

WHAT I LEARNED THIS WEEK

Excerpt from July 12, 2018

4 Brexit is dead. Long live the European Union and the euro.

Following the resignations of “Brexit minister” David Davis and Foreign Secretary Boris Johnson this week, Labour leader Jeremy Corbyn cut to the quick: “The Chequers compromise took two years to reach and two days to unravel...**It is clear this government cannot secure a good deal for Britain.**” Since the referendum vote in 2016, Theresa May’s Conservative government has been paralyzed by the irreconcilable downsides of Brexit. May believes a “hard Brexit” would be ruinous for the British economy, breaking corporate supply chains built over decades. Davis and Johnson believe a “soft Brexit”—like the Chequers agreement—would render the UK an EU “colony”, subject to EU law without the power to shape it. **Both sides are right.**

Despite the Conservative consensus unraveling, May will still push the Chequers agreement through the process. The plan’s white paper was slated for release today. May will send it to the EU to begin the negotiation process. **After two years of debate, no alternatives on the table, and the Brexit deadline roughly nine months away, she has no choice.**

However, **the Chequers agreement will inevitably fail.** The EU will push back on the proposal’s “a la carte” approach—Britain cherry-picking benefits from the single market without accepting all its obligations. **The more compromises May is forced to make, the more already-fragile support will erode on the right, leaving her far short of a Parliamentary majority.**

“[May] has no policy to govern or unite the country, and her party and government are imploding,” Labour MP Andrew Adonis wrote in *The Guardian* on Monday. **“Whether it takes days, weeks or months, her government is over—and Brexit too, unless it can be reconstituted under a new prime minister or government.”**

We believe he's right other than the reconstitution potential. **No leadership will be able to reconcile Brexit's downsides and find a consensus path.** Whoever replaces May—and Labour's Jeremy Corbyn seems more and more likely to be that successor—will see **one option for escape: putting Brexit back up for a second referendum vote.** **Given progressively-waning public support for exiting the EU, that will likely prove Brexit's death.**

When Davis announced his resignation on Sunday, bookies Ladbrokes slashed their odds of a snap British general election in 2018 from 11/2 to 5/2. Then, when Johnson announced his resignation on Monday, the odds went to 7/4. *The Financial Times* broke down the potential Parliamentary math that could lead to a snap election:

*Downing Street...assumes that the opportunity to bring down the government means Labour, Liberal Democrat and SNP members will vote against a Brexit deal, whatever it is. That means that it will only take a further 10 or so Conservatives to torpedo a deal, if Mr. Johnson and Mr. Davis vote against it, creating what Jeremy Hunt, the health secretary, called "Brexit paralysis". With parliament unlikely to approve an economically destructive "no deal" outcome either, **Mrs May might be left with no other choice but to apply to extend the Article 50 exit process while she held a general election to try to break the impasse.***

Ten Conservative defectors appear near-guaranteed given the current content of the Chequers agreement. From immigration concessions to a convoluted "facilitated customs partnership" that may not be implemented for years, if ever, many proposals in the agreement fall far short of hard-line Brexit ideals. Yet, **May's proposal for "a common regulatory area" for all goods, including agrifoods, appears the most divisive.** It is a proposal supported by British industry, protecting the cross-border supply chains of companies like Philips, Jaguar Land Rover, BMW, and Airbus, **all of whom have threatened to shutter UK factories in the event of a hard Brexit.** The proposal is also essential to the open-Irish border resolution, one of the most contentious issues in the Brexit debate.

However, **May's proposal would mean UK goods are subject to EU law, yet the UK would have no representatives in the EU Parliament that could**

influence the formation of that law. *Bloomberg's* Leonid Bershidsky articulates why this is antithetical to hard-liners:

The idea of the U.K. as a rule-taker is anathema to Brexiters, not least because it would reduce scope for trade deals with countries outside the EU—at least the ones that already have deals with the EU.

Negotiation will likely only further soften May's "common regulatory area" for goods proposal. Charles Grant, Director of the Centre for European Reform, sums up why:

The EU will reject Theresa May's proposals. It...believes that the four freedoms of the single market are indivisible—movement of goods must go with labour, services and capital. If the UK could "cherry-pick" the single market, others might seek a similar status, thereby undermining the EU's strength and cohesion.

If "Brexit paralysis" results and a snap election is required, it appears less and less likely Conservatives can retain power. In a study last month, Survation—one of the only polling companies to get last year's election right—put Labour up two points at 40%, with the Tories at 38%. **The current and future failure of the Conservative party to deliver a Brexit deal will only further increase Labour's lead.**

If Labour takes power and Corbyn becomes Prime Minister, we believe a second referendum is all but guaranteed. This week, a plethora of Labour MPs—most, if not all, former "remain" supporters—towed the party line: Brexit is "the will of the people" and in turn, must be faithfully executed. It's politically beneficial rhetoric, protecting the votes of their working-class supporters that still believe in Brexit. However, it's also manipulative. Labour's commitment to "the will of people" will mean another referendum if they take power, and they know it. According to Survation, **support for staying in the EU is now at 53%, compared to 47% who still support Brexit.**

Moreover, emerging revelations about Vote Leave campaign violations **will give Labour ammunition to claim Brexit was never the will of the people.** An interim report by the Electoral Commission—leaked last week by Vote Leave

CEO Matthew Elliott in an effort to head off the controversy—found the Vote Leave campaign broke a litany of electoral rules and laws in pursuit of Brexit victory. As Carole Cadwalladr wrote for *The Guardian* on Sunday:

*What Elliott couldn't spin was this: according to his own account of the report, **Vote Leave, the official referendum campaign that was partly funded with taxpayers' money, looks to have committed what may be one of the biggest incidents of electoral fraud in Britain in more than a century.***

Polling last month for ITV's Good Morning Britain found that **48% of Britons want a second referendum on the final Brexit deal**, which compares to just 25% who don't (18% had no opinion). If they seize power, Labour will no doubt obey "the will of the people" and give the British people a second vote.

Theresa May might survive Davis' and Johnson's resignations without a challenge to her position—the votes don't appear to be there for a Conservative MP to unseat her. Yet, **the reality of Brexit—like taking an "egg out of an omelet", as former WTO chief Pascal Lamy has put it—means her government, and Conservative leadership is likely doomed.** Brexit is their ship to sail and it is sinking. If Labour takes power, it won't stay on board. As Adonis, one Labour MP willing to articulate his true intent, writes:

*The only way now to reassert British sovereignty and national interest is to vote to stay in the EU. **We tried a different course. It hasn't worked. It can't be made to work. It is time to end this national farce and humiliation, and stop playing politics with people's jobs and livelihoods.***



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