

The Telegraph

Britain needs fighting 'Plan B' for trade as EU turns screws on Brexit



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The German Finance Ministry - in the old Luftwaffe headquarters - wants tougher Brexit terms to counter the UK's snap election

The European Union is hardening its terms on Brexit. There is a new hint of hostility in the language. The tone is peremptory.

Those of us who hoped that Germany would push quietly for an amicable settlement can no longer be so confident. We now learn from Handelsblatt that the German finance ministry insisted on some of the most unfriendly changes to the EU's latest working documents.

Berlin stipulated that Britain must honour "all obligations" (Verpflichtungen) for divorce payments, a tougher wording than the earlier, gentler talk of legal and budgetary "duties" (Pflichten).

It demanded that Britain desist from tax dumping and financial deregulation that would "jeopardize the stability of the union". This demand is almost insulting. British regulators have led efforts to recapitalize banks. It is the eurozone and Germany that have dragged their feet on tougher capital rules.

There is no longer any attempt at diplomatic tact. The document states that the European Commission will "determine" when the UK has made "sufficient progress" as it jumps through the hoops, the way it handles accession talks for supplicants hoping to join. It reads like an imperial curia discussing a colony.

The French too have stepped up their demands, insisting that financial services be excluded from the trade deal. The City of London must respect the "regulatory and supervisory standards regime" of the EU in any future arrangement, suggesting that Britain will have to accept the sway of the European Court.

Some argue that France will soften its line under a President Emmanuel Macron. His economic strategist is the anglophile Jean Pisani-Ferry, co-author of a [Breugel paper](#) proposing a 'continental partnership' between Britain and the EU that preserves very close ties.

Sadly, Mr Pisani-Ferry has made no headway with this idea. I have met Mr Macron enough times - or have seen him at EU venues behind closed doors - to detect a messianic fervour for the European project. He is a crusader by political religion, the EU's latterday Bernard de Clairvaux.

But it is the hardening mood in Germany that is most ominous. The reason for the sudden change is unquestionably Theresa May's snap election. While we think that the Prime Minister's motive is - in part - to build a buffer against Brexit ultras in her own party, that is not the view in Berlin. Germans see her gambit as anti-EU sabre-rattling and a breach of good faith.



"The EU wants to counter Theresa May's rhetoric and kill the idea that a bigger conservative majority will make any difference to their negotiating position," said John Springfield from the Centre for European Reform.

The [German press](#) has likened Mrs May's demarche to the defiant posturing of Alexis Tsipras in Greece. They almost take it as a given that her Brexit plan will fail and that she too will be forced to capitulate, grovelling for mercy. One wonders where the briefings are coming from in Berlin.

The parallel with Greece is on one level absurd. Syriza caved after the European Central Bank cut off liquidity and shut down the banking system. Britain is not in the euro or vulnerable to such coercion, and the strategic contours are entirely different.

Yet the Greek saga is instructive. The lesson is that you do not bluff with the EU power structure. If Theresa May still thinks that "no deal is better than a bad deal", she had better have a credible Plan B, and she must be willing to activate it.

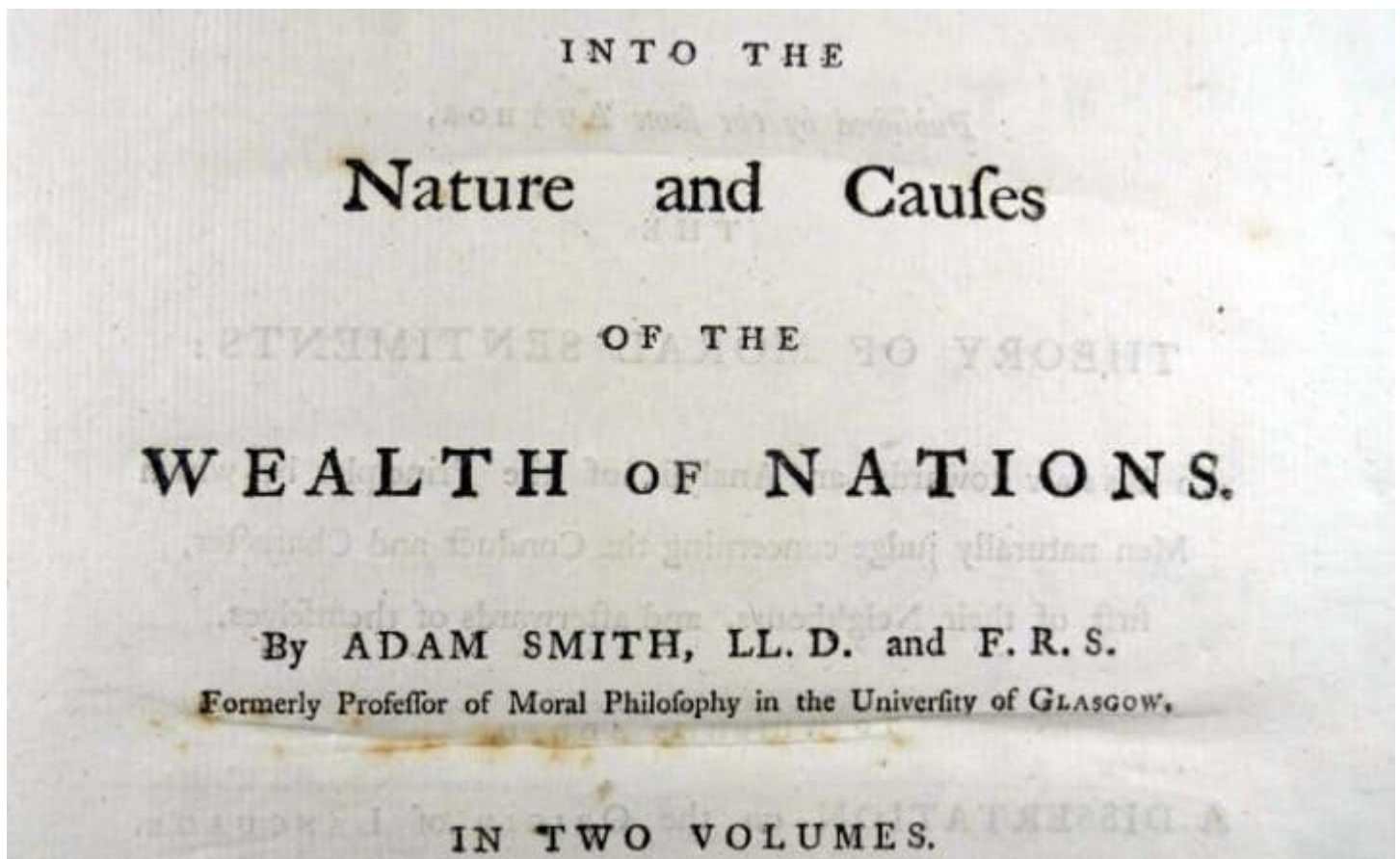
Falling back to the minimalist option of the World Trade Organisation and hoping to craft global trade deals smacks of defeat. It would leave Britain in limbo, pleading with the US, Japan, China, India, and other countries to embark on talks when they have larger matters at hand.

