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‘Nothing Has Changed!’ another crunch week in Brexit

Our consultant academic, Dr Stephen Barber, adds some personal observations on his take on last week’s Brexit debate.

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Last week was an extraordinary week even by recent experience. But with the series of Parliamentary votes on Brexit and the Chancellor’s Spring statement, it is difficult to argue that business has any more certainty today than it had this time last week.

Prime Minister Theresa May concluded Tuesday's Cabinet meeting with the prophetic 'today's the day'. Only, perhaps it wasn't. May's confidence that her last minute concessions extracted in Strasbourg would convince wavering MPs was short lived. The next morning her Attorney General gave the unwelcome opinion that legally little had changed.

Parliament again rejected the Prime Minister's deal meaning uncertainty continues.

It was a whirlwind week which might prove to be historically pivotal. While uncertainty reigns, the series of votes taken by MPs during the week could end up as crucial in the red lines set down by Parliament itself. So while in some sense 'nothing has changed', we could look back on this as the week when everything changed.

Parliament, for instance has emphatically rejected the idea of Britain leaving without a deal. Not just now, but into the future. Few believed this would ever be the genuine policy of the government but last week gave some clarity over what Parliament wants (albeit what it will not accept rather than what it will).

Brexit is a political problem. It is a problem for Britain's political parties, its constitution and its voters. But the consequences of Brexit are economic. It has the potential to disrupt supply chains, hit markets, change tariffs and regulations and contribute to the conditions that will mean economic downturn. Leaving without agreement would likely fuel inflation and lead to shortages in some foods and medicines. The disruption could be costly to business in extra time, costs and resources needed to carry on as normal. This is why it is not only what might happen that is potentially harmful but the uncertainty itself is so damaging.

Spring Statement

In normal times. Last week would have been dominated by Chancellor Phillip Hammond's Spring Statement. This set piece sets the tone between Budgets and allows the Chancellor to adjust spending plans and priorities. But these are not normal times. The Brexit uncertainty means that the Treasury is unable to plan effectively and so Hammond was left to tread water. And what would usually dominate the headlines was an under-reported story.

The centrepiece was a £27bn 'deal dividend' intended to boost the economy but only available should MPs approve the deal ... or a deal. That was political kite flying. More concerning though is the OBR's downgrade in growth expectations, cut from 1.6% to 1.2% over 2019. That would be the slowest expansion in the decade since the financial crisis.

The sunnier news is that public finances are at last looking in better shape with borrowing £3bn lower than OCB expectations. That has given the Chancellor some room for manoeuvre but Brexit and what it might hold makes all that uncertain. With a realistic prospect of economic downturn on the horizon, healthier public finances could be short lived. The problem is that the Chancellor simply does not know the nature of Britain's relationship with the EU and what it will all mean.

Uncertainty Continues

It is a sensation which is familiar to business. MPs rejection of May's exit agreement (for a second time) was greeted with hostility by business leaders who felt they were left knowing nothing about what is likely to happen and with fewer than 400 hours before the 29 March legislated exit date.

It is little wonder that Sterling has been volatile, reacting to optimism and pessimism with every development. Meanwhile the Royal Institution of Chartered Surveyors unveiled survey data showing that Brexit has had a direct and negative impact on house sales, not just now but over the past six months. Consumer confidence, robust after the referendum result, has fallen to a five year low and Treasury data has shown Britons not only reducing spending but also focussing it on essentials such as food – maybe even stockpiling.

That Parliament followed up its rejection of May's deal with demands for an extension only served to focus what is a political conundrum. Seemingly unconcerned that she has commanded two of the biggest parliamentary defeats in history, the Prime Minister is determined to put her deal to the vote for a third time. And it might just work since Brexiteers who see the deal as Brexit-lite might now see it as the only chance of getting Brexit at all. Any extension beyond June hits the EU's own activities – European Elections, the appointment of a new Commission – and means it is unlikely Brussels could resume talks before December.

A delayed Brexit looks like no Brexit. But is that enough of a case to overturn the 149 majority against? It is a tall order. And the governing party in particular is fundamentally split on the issue to the extent that there is open division in the Cabinet itself. With such a collapse in discipline, it is difficult to see how May's administration can hope to command the authority to lead the next stage of negotiations or indeed how much longer it can realistically stagger on. And therein lies more political uncertainty.

Nevertheless, European Council President Donald Tusk tweeted that he would appeal to the EU27 to be open to agreeing a long extension so that Britain can 'rethink' its Brexit strategy. Many UK policy makers would agree with this approach but there are plenty of others across the spectrum who are reluctant to be seen to agree anything which might be construed as being against the will of the people.

So uncertainty continues. The state of Britain's future relationship remains unclear and Business still cannot plan. However, perhaps these votes have at least brought a degree of stability. Short or long, the extension in Article 50 brings some breathing space. If it is long, nothing will change for maybe two years. If short, the transition arrangements will mean something very similar.

Nothing has changed then in terms of confirming the UK relationship with the EU? MPs vote again on the Prime Minister's unchanged deal on Wednesday. Perhaps the week ahead will bring more clarity.

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