newton, *The Reinvention of Britain 1960-2016. A Political and Economic History* (London: Routledge, 2017), p. 196.

⁶ These issues are very well covered in Chris Gifford, *The Making of Eurosceptic Britain: Identity and Economy in a Post-Imperial State* (Aldershot: Ashgate, 2008).

The Tories were, however, unable to transform this fusion of ideology, nationalism and economics into a winning political formula. Although the forces driving a European strategy for British capital grew steadily weaker after 1979, they remained potent enough within the Conservative Party establishment to hold back the rising tide of Euroscepticism without being able to reverse it. The resulting stand-off led to tensions within the Party which undermined John Major's premiership, left his two immediate successors unelectable and triggered a right-wing breakaway party established to promote the cause of national departure from the EU. This was UKIP (the UK Independence Party), which, after 2005, began to attract growing popular support, taking more votes from the Conservatives than from Labour. UKIP's rise had a serious impact on the Tory performance at the polls after 2005, especially in local and European elections. By 2015, however, its strength was also growing at the national level. In that year's General Election it secured 3.8 million votes (12.6 per cent of the vote) and replaced the Liberal Democrats as Britain's third party.

Despite the UKIP success, the Tories did win a majority in 2015. The 2017 General Election result, however, suggested that the circumstances which had permitted the 2015 majority – namely the collapse of the Liberal Democrats and the rise of the Scottish National Party (SNP), replacing Labour as the main political party in Scotland – were not necessarily going to last. In 2017 the Conservatives were once again reduced to the status of a minority administration, clinging to power in the face of an unexpected Labour challenge, sustained by the disintegration of UKIP as a political force. That its supporters flooded back to the Tories was largely due to May's determination to promote the idea that she and her colleagues were prepared to back a 'hard Brexit' and departure from the EU at any price.

The lesson is obvious: given the underlying weakness of the Conservative Party, a product of its weak demographic profile and a long-term decline in membership,⁷ the Tories can only guarantee themselves a competitive position in British politics for the foreseeable future if they seal off the Eurosceptic Right of the party to prevent any recrudescence of the UKIP insurgency. This explains the otherwise incomprehensible decision⁸ to rule out membership of the European Economic Area (EEA)⁹ after Brexit. The advantage of having that

⁷ See 'Are the Tories in Terminal Decline?' 11 June 2017, <<http://tinyurl.com/y9nrm27d>> or <<http://averypublicsociologist.blogspot.co.uk/2017/06/are-tories-in-terminal-decline.html>>.

The House of Commons library has produced figures on the membership of political parties. See <<http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN05125>>.

⁸ Adam Becket, 'David Davis rules out EEA or EFTA membership for Britain after Brexit', *Business Insider*, 7 September 2017, <<http://tinyurl.com/y8tpdrxy>> or <<http://uk.businessinsider.com/david-davis-rules-out-eea-efta-brexite-2017-9>>.

⁹ The EEA includes Iceland, Liechtenstein and Norway, and Switzerland. These nations are not part of the EU but, with the addition of Switzerland, do comprise the European Free Trade Area (EFTA), whose members gained access to the single market when the EEA, covering the EU and EFTA, was formed in 1994.

membership would be retaining access to the single market for both goods and financial services, lower payments to Brussels, the right to impose an 'emergency brake' on inward migration, and national control over policy relating to agriculture and fisheries.

The other side of the table

However, all that said, there is another side to the Brexit talks. Take the comments of Manfred Weber MEP, chair of the Centre-Right European People's Party and a key ally of German Chancellor Angela Merkel. Weber explained that May needed to 'offer more clarity' on the divorce bill (basically name a figure large enough to satisfy Brussels without any bargaining process) and agree to the status quo concerning the legal position and rights of EU citizens in the UK. Without this there was no chance of starting talks either about a post-Brexit EU-UK trade relationship or about the transition period to the new era after March 2019. This sounds reasonable enough until it is realised that the EU has still not specified a figure of any kind, though there are reports that it is considering something in the region of £60 billion.¹⁰ The resulting uncertainty has left British negotiators in the position of trying to come up with a figure large enough to satisfy Brussels without knowing how much this is likely to be.¹¹ The implication of Weber's comments seems to be that there are very influential political figures in the EU who do not really want the talks to succeed. Weber's message supported (unwittingly, I am sure) the comments of Yanis Varoufakis in September to the effect that, whatever business organisations in the EU want, the political leadership there, in Berlin, Paris and Brussels in particular, does not want the negotiations with the UK to result in a mutually beneficial agreement.¹² They want them to fail, unless London makes a U-turn and puts membership of the single market back on the table and finally manages to come upon a winning formula concerning the divorce bill.