So it is time to think in revolutionary terms. Parliament's Exiting the EU Committee called earlier this month for a detailed study of what it would mean if the UK left the EU without a deal. Downing Street should answer this legitimate request, and the menu should include the nuclear option of unilateral free trade.

This is a heady Cobdenite manifesto, a turbo-charged version of the Repeal of the Corn Laws in 1846. No developed country has ever attempted such a thing, though New Zealand comes closest, leaving aside the special cases of Hong Kong and Singapore.

All tariffs would be cut to zero. There would be no restrictions on imports besides obvious safeguards, such as policing child labour or environmental abuses, or for national security reasons.

It needs no reciprocation, working from the premise of Adam Smith that if any other country wishes to impose or maintain barriers that is their own folly. They suffer the welfare loss. The currency would adjust to the new equilibrium, keeping the current account close to balance over time.



Adam Smith's Wealth of Nations laid out the argument that protectionists hurt themselves most

Adam Posen, head of the Peterson Institute in Washington, said Britain would face a rough time with no EU trade deal but at least such a plan has creative allure. "It is far more credible than other options," he said.

The current dismal narrative on Brexit would be transformed overnight. Britain would suddenly be seen by the rest of the world as pioneering nation at the forefront of globalism, reasserting Thatcherite audacity, rather than a crabby islanders in decline. "People's jaws would drop," says Professor Patrick Minford from Cardiff University.

Pure free trade cuts through the Gordian Knot, eliminating the need for an army of technocrat negotiators and for yet more of those supra-national tribunals that so proliferate, eviscerating democracies and sapping consent for globalism.

Prof Minford says the hide-bound political class has yet to give such clear blue sky proposals a serious airing. "It is so unfamiliar. It takes a mental somersault to break free of mercantilist thinking," he said.

Economists for Brexit - now [Economists for Free Trade](#) - certainly got off on the wrong foot last year by suggesting that the UK would be positively richer under such a model. This invited a blizzard of criticism.

My own view has always been that there will be a negative shock from Brexit and withdrawal from the single market, with effects on GDP at best neutral by 2030 with the right policies.

Professor John Van Reenen, a trade expert at MIT and a vocal critic of the Minford plan, [says retreat](#) to the WTO would cost roughly 2.5pc of GDP compared to remaining in the EU, with losses rising over time to 8.5pc due to productivity effects.



Free trade economist Patrick Minford got into trouble last year quipping that his model might destroy UK manufacturing, but the plan deserves a second look

He agrees that unilateral elimination of barriers is the best WTO variant since it at least mitigates damage to supply-chains entering Britain from the EU. "It offsets some losses but the politics of all this would be very hard," he said.

Clearly there would have to be income support for farmers and the rural way life - as a cultural choice - and temporary measures to shield the car industry and key sectors from sudden trauma.

Prof Van Reenen said that if Britain wishes to take this leap into the dark, it should at least try to use the allure of zero-tariffs to generate goodwill and secure at least some concession on market access for goods and services. Smithians disagree: reciprocity is not strictly necessary, and should not become the obsessive focus of talks.

As for models used by trade economists, these cannot reliably predict what would happen in an overthrow of the existing economic order. The variables are too big. Nobody knows how investors would react, or what other countries would do. We are in the realm of psychology.

Brussels might try to portray the move inaccurately as 'dumping' but the EU would be in the odd position of erecting barriers where none existed before, in effect retreating into unilateral protection vis-a-vis an open Britain.

The claim that the EU had to do this to defend the sacred acquis and the integrity of the Union would in such circumstances be humbug, inviting a good intellectual trashing.

Such a trade plan is certainly a high-risk venture. It might lead to a sterling crisis and a deeper break-down in confidence. But it might equally be a powerful catalyst for renewal. It deserves proper study.

What is clear is that if the final document presented to Britain looks anything like the EU papers circulating this week, no sovereign state can accept it. We will need a Plan B. It should be crystal clear, on the table, fully-loaded, with the trigger cocked.

