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Of Prosperity and Pachyderms

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May we talk about the elephant in the room?

In the course of British history, we have been invaded by the Romans, pillaged by the Vikings, and conquered by the French. Indeed, Norman French is still used during a Bill's passage through Parliament and the Royal Assent, at least in part, is given in French.

Equally, Britain, under her Angevin monarchs, ruled Aquitaine, Normandy, and Anjou. Henry V was victorious at the battle of Agincourt in 1415 whilst the last of British territory in France was lost at Castillon in 1453.

In the 18th century we managed to lose an empire in America but accidentally gained one in India as the antics of the East India Company drifted beyond the Pale. In the 20th century we entered one world war with an empire and exited from another having lost an empire. As Churchill, the great imperialist reflected, "I have done so much to achieve so little."

In fact, Churchill as Chancellor very nearly bankrupted the economy through his ruinous decision to put Britain back on the gold standard at the pre-war (1st) rate, and the US "Lend-lease" policy was designed, in part, to bankrupt Britain and put an end to the Empire as Churchill ruefully later admitted to himself.

The point being, of course, that borders are not, as we tend to think, fixed in stone, they are deeply fluid. They change all the time; often and regrettably by force as Mr Putin is demonstrating once again barely 3 ½ hours flight time from London Gatwick.

There is however, a very strong historical correlation between rising prosperity and the dissolution of borders. The British historian, Ian Morris, in his books, "Why the West Rules for Now" and "War, What is it Good For?" has shown that larger polities tend to be more peaceful and productive than smaller geographical units.

The League of Nations, United Nations and indeed, the EU, were, and are attempts to replace the violence of empire building with norms that govern international relations for the greater common good.

Clearly in this regard they have had limited success, but from an economic perspective, free and unmolested trade allows Ricardian comparative advantage to work its magic. Both require rules but then "civil" societies are those bound by mutually beneficial rules. Your right to do as you like is constrained by my right to suffer no harm.

Like her successors Mrs Thatcher was subject to a Westphalian obsession with borders and national self-determination but she was not blinded to the commercial importance of the single-market and customs union for the UK and indeed she was famously instrumental in designing its architecture.

Which brings us to the elephant in the room which is, of course, the border, newly (re)erected, between the English and the French at Dover.

To every neutral observer the recent breakdown in cross-channel traffic is indicative of the failure of, at least, this aspect of Brexit. That the issue is not, indeed cannot, be discussed by two putative Prime Ministers is testament to the total victory of dogmatism over the pragmatism for which the English heretofore, were rightly and justly famous.

It is a matter of public record that Dominic Raab, then Brexit secretary, was surprised to discover that the Dover port was important to British trade. Since those comments were made, the Office for Budgetary Responsibility (OBR) has recorded that British goods and services trade is down between 9% and 18% on 2019 levels.

Moreover, since the end of the Covid pandemic total advanced economy trade was 3% above 2019 levels in the fourth quarter 2021, whilst UK exports remained 12% below 2019 levels. Furthermore, trade as a share of UK GDP has fallen by 12% since 2019. Remember Britain is supposed to be an open, trading economy.

The OBR goes on to say, “Brexit-related effects are likely to include the fact that the UK is a relatively small market for individual EU exporters, so it may not be worth the cost of additional paperwork to export to the UK.”

In a nutshell you have a precis of the additional supply shock to impact the UK over and above the pandemic, further driving up prices as UK liquidity chases scarcer goods. Add to this the inevitable slowing in demand as household budgets are squeezed and the UK looks increasingly vulnerable. That is a key reason why we look to other economic regions as an antidote to the constraints on the UK.

To say that the current formulation of Brexit is damaging the British economy should not be controversial. Indeed, it should invite discussion about the nature of what a successful Brexit might look like.

Herbert Stein, the eminent economist, is famous for his eponymous law which states that, “If something cannot go on forever, it will stop.” Undoubtedly, our relationship with Europe will change over time but that time has a very significant cost in lost output, trade, tax, and prosperity.

For the moment, Roger McGough, the Mersey poet, puts it rather better, “It’s like banging my head against a brick wall said the teacher, banging my head against a brick wall.”

It’s time to give that poor pachyderm in the room a break!

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