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If Europe insists on a hard Brexit, so be it



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The whole point of Brexit is to reestablish the supremacy of Parliament, so of course there should be a vote CREDIT: PAUL GROVER

If the central purpose of Brexit is to restore the supremacy of Parliament, we should congratulate Labour for forcing a debate on the proposed terms of withdrawal. Let us demand that MPs should have a vote as well.

Brexit belongs to no faction. The referendum was not an election where the winner takes all. The circumstances are entirely sui generis and extremely delicate.

Both Scotland and Northern Ireland voted to remain, and the constitutional implications of this have yet to be confronted. A great majority of those below the age of thirty opposed Brexit, and many feel betrayed. It amounts to an inter-generational crisis.

The exact contours of Brexit were never defined. There was no Manifesto. The binary ballot presented to us on June 23 - nolens volens - contained not a single word about immigration. Many who voted to leave the EU want a liberal, amicable, open settlement with Europe.

It is the proper role of Parliament to discern the national will, and to impose its verdict on ministers. [Theresa May is well-advised](#) to bow to this imperative [before Article 50 is triggered](#), even if raucous wrangling in the House greatly complicates negotiating tactics with Brussels.

That said, one must guard against certain vested interests in the City that are actively seeking to whip up hysteria in financial markets. There is an attempt underway to create a bad Brexit narrative in the hope of overturning it, or at least to frighten the country into a minimalist outcome that achieves much the same thing.

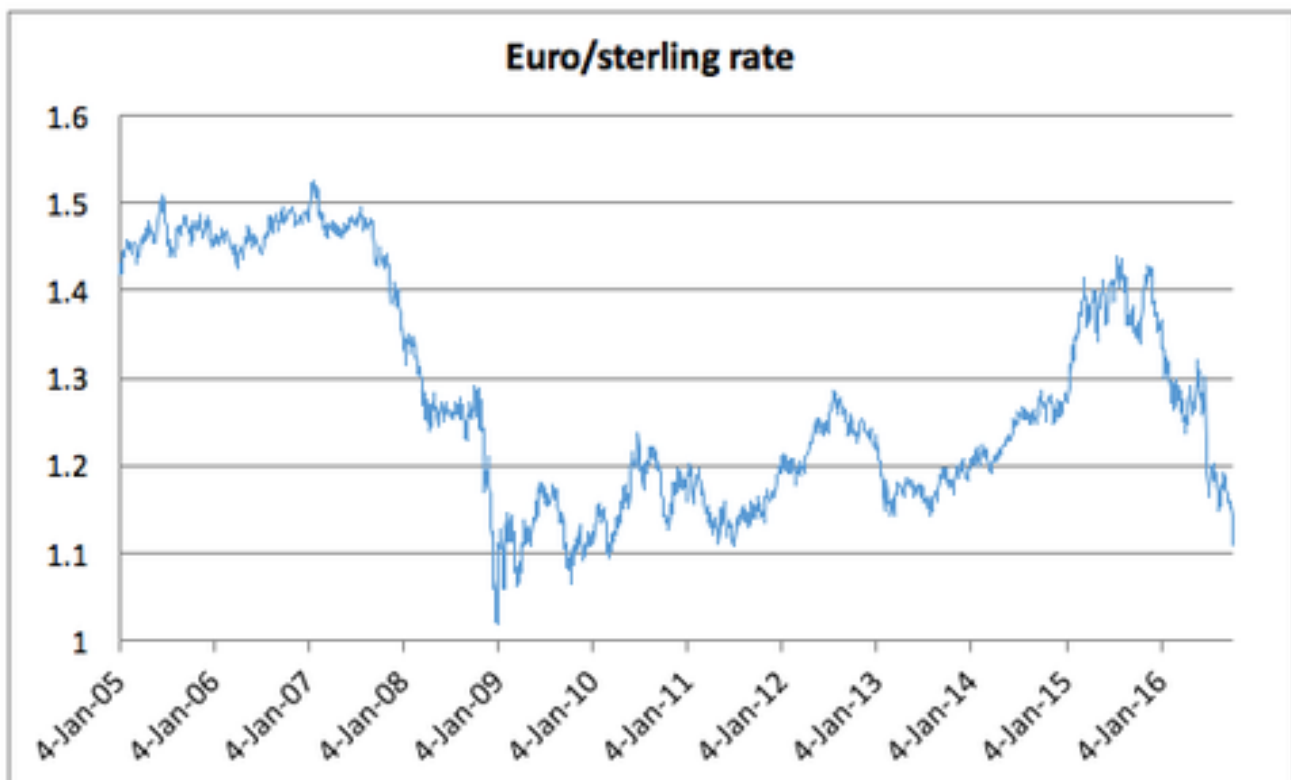
The interests of the financial elites should not be conflated with the national interest. A legitimate case can be made that they are in conflict.

[Paul Krugman, the Nobel trade theorist](#), says the UK has been suffering from a variant of the "Dutch Disease", an over-reliance on finance that drove up pound and hollowed out manufacturing industries. This economic deformation has greatly enriched the London's financial set and those who service its wealth, if non-one else.

