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Keeping Track of Brexit

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Many years ago, C Northcote Parkinson examined company decision making in his still delightfully relevant book "Parkinson's Law." In the book he described how a company board could spend hours debating the merits of a proposal to give the employees a new coffee machine but could sign off on a new nuclear power plant in half an hour. As he noted, "everyone understands coffee; no-one understands nuclear physics and nobody wants to display their ignorance."

It is quite possible that we have reached the point in Brexit where no-one understands it anymore, if anybody ever really did. Even now, who can say they are fully familiar with "cabotage rights" as they pertain throughout the European Union.

Nonetheless, we are now at the point of no-return. Very shortly, airy claims of "oven-ready" deals and "the easiest negotiation" in history are to be put to the test in the real world of hard-edged commerce and industry.

On January 1st 2021 Brexit is realised and European law ceases to apply in Great Britain. Thus, with no agreement in place, there is no time left other than to negotiate a minimal deal with the EU. The question is, what will such a deal look like and how should one plan for this imminent post-Brexit future.

The problem is, as the Permanent Secretary to the Cabinet Office put it to the Public Accounts Committee only this week, "Departments are constrained in the amount of post-Brexit contingency planning they can do, by the fact that they don't know *what kind of deal* or *even whether a deal will be struck.*" *(our italics)*.

How can businesses be expected to be any the wiser?

Although Brexit is not nuclear physics it is more complicated than deciding between ground or filtered coffee. Just how complicated can be seen by a quick review of the Government's own website, "Check, Change, Go", designed to help people and businesses through the end of the Brexit transition period and into the new world. If you are planning on travelling to Europe or conducting business there next year, you should take a look as soon as you can.

The current, end-game, negotiations seem to be focussing on establishing "free-trade" in goods between the UK and Europe. It is important to understand that such an agreement only relates to tariffs and quotas and does not affect "non-tariff" issues such as "rules of origin" regulations. Moreover, Services do not form part of a trade in goods agreement.

The UK is leaving the Single-Market and Customs Union to secure independence from EU regulation. However, the fact remains that gaining access to EU markets depends on meeting EU standards and regulations. It is a catch 22 worthy of Joseph Heller himself.

In the words of the Institute for Government, "If the UK wants maximum control, and to be no longer constrained by EU regulations, it will face significant barriers to trade with the 27 member states."

It seems likely that the UK will secure a basic free-trade agreement with the EU nullifying tariffs and quotas at the 11

th hour. However, this will be secured at the cost of a significant escalation in bureaucracy and officialdom surrounding customs checks, constraints on the sale of cross-border services, free movement, work, leisure and health. Both UK import costs from the EU and export costs to the EU will rise leading to a reduction in the UK terms of trade with Europe.

To compensate businesses and investors for higher frictional trading costs, UK costs of production will have to fall relative to Europe to attract inward investment. UK wages will tend to fall relative to European wages and UK inflation will tend to rise. As a key input into relative prices, the pound will also tend to fall relative to the Euro making exports cheaper (more competitive) at the cost of more expensive travel and imported goods; the fabled BMWs and prosecco.

But, at the same time, the regulatory burden on Britain's global businesses is likely to fall. Part of the Brexit DNA is the idea of a "light-touch" regulatory regime that may still provide the multi-nationals listed in the UK with an improved degree of competitive regulatory advantage on the global stage.

The study of economics is, at bottom, the study of "trade-offs." Britain is trading increased friction with Europe for less trade friction globally. Whether that is a profitable trade for Britain, only time will tell. What would C Northcote Parkinson make of it all? Having found an inverse relationship between the amount of administration to do and the number of administrators required to do it, he would be unsurprised to find that as Britain left the EU, the number of Civil Servants required to manage the European Union ballooned, at the last count, from nearly zero to some 22,000 (Source: National Audit Office).

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