Failure of the talks will leave the British government facing a choice: go through with a hard Brexit, abandoning the whole enterprise; or make a U-turn on the single market. Taking the first of these two options would be highly disruptive and likely to generate severe economic pressures. It would have very serious results for industries which not only export to other EU members but import many components from suppliers and manufacturers there.¹³ Firms

¹⁰ Institute for Government, 'The European Divorce Bill', 5 September 2017, <<https://www.instituteforgovernment.org.uk/explainers/eu-divorce-bill>>.

¹¹ See <<http://tinyurl.com/yclq95ka>> or <<http://uk.businessinsider.com/manfred-weber-doesnt-look-like-brexit-talks-will-move-on-this-year-2017-11?r=US&IR=T>>.

¹² See <<http://tinyurl.com/y9b3bg9c>> or <<https://www.politicshome.com/news/uk/economy/economic-growth/news/88845/abandon-brexit-negotiations-now-or-face-disaster---yanis>>.

¹³ See Dan Roberts, 'Honda UK warns MPs of consequences of leaving EU customs union', *The Guardian* 14 November 2017, <<http://tinyurl.com/y7m8v2hg>> or <<https://www.theguardian.com/politics/2017/nov/14/honda-uk-warns-mps-of-consequences-of-leaving-eu-customs-union>>.

based here, especially large corporations and multinational banks, may well relocate their factories and offices to other EU members. Businesses continuing to operate in the UK would lose access to the single market and at the same time face higher import costs thanks to a low sterling rate against the euro. (There would be an upside for domestic interests since producers across the EU would face a British market surrounded by tariffs and hardened further by the adverse price effect resulting from the shift in the terms of trade.)

Even these small glimmers of light would be absent outside the field of commerce. There would be an increased prospect of Scottish secession from the UK and therefore of the break-up of the country, a process likely to result in the loss of our seat on the UN Security Council. The UK would be left facing profound economic and diplomatic isolation, depriving it of influence over a whole range of pressing international questions including the environment, climate change, migration, trade, development, global security and co-operation against Islamic fundamentalism. A central pillar of British foreign policy since 1945, namely to seek increasingly close relations with the countries of Western Europe in the quest for international stability and national prosperity,¹⁴ would be destroyed. No replacement would be available bar refuge in the 'special relationship', namely subservience to the economic and strategic interests of Washington. This would leave the UK with not even the pretence of an independent foreign policy; its public services up for sale to US-based multinational firms specialising in the provision of health, insurance and social care; and under pressure to adapt to US norms regarding trading and environmental standards (an obvious example here is the practice of washing chickens in chlorine).

These consequences are serious enough to cause heavy turbulence within the Conservative Party. In any Parliamentary vote, encouraged by large scale capital as represented by the big banks such as HSBC, as well as the CBI and multinational firms such as Honda, Nissan and Ford, the Party's pro-EU fraction would either abstain or support the Opposition. (This prospect has been raised by Lord Heseltine, placing his enthusiasm for British membership of the EU ahead of his dislike for 'socialism').¹⁵

Taking the second option – i.e. abandoning the attempt to leave the EU – would sustain the UK-EU relationship but involve a national diplomatic humiliation unparalleled since the Suez fiasco of 1956. Its impact on the Tory Party would be devastating, likely provoking a UKIP revival and a highly unpleasant turn to xenophobia in our popular politics. Opting to remain in the single market after all is not likely to be so explosive but, given the expectations raised by May's government when they ruled this out last year, it

¹⁴ Scott Newton, 'The Conservatives and Europe: the long view', *History and Policy Opinion Paper*, January 2013, <<http://tinyurl.com/y78fntlx>> or <<http://www.historyandpolicy.org/opinion-articles/articles/the-conservatives-and-europe-the-long-view>>.

¹⁵ Matt Drake, 'BBC Newsnight: Lord Heseltine "in favour" of voting for "horrific" Corbyn to STOP (sic) Brexit', *Daily Express*, 10 November 2017.

still involves a very significant U-turn. It would mean accepting a 'soft Brexit' including a large financial settlement and a Norway-style relationship with the EU, with its apparent implications regarding free movement and a continuing role for the European Court of Justice in British life. This is likely to provoke a Tory revolt and the new lease of life for UKIP which cannot under any circumstances be permitted. Party interest is therefore driving the Tories unerringly towards hard Brexit, its huge risks notwithstanding, since it will guarantee the long-term survival of the Conservative Party. This, in turn, will ensure that British capital, in its post-Thatcherite, neo-liberal form, will continue to have a congenial home and a political organisation designed to promote its national and global interests.