There may be serious economic trials ahead as we extract ourselves from the EU after more than forty years, but the slump in sterling is not one of them. The devaluation is necessary and desirable. The pound is now near 'fair value' based on the [real effective exchange rate used by the International Monetary Fund](#).

All that has happened is a correction of the extreme over-valuation of sterling before Brexit, caused by capital inflows. This left the country with the worst current account deficit in peace-time since records began in the 18th Century.

The fall is roughly comparable to the devaluation from 2007 to 2008 - though the same financial elites who talk so much of Armageddon today played it down on that occasion, mindful that their own banking crisis was the trigger.



The latest fall in sterling is comparable to 2008, which proved benign

We can argue over how much the 2008 devaluation helped but it clearly acted as shock absorber at a crucial moment. It was in any case a far less painful way to restore short-term competitiveness than the 'internal devaluations' and mass unemployment suffered by the eurozone's Club Med bloc.

But there is a deeper point today that is often overlooked. Central banks across the developed world are caught in a deflationary trap. The 'Wicksellian' or [natural rate of interest](#) has been falling ever lower with each economic cycle and is now at or below zero in half the global economy, a full seven years into the expansion.

This paralyzes monetary policy and has dark implications for the next downturn. It is why central banks are desperately trying to drive down their currencies to gain a little breathing room, or in the case of the US Federal Reserve to stop the dollar rising.

By the accident of Brexit, Britain has pulled off a Wicksellian adjustment that eludes others. With luck, the economy may even generate a few flickers of inflation, enough to let the Bank of England raise interest rates and start to restore 'intertemporal' equilibrium.

Personally, I have been in favour of a "soft Brexit" that preserves unfettered access to the single market and passporting rights for the City, but not at any political cost - and certainly not if it means submitting to the European Court, which so cynically struck down our treaty opt-out on the Charter in a grab for sweeping jurisdiction.

But what has caused me to harden my view - somewhat - is the open intimidation by a number of EU political leaders. "There must be a threat," said French president Francois [Hollande](#). "There must be a price... otherwise other countries or other parties will want to leave the European Union."



President Hollande of France has openly threatened a fellow democracy and military ally, an astonishing state of affairs CREDIT: FRANCOIS MORI

These are remarkable comments in all kinds of ways, not least in that the leader of a democratic state is threatening a neighbouring democracy and military ally. What he is also

admitting - à son insu - is that the union is held together only by fear. He might as well write its epitaph.

Mr Hollande and German Chancellor Angela Merkel invariably fall back on the four freedoms -movement, goods, services, and capital -enshrined in EU treaty law, as if they were sacrosanct.

These freedoms are nothing but pious shibboleths. They often do not exist, and where they do exist they are routinely honoured in the breach. Services make up 70pc of the EU economy yet account for just 22pc of internal EU trade. All attempts to open services up to cross-border commerce have been defeated, to the detriment of Britain.

The sorry saga of the Services Directive in 2006 tells all you need to know about how the EU works. "The French and Germans gutted it," said Professor Alan Riley from the Institute for Statecraft.

The 'country of origin rule' that would have allowed firms to operate anywhere in the EU under their own domestic law was dropped, casualty of the "Polish plumber" scare. The directive did not cover health care, transport, legal services, professions, tax experts, and the like. Germany protected its guilds.

Online and digital trade across borders remains minimal, riddled with barriers. Britain's All-Party Parliamentary Group for European Reform [concluded](#) that "there is no single market in services in any meaningful sense."

As Brussels correspondent I covered the [parallel fiasco](#) of the takeover directive. This too was sabotaged by France and Germany, after fourteen wasted years. They reinstated poison pills and a host of tricks in an explicit attempt to stop 'Anglo-Saxon predators' taking over their companies, even as their own companies were free to stalk British prey.

"It was disgusting," one Commission official told me at the time. Frits Bolkestein, the quixotic single market chief, was despondent. "It is tragic to see how Europe's broader interests can be frustrated by certain narrow interests," he said.

So much for the freedoms of capital and services. Nor has the free movement of people been strictly upheld. France and Germany - unlike Britain - blocked access to their labour markets and welfare systems for East Europeans for seven years after they joined the EU in 2004. It was political decision.

The four freedoms are really just aspirational guidelines, enforced when expedient, neglected at other times. The rigid exhortations from Paris, Berlin, and Brussels that there can be no free trade with Britain unless there is unrestricted migration - even after leaving the EU - is politics masquerading as principle. If they want to find a compromise solution, they can do so easily.

It is an odd spectacle. On the one hand the EU is so insecure that it talks of punishing Britain to deter other escapees; on the other it exhibits an imperial reflex, demanding submission entirely on its own terms, seemingly unable to accept or even to imagine a reciprocal trading relationship based on sovereign equality.

Mr Hollande wishes to bring about the hardest possible Brexit. If this proves to be the EU position - and it may not be, since it is lunacy and he for one will soon be irrelevant - it does at least clarify the issue.

A hard Brexit was never my preference. While the economic benefits of the EU customs union are greatly overstated, it would be no small matter to unwind the nexus of cross-border supply chains that has evolved over decades.

But if that is the only choice, so be it.

