

A hard Brexit risks no Brexit at all



[AMBROSE EVANS-PRITCHARD](#)

14 JUNE 2017 • 8:16PM

[326 Comments](#)



Switzerland's Eiger. The Swiss option would work for Brexit. So would the Norwegian option. What matters is to carry the British public.

The surest way to prevent Brexit ever happening is for hardline eurosceptics to overplay a weak hand. Ideological greed will get the better of them.

The vote for British independence can be consummated only if done safely, in manageable steps over many years, and with broad political consent. It cannot be done without securing [a degree of acquiescence from British youth](#) and the devolved nations.

Nor is it necessary to force through Brexit in a militant fashion. What Leavers seek can largely be achieved with statecraft, subtlety, and patience. It certainly cannot be done if the nation is frightened, and frightened it will be if Brexit ultras push through a scorched-earth withdrawal from the EU in an economic downturn.

The Phoney War and the fool's prosperity of the last eleven months have lulled Brexiteers into complacency. From now on they will face a darkening picture.

The global mini-boom stoked by China peaked late last year and has since rolled over. The People's Bank of China (PBOC) is tightening monetary policy and so is [the US Federal Reserve](#), with powerful knock-on effects for a dollarised world system.

Tracking data from UBS shows that the global "credit impulse" has fallen as sharply over the last eight months as it did during the build-up to the Lehman crisis.

The world is eight years into an economic expansion that is long in the tooth, laden with debt, and looking ragged. For a 'high-beta' economy such as Britain, leveraged to the ups and downs of the global economy, this is a treacherous stage of the cycle.

The Bank of England inadvertently stoked a credit bubble by cutting interest rates and relaunching quantitative easing after the referendum. This has masked the damage below the waterline. It has bought time but only by storing up fresh problems. British consumer credit has reached record levels.

We can all agree Project Fear misfired badly before the referendum by claiming that a sterling devaluation would be contractionary. Currency theory told us it was bound to have the opposite effect, and the Treasury knew it.

The weak pound has proved a macro-stimulus and a shot in the arm for exporters just as you would expect. But it has not led to a durable surge in investment. The sugar rush is already fading. What we face now is the sting in the tail.

Inflation reached 2.9pc last month as higher import costs fed through. Yet wages are lagging. Real living standards are being squeezed.

When the pound fell off a cliff from 2007-2008, the poor were protected. Benefits and in-work tax credit rates were indexed to inflation. This time the benefits for 11.5 million households have been frozen until 2020. They will take the brunt as the cost of imported food, clothes, and fuel grind higher.

The Institute for Fiscal Studies [estimates](#) that the poorest 8.3 million families will in the end lose an average of £470 a year or more. This was always going to be a time-bomb. It is detonating before our eyes.

The Government will have to carry out Brexit just as stagflation bites, with ever-louder demands to call off the adventure. Europe's leaders can already sniff this. Germany's Wolfgang Schauble has spoken warmly of "open doors" if the British people change their mind.

French President Emmanuel Macron used identical language, although whether or not Paris really wants Britain to stay is an open question. The French rather like the new chemistry of a post-Brexit Europe, calculating rightly or wrongly that Germany will be forced into a corner by the Latin bloc and will have to accept a fiscal union.

The political dynamics are changing very fast. Yet what we get from Theresa May is a refusal to accept that the election makes any difference to Brexit. She is circling the wagons.

One can understand why Tory strategists think the vote shed little light on the coloration of Brexit, whether hard, soft, or clean. UKIP voters returned to Labour precisely because Jeremy Corbyn matched Mrs May's vows to halt free movement.

His vow breaches Labour's other pledge: to preserve unfettered access to EU markets. Yet Mr Corbyn managed to finesse this and somehow persuade young voters and Remainers that he would deliver a much softer Brexit. This is a remarkable campaign feat.

But let us not be distracted. Tory MPs who lost their seats are convinced that there was a high dosage of protest against a hard Brexit in the Corbyn vote. The emergence of the Ulster Unionists (DUP) and the Scottish Conservatives as king-makers changes the equation in any case. There is no going back to the status quo ante.

Like others, I have floated the Norwegian option as a half-way house for five to ten years. The [European Economic Area](#) allows to Britain to retake farming and fisheries, and to remove itself from the EU's widening competence of foreign, policy, defence, justice, and home affairs.

It would give Britain access to the EU single market without being a member of the customs union, which we should avoid like the plague. Outside the customs union the UK could negotiate trade deals with the US, China, India, Japan and others over time. To remain in the union - the latest media fashion - is completely wrong-headed. It would leave the UK trapped inside the EU trade net.

The elegance of the EEA is that if we wish to withdraw later, we could do so in less traumatic circumstances than withdrawal from the EU today under the cliff-edge clause of Article 50.

It would become progressively easier to break free entirely - if desired - as trade deals stacked up. This would create some implicit leverage. Britain would probably have just as much effective say over EU market legislation as it does now under qualified majority voting, where it has no veto.

Outside the customs union, the UK would have to comply with rules of origin codes to prevent China, the US, or any other third country, using our market a duty-free back-door into the EU market. Companies already do this routinely to comply with NAFTA rules in North America. It amounts to no more than a minor friction for large firms using modern software.

The EEA option greatly reduces the reach of the European Court (ECJ), and certainly stops euro-judges creeping into all areas of law through the Charter of Fundamental Rights. The ECJ would still have sway (through the EFTA court) over market matters but this would be tightly focused.

I do not wish to rehearse the argument over whether you can control free movement in the EEA. Clearly there is a bias towards free flows, but some controls are possible. There is already a precedent for Australian-style quotas. Liechtenstein does exactly that. I have no problem with this.

One can overstate the attraction of the EEA. Lorand Bartels, an international law don at Cambridge and senior counsel at Linklaters, has convinced me that Britain UK would have to join as a new member, subject to veto by others.

It would not inherit the right of membership automatically as it steps out of the EU, as I previously thought. This would make us a supplicant - more vulnerable to horse-trading on other matters - and somewhat reduces the appeal of the EEA.

There are others ways to skin a cat. John Springford from the [Centre for European Reform](#) has written an excellent paper on the possibilities of the EFTA-based 'Swiss' option.

The Helvetophile Tory MEP Dan Hannan - once of this parish - has been a tireless advocate for such an arrangement, deeming it the closest possible relationship with the EU that is also compatible with full sovereignty. Call it medium-soft if you want.

What we hear instead are war cries from Tory ultras telling us that a soft Brexit is code for no Brexit. My fear is that the Government, frightened of such backbenchers, will bluff and bluster its way into the coming Brexit talks, with the wrong priorities, with too little public support, and against the backdrop of a deteriorating economy.

This will lead to a showdown that can end only one way, since Downing Street has no credible back-up plan. Europe would call that bluff. Such a 'Greek' debacle would discredit Brexit beyond repair.

The cardinal objective is to restore the primacy of UK law and to escape the expanding writ of the ECJ. It is to regain self-government under the supremacy of Parliament. How this is achieved is a secondary. How long it takes is immaterial. Ten years is nothing in the life of a nation.

To those readers who balk at any compromise, needed both to smooth this extraction process and to keep the great middle of British society on side, I can only reply: you risk losing the one chance in over forty years to jump off the federal express. The best is the enemy of the good.





