Chequers is deeply flawed: a no deal Brexit is far preferable

The Chequers deal is deeply flawed on both economic as well as political grounds – a "no deal" Brexit would be a far preferable solution, argues ***Ruth Lea****. In her opinion, a Chequers-style deal would be economically sub-optimal, tying the UK to the EU's rulebook, but without any influence. On the contrary, in the event of a "no deal" Brexit, trading under the WTO rules could give a major competitiveness boost to the British economy, providing liberalising, outward-looking policies were to be pursued. It is the forward-looking, global option, whereas Chequers would de facto keep us tied to the EU's relatively slow-growing and saturated markets, she concludes.*

The current state of the UK-EU negotiations on the Withdrawal Agreement and the framework for the future UK-EU relationship (including trade and security) seems to be shrouded in mystery. One day we are informed that a bespoke "deal" is highly probable, the next day we are informed that some of the Chequers proposals are totally unacceptable to the EU – thus seemingly undermining the possibility of a deal. But, I suspect, this is all carefully choreographed verbal "chaff" designed to confuse and intended to persuade us that the negotiations are (will be) tough and hard fought. And, lo and behold, at the eleventh hour there will be an agreement of sorts, with both sides claiming victory. Such is the nature of these negotiations.

Yes, I do believe that there is a high probability that will be some UK-EU agreement, some negotiated "deal". Moreover, it will be loosely based on the Prime Minister's Chequers proposals and the subsequent Government White Paper (see also here). (Incidentally, I now take the view that switching negotiations to a Canada-style outcome is now politically too late, though it cannot be ruled out entirely.) But, to put it kindly, such a Chequers-style deal would be economically sub-optimal, tying us to the EU's rulebook, but without any influence. The scope for regulatory reform would be severely curtailed and the scope for negotiating free trade agreements with third countries would be significantly restricted. On economic as well as political grounds, I believe it is a poor outcome.

Would, however, this "deal" survive the Commons' "meaningful vote", the next step in the proceedings? At this point, it could be dealt a final, fatal blow. If the Labour party vote against it, as reported recently, then, combined with anti-Chequers Conservatives, the deal could indeed fail. At this point, the Government would, presumably, fall back on their Plan B, in other words leaving the EU without a trade deal ("no deal") and trading under WTO rules. This backstop does not, apparently, require a vote in the Commons. Moreover, the Government has been preparing us for such an eventuality with a selection of "no deal" preparation papers, even though they continue to insist a "deal" is the most likely outcome.

By way of a slight digression, the problems with the Irish border issue seem to be perfectly solvable, even under a "no deal" scenario. In evidence to a Select Committee, Jon Thompson, Chief Executive of HMRC, stated "…we do not believe we require any infrastructure at the border between Northern Ireland and Ireland under any circumstances." The border issue would be perfectly manageable, give current technology and cross-border cooperation.


Image credit: **public domain**.

What would the economic consequences of a "no deal" Brexit? For a start, I simply do not buy Whitehall's recent projections, as outlined in the Chancellor's letter of 23 August 2018 to Treasury Select Committee chairman Nicky Morgan, suggesting that GDP growth would be severely impaired. This is a prime example of "Project Fear Mark 2" and is likely to be as fundamentally flawed as the Treasury's "Project Fear Mark 1" prior to the 2016 referendum. It is worth remembering that the Treasury told us back in May 2016 that a Brexit vote would send the economy into recession and increase unemployment by 500,000. Suffice to say, it did not happen.

On the contrary, trading under the WTO's rules-based trading regime, which is comprehensive, tried and tested, and respected by the world's trading nations, could give a major competitiveness boost to the economy, providing liberalising, outward-looking policies were to be pursued. It is not some dreadful "leap into the dark" and would clearly be preferable to a shackling Chequers-style agreement. This "no deal" WTO option would provide complete freedom for regulatory reform and trade negotiations with the fast-growing and favourably-inclined countries across the globe. It is the forward-looking, global option, whereas Chequers would *de facto* keep us tied to the EU's relatively slow-growing and saturated markets. Note, moreover, the UK already conducts over 55% of its exports trade with non-EU members, primarily under WTO rules. Moreover, this non-EU trade is growing far quicker than trade with the EU.

This article gives the views of the author, and not the position of LSE Brexit, nor of the London School of Economics.

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