If the May Government favours a hard Brexit (albeit, perhaps, reluctantly) why would the EU want an outcome like this? According to the French philosopher Voltaire (in his 1759 novel *Candide*) the British executed their own Admiral Byng after he lost the battle of Minorca in 1756 '*pour encourager les autres*'. So it would be necessary for the EU to make an example of the UK to warn other members considering departure from the organisation of the likely consequences. Imagine that the British succeeded in negotiating a good free trade arrangement with the EU – one that included access to the single market and the benefits enjoyed today by their citizens in the EU. Why would other nations, impoverished by austerity policies designed to keep German and French bankers happy and prop up the single currency, not wish to follow? What all this means is that the Brexit talks are seen in the EU and above all in Berlin, Paris and Brussels – the three centres which matter in this affair – as an existential issue for the EU. The product of an evolutionary process going back to the late 1940s, the EU is seen as a guarantee against any repeat of the European conflicts which led to the carnage and suffering of 1914-18 and (even more devastating) 1939-45. Its progress from the European Economic Community, established by the Treaty of Rome in 1957, to the European Union, underpinned by the 2007 Lisbon Treaty, is an ongoing journey. It is intended to lead to the establishment of a federal or confederate state (this has yet to be determined) in which the national rivalries and economic conflicts of the past are buried. Given that the tensions between France and Germany were at the core of these, it is logical that the two nations should have been at the heart of the European project from the start and that they should be determined to make it succeed now. All this means that the outcome of the Brexit talks must ensure the EU's survival and long-term protection against any other leavers, even if that involves some loss of income and employment in the immediate future at least. The only terms for a Brexit acceptable to the EU must be Brussels' terms: Britain faces a *diktat* on the leaving bill and conditions of access to the single market, or nothing.

This is why the Brexit talks are going nowhere fast. *There can be no good outcome for the May Government.* May and her Ministers have certainly contributed to what now looks like a slow motion train wreck, thanks to the 'Brexit means Brexit' straitjacket they decided to put on at the start of the

process. But given the attitudes taken by key figures in the EU, they are not the only ones responsible for the ongoing crisis. Hapless, incompetent and self-obsessed as key figures like May, Johnson, Gove and Davies undoubtedly are, even they must understand this. Indeed, David Davis's comments in his Berlin speech on 16 November that the EU was placing 'politics above prosperity' indicates that they do.¹⁶ It seems, then, that barring unexpected climb-downs on both sides, there is only one sure escape from the current *impasse*: this is to abandon any hope of agreement with the EU and walk out of the talks now, accepting that there will be a hard Brexit and that it is time to start preparing for it before the deadline in March 2019. MPs such as Jacob Rees Mogg and John Redwood, along with Tory peers such as Lord Lawson, back this course of action.¹⁷ They favour negotiating a series of free trade agreements between Britain and its leading commercial partners, including the EU, in which goods, services and capital could flow freely between them and the UK. This would involve a gigantic leap into the dark for the UK since there would be a transition period of indeterminate length while these agreements are made, during which time Britain would trade by World Trade Organisation rules. All the same, it seems clear that there is a majority within the Conservative Party for taking that leap into the dark.

However, the hard Brexiteers face a problem. Whatever the strength of their numbers in the Tory Party, they do not comprise a majority in the House of Commons, thanks largely to the unexpected outcome of the June 2017 General Election. Their chances of steering a hard Brexit through Parliament are therefore restricted. This has not been lost on EU members, who are aware that they are negotiating with a weak government constantly under pressure from its own MPs as well as from opposition parties. For this reason many in Berlin, Paris and Brussels regard the hard Brexit option as a bluff. They expect either a total climb-down and no Brexit at all or a very soft one – even if this amounts to accepting a *diktat*. And they may be right. It is always very dangerous for historians to predict the future but there is, in the present configuration of political forces, the embryo of a resolution to the Brexit issue which suits most – but not all – of the players. This is for the May government to be defeated in Parliament on the question of a hard Brexit. It would then either have to backtrack on its hostility to membership of the single market or resign, leaving the Brexit process to be concluded by Labour or some coalition formed for that purpose. The result would be either a Norway-style agreement or (just possibly) the scrapping of the entire project. The Tories (or most of them) would be left shouting from the opposition benches; but this outcome would leave the Party less divided and vulnerable to splitting than it would be after a U-turn. Hard Brexiteers would no doubt cry betrayal, but they would

¹⁶ 'Brexit: David Davis says the EU must compromise too', BBC News 17 November 2017, <<http://www.bbc.co.uk/news/uk-politics-42023765>>.

¹⁷ A Tory radical from the free market right of the Party, Lawson was Margaret Thatcher's Chancellor of the Exchequer from 1983-89.

not need to seek refuge in or establish a political party like UKIP. The Conservative Party would survive to fight and, presumably, win another day and retain its appeal to the new forces in British capital without having plunged the country into a chaotic episode with incalculable consequences. This may not be Mrs May's game plan: but it would not be an improbable *dénouement* of the Brexit drama.

Scott Newton's *The Reinvention of Britain 1960-2016: A Political and Economic History*

has just been published by Routledge.