

We're more likely to get a better Brexit if we don't ask



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Migrant fruit pickers on Hayle Farm in Kent

Our access to Europe's markets will come to an end. Our powerful finance industry will lose the passport that enables it to sell its services across the Continent. Immigration will come to a sudden stop, leaving fruit rotting on the trees, and, even more seriously, double mocha lattes unwhipped at Prêt, as companies struggle to find the staff to do the jobs that need doing.

With the Prime Minister, Theresa May, preparing to finally trigger Article 50, and start the process of leaving the European Union, we can expect to hear a lot of warnings about a cliff-edge Brexit, with the looming threat that no deal will lead to a car crash for the British economy.

Understandably, companies are going to feel nervous about that. Sterling is going to wobble on the currency markets – it is already down this week. The FTSE 100 is

going to get hit if a deal seems to be falling apart. At many points over the next two years, the British negotiators are going to threaten to walk away with nothing, and every time, there will be a collapse in confidence.

In fact, however, much of that will be nonsense. Paradoxically, the less we ask for from the EU, and the closer we get to walking away from the table empty-handed, the more we are likely to get a good deal in the end. Why? Because sometimes asking for nothing is the best negotiating position. The markets are going to be jittery, but investors and traders should keep in mind that the final outcome is likely to be a lot better than it looks right now.



Brexit nerves

Don't ask economists for any insights, however. The views of just about anyone (dentists, say, or actuaries, or, come to think of it, children's party entertainers) would be more useful than a group of so-called professionals who disgraced themselves with absurdly over-the-top scaremongering in the run-up to the referendum, and even more hysterical predictions of imminent collapse in its immediate aftermath.

But there is one branch of the dismal science that might actually be quite useful: game theory. The study of how groups of different players co-operate, or more often fail to co-operate, leads to plenty of paradoxical conclusions. The "Prisoner's Dilemma", for example, tells us that two people will easily end up with the worst of all possible outcomes because they cannot share information, while my favourite, "Battle of the Sexes" resolves what happens when a guy wants to watch football, and his wife wants to go the opera (the algebra is complex, but apparently you both

have a 60pc chance of getting what you want). Overall, however, its message is clear. Even behaving perfectly rationally, and following each player's best interests, it is quite easy to end up with an outcome that is bad for everyone.

So, with that in mind, what would be the best strategy for the UK going into these negotiations? Most people in business, and certainly in the City, will be hoping for as soft a Brexit as possible. They would like tariff-free access to the single market, they would like a passport for financial services, and they would like a steady supply of cheap labour, as well as the freedom to place their staff across Europe if they need to. They will be urging our negotiators to cut a deal with the EU, even if it means compromising on freedom of movement, and substantial budget contributions for years to come.

But that is upside down. If we go into the negotiations completely relaxed about a cliff-edge Brexit, and asking for nothing from the remaining 27 members of the EU, we are more likely to get a good deal. Here's why.



The City of London

Imagine our negotiators sit down at the table, and start detailing a whole list of stuff that we want from the EU: tariff-free access to the single market; a financial services passport; mutual recognition of product standards; full employment rights for our citizens; partial membership of the customs union, but the right to cut our own trade deals wherever we want to. They will no doubt listen respectfully, and then start coming up with a list of things they want in return. Such as? A major exit payment of £50bn or more; budget contributions running on for years, and so on.

Then imagine a different scenario. Our negotiators sit down and say, actually there is nothing we want from the EU. We are happy to operate under World Trade Organisation rules, we will make sure our market is completely open to European companies, and we have no plans to impose any tariffs of any sort. And, er, that's it. The Brits then start looking at their watches, and asking if the team on the other side of the table knows anywhere good for lunch.

At that point, the EU side will have to start thinking about all the things they want from Britain.

The importance of these should not be dismissed. The UK makes a total contribution to the EU budget of £13bn. It gets £4.5bn back, so the net contribution is around £8.5bn. The UK, with Germany, is one of only two major net contributors, although countries such as France now also chip in a little as well. The expenditure of the EU is £123bn, so that £13bn is about 10pc of the total, and the net figure is about 7pc of the total. Once we have left, that money will have to come from somewhere. Several countries will have to become net contributors for the first time; plenty more will have to step up from trivial contributions to major ones. That will be neither easy, nor popular.

We also have a massive trade deficit with the EU. Britain is the largest market for German cars, which also happens to be that country's largest industry. It is a huge export market for the Netherlands, Belgium, and most of all Ireland (36pc of Irish exports by volume go the UK). Tariffs hurt everyone. But they hurt the surplus country more than the deficit country. The EU is going to want access to our market. If it loses that, or if we impose tariffs, then it will hit jobs and investment across the Continent.

In truth, if we offer a modest contribution to the Budget, and tariff-free access to our market, while arguing there is nothing we want in return from Europe, then a compromise should be possible. The less we ask for, the more we are likely to get. That may well be a white-knuckle ride for companies and for investors, but in the medium term it is likely to be worth it. Who knows, it might even end up as a new sub-set of game theory.

