

QUESTIONS AND ANSWERS ON

LABOUR AND BREXIT

1. **What is the latest state of play?**

We now have a government which is evidently still determined to take us out of the EU at the end of October 2019 with or without a deal, if it can possibly do so. Its strategy is clearly to risk No Deal as the way to push the EU into making sufficient changes to the agreements negotiated so far - centring largely but not exclusively round the Irish border backstop - to enable the outcome to pass through Parliament. Brexit may go ahead on 31st October 2019 even if Parliament has not specifically agreed to it, and even though there might well still be a No Deal majority among MPs. The government's strategy is only credible if a No Deal outcome is one which they are prepared to accept – and this certainly appears to be the case. Whether this strategy turns out to be successful remains to be seen but it might work despite the understandable rumpus caused by the government's decision to prorogue Parliament until the middle of October this year. Judging by the polls, the government appears to have substantial although far from universal backing in the country, despite the risks that No Deal inevitably entails.

2. **How big are the No Deal risks?**

It is clearly very difficult to gauge with any degree of accuracy how problematic - if it eventually materialises - an eventual No Deal exit would be. Obviously, it would be in the UK's interest to make it as painless as possible, which strongly suggests that it will not be the UK which causes hold-ups at the ports, and if this does not happen it is hard to see the shortages which have been threatened turning out to

materialise. There will inevitably be disruption in other areas but, on balance, perhaps not for very long and with limited impact. There will clearly be some difficulties with agriculture, which could be dealt with by special compensatory measures. Will the economy turn down as a result of Brexit? Probably not. It is very likely to be the government's strategy to reflate the economy with a combination of increased expenditure and tax cuts to offset any overall reductions in demand from Brexit. In these circumstances, even if No Deal results in the UK trading with the EU on WTO terms at least for a while, the overall impact on the economy may be relatively small and may not on balance be negative. The position would be more difficult if the EU were to put up more barriers than might be expected to UK exports of goods and services, but it is not in the EU's interest for this to happen, and it probably will not occur, therefore, to any very substantial extent.

3. **What is likely to happen after Brexit?**

Even if, with or without a deal, the UK leaves the EU at the end of October 2019, there will still be many detailed issues to resolve to do with our future relationship with the EU. In this context, the UK has two strong cards to play. One is that the EU badly needs a substantial budgetary contribution from the UK to fill the gap in the EU's finances triggered by our departure. The other is that we have a huge balance of payments deficit with the EU – running recently at close to £100bn a year. This means that if we trade with the EU on WTO terms, in total the EU has much more to lose than the UK does while the tariffs payable to the UK on EU exports to us - will be much higher than the other way round. If trade stays at about the same level as at present, after moving onto WTO terms, the import duties payable on continental exports to the UK would be about £13bn per year whereas the tariffs paid on UK exports to the EU would be no more than about £5bn. While no doubt still protecting what it sees as its vital interests, the EU therefore still has a strong interest in reaching a deal with the UK..

4. **What will Parliament do?**

While there is a large majority in the country for the UK leaving the EU with a deal if one on reasonable terms can be negotiated, there is also a wide recognition that it is very difficult to negotiate a good deal if in no circumstances are you prepared to walk away from proposals which you do not regard as satisfactory and acceptable. While most people understand why Parliament would therefore much prefer not to have a No Deal outcome, this is a different matter from them opposing No Deal in

all circumstances. In particular, if the current government strategy of threatening No Deal to produce a better outcome for the UK looks like being successful, the current Parliamentary root and branch opposition to No Deal seems likely to look misplaced. In these circumstances it is far from certain that there would be a majority in the country, if there is a general election in the near future, for derailing the government's current approach.

5. **What seems likely to happen over the next few weeks?**

While the Conservative government, under the current Prime Minister, is moving decisively towards trying to implement the 2016 EU Referendum result, the Parliamentary Labour Party is moving in the opposite direction. The Party is still campaigning for Remain, to be engineered by holding another referendum to endorse the change of policy required for the UK to stay in the EU, though this strategy may be abandoned in favour of straight reversal of the 2016 referendum result. In the meantime, the Party's tactics for the near future are to do all it can to ensure that a No Deal UK exit from the EU does not take place by forming alliances across the political spectrum to take charge of parliamentary business to frustrate the government's approach of using No Deal as a lever to obtain something better. Parliament is not now going to be in session until the middle of October, after the party conferences. The likelihood then is that Parliament will then be faced - with only a couple of weeks to go before the end of October 2019 – with a choice between accepting whatever deal the government has been able to achieve by then, rejecting this deal and applying for a further extension of the Article 50 deadline if the EU27 agree to this course of action and the Prime Minister's opposition to it can be overridden, or drifting into a No Deal outcome by default.

6 **Where do these developments leave the Labour Party?**

The Labour Party continues to be in a very difficult position. While no doubt a large majority of the Party's current members would happily see the Brexit referendum result reversed, this is not the case with a very substantial number of Labour's traditional voters. In 2016, 37% of those who had voted Labour in the 2016 general election voted Leave, reproducing a Leave majority in nearly two thirds of the parliamentary seats held by Labour, many of them marginals in Wales, the Midlands and the North of England. It now seems likely, whatever the Brexit outcome, that there will be a general election either later this year or early in 2020, during which all the contention round Brexit will dominate the agenda. The current government clearly hopes that it will be successful in negotiating a better deal with the EU,

getting this through Parliament and then going to the country on the back of a successful departure from the EU. This scenario would leave the Brexit Party without a cause to fight and with the Remain camp having to campaign to get the UK to re-join the EU rather than not to come out of it. This is not likely to be easy territory for Labour on which to fight a general election. There are, however, other scenarios which may well materialise before the general election takes place. Parliament may block No Deal, precipitating a further extension of Article 50, although this would postpone all the difficulties over Brexit rather than providing a solution to them. We may leave with No Deal, potentially causing economic turmoil which may undermine the government's position, if those who are reasonably optimistic about the impact of a No Deal exit are proved wrong by the way it turns out. There is still an outside chance that we will finish up with a second referendum.

7. **What should Labour's tactics now be?**

Labour needs to play a long game. Its crucial aim must be to hold together the alliance upon it has always depended, between its middle-class supporters, most of whom are Remainers, and its traditional working-class voters, large numbers of whom are for Leave. If the current government succeeds in negotiating a deal with the EU which resolves the Irish backstop issue and perhaps some other outstanding contentious elements of the Withdrawal Agreement, it may be a high-risk strategy for Labour to be seen to be responsible for voting down this outcome, especially if some Labour votes are needed to get it through. If the government's strategy unravels, which may well happen, Labour may be in with a better chance, although even this is far from certain. There is a high possibility then that the country will become even more polarised, with electoral support swinging either to hard-line Remainers, including the Lib Dems and the SNP, or to equally hard-line Leavers centred round the right of the Conservative Party, probably with some sort of arrangement in place with the Brexit Party. The danger for Labour then is that it gets squeezed in the middle. What Labour needs to do, therefore, is to hold as much ground as it can over the coming months until Brexit gets resolved one way or another, leaving politics to revert back to much safer territory for Labour on the NHS, social care and public services. We very badly need this to happen.