



After the meaningful vote: What are Theresa May's options?

by Sam Lowe and John Springford

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Theresa May can only win a parliamentary majority for her withdrawal agreement by agreeing to negotiate a softer relationship with the EU.

As expected, the British parliament voted to reject the Brexit withdrawal agreement negotiated by Theresa May and the EU. She lost by 230 votes, the largest defeat of a British government on record. Britain's commercial, diplomatic and security interests are now seriously endangered by politicians who refuse to face up to the acute dilemmas of Brexit. Both the European Research Group, an influential group of hard-line eurosceptic Conservatives, and the Labour party pretend that they could negotiate a better deal than May's. But they refuse to admit that the EU would insist on £40 billion and an insurance policy for Northern Ireland in any withdrawal agreement, irrespective of the future relationship that Britain signals that it would like to have. Given these contradictions, the political theatre is far from over, and will become increasingly dramatic in the run up to the scheduled date of exit, March 29th.

Despite the furore, the fundamental options remain the same. Westminster has found it difficult to accept the sequencing agreed by the EU and UK for the negotiations, with the withdrawal negotiated first, and the future relationship decided upon only after the UK has left. The 600-page withdrawal agreement covers the divorce issues, and is legally binding, while the short non-binding political declaration gestures towards an exit from the single market, but offers no concrete detail beyond that. Softer forms of Brexit than May prefers, such as a permanent customs union or continued participation in the single market, also require a withdrawal agreement to be passed. The British government and parliament must choose one of the following options: revoke Article 50 and remain in the EU; ratify a withdrawal agreement and leave the EU in an orderly manner; or exit the EU without a deal. Only once the UK has left will the EU begin negotiating the terms of the future relationship in earnest.

Withdrawal Agreement

The Withdrawal Agreement draws a line under the wishful thinking that has dominated British politics for the best part of two years, and trades in cold, often unpalatable, compromises. Labour has voted

against it while offering no alternative plan that is negotiable with the EU, and Tories who voted against the agreement either prefer the complete rupture of no deal, or believe they would have been able to negotiate something better. In truth, May has achieved perhaps the most she ever could have, given the red lines she set (in part to appease the hardliners who now denounce her). And any alternative withdrawal agreement will be substantially similar to the one just voted down by members of parliament.

This is not to say that change is impossible, just that any changes will be minor. The political declaration on the future relationship, the non-binding document that sits alongside the withdrawal agreement, could probably be amended to more clearly spell out an intended landing zone for that relationship. But the EU will only do this if they believe it will succeed in helping May sell her deal domestically. That might require indicative votes in parliament to try to find a majority for a free trade agreement with the Northern Ireland backstop, a permanent customs union or participation in the single market. But if those options are put to parliament in a way that ignores the EU's red lines, they would be of little value. The EU might be willing to amend the Irish backstop in order to remove the all-UK customs union and revert to a protocol that is specific to Northern Ireland, but that would hurt May rather than helping her: she has no majority without the Democratic Unionist Party, and such a protocol would imply more trade frictions between Northern Ireland and Great Britain.

In practice, the political declaration already leaves most options for the future on the table by virtue of having no legal force. The caveat would be that a Canada-style free trade agreement could only apply to Great Britain; Northern Ireland would remain in a closer relationship with the EU as underwritten by the backstop. But the declaration has political value as a signal of intent. It is here that May has a decision to make – whether to tack hard or soft.

The pro-Brexit extremists in her party have already decided that any compromise is a compromise too far. And the EU will not budge on the Irish backstop, meaning that the DUP are unlikely to fall in line. This leaves her with one option: to re-write the political declaration to signal a softer Brexit – either a permanent customs union, or a Norway-style solution – in the hope that enough Labour MPs will hold their noses and vote for it. Such a move would eliminate most of the economic costs of Brexit, but would leave the UK without votes in the EU institutions, and require the government to subject a large swathe of its economic regulation to decisions made by the EU in its interest, not Britain's.

MPs voting on such a basis would still be required to suspend disbelief, and assume that parliamentary instruction to negotiate a form of Brexit would be acted upon after March 29th. As mentioned, the political declaration is not legally binding, and in all probability the British debate over the nature of the future relationship would reignite the moment the UK leaves. Another Tory leadership contest or a general election might deliver a prime minister – or a parliament – that supports a harder form of Brexit. But it could be enough for those MPs who think it is imperative to discharge the mandate of the referendum.

No deal

While neither parliament nor government wants no deal, it remains the default outcome. Unless Britain revokes Article 50, the EU agrees to extend beyond 29th March or a satisfactory agreement between the UK and EU is found, the UK will leave the EU without a deal in place. While this would leave the UK free to pursue a domestic and international agenda without hindrance by EU rules, the immediate disruption, an unavoidable hard border between Northern Ireland and Ireland, and slow growth over the medium

term will leave the UK writhing in the aftermath of Brexit for years to come.

The political fallout associated with the economic hit of no deal – or any form of harder Brexit – should not be underestimated. There is a range of different ways to forecast the cost of hard Brexit scenarios. Respectable economists estimate the British economy would be between 2 and 10 per cent smaller in the long term. There is such a range because we do not know whether higher barriers to trade, investment and migration will damage UK productivity growth; or whether it would simply force British consumers to buy more expensive imports or lower quality British alternatives, hitting living standards. It will probably be a mix of the two, but that mix is hard to quantify. What is more, the Brexit referendum coincided with robust global growth. With signs of a slowing global – and European – economy, the costs would be more acute.

Let us be optimistic and say a no deal Brexit leads to a 3 per cent hit to GDP. After an initial impact, the economy returns to a similar rate of growth, but does not catch up with the activity lost as a result of leaving the single market, and is permanently smaller. But beneath this figure – which superficially appears to be bearable – lies enormous dislocation. We know that when an FTA comes into force, the overall gains are small, but disguise very large changes in what is produced in the two countries that have signed it. The offshoring of car manufacturing to Mexico after NAFTA was signed is a case in point: Mexico's car production [more than trebled](#) between 1995 and 2016. The same is true of Brexit, but in reverse and on a much bigger scale: the single market is far more comprehensive than an FTA. The City's exports to the EU would fall by [around 60 per cent](#). The foreign owners of the UK's mass-volume car plants would move production into the single market. British farmers and fishing fleets that serve British and European markets would curb harvests and catches, since they would have to largely serve UK demand.

It is true that Britain's economy can take shocks like Brexit without generating large rises in unemployment. Its deregulated labour market would make it relatively easy for employers serving the domestic economy to take on workers that exporters had fired. But, as anyone who has been unemployed knows, finding a new job involves anxiety and financial risk. The new job might also be a poorer match for the worker's skills, which would mean they would be paid less. Moreover, workers serving the domestic market already tend to be lower paid than those in exporting firms. So most people forced to take a new job as a result of Brexit would find themselves poorer in the short-term.

The process by which the UK economy adjusted to a hard Brexit would generate a good deal of anger. Perhaps some Leave voters who lost their jobs would think sovereignty and immigration control more than made up for it. But many would not. And a decade of adjustment would also weigh on the public finances, making political problems about raising tax and public spending even more acute. MPs should not imagine that a 'true Brexit' would heal the wounds – it would probably make them worse.

Remain

It is difficult to see an obvious pathway toward the UK remaining in the EU – be it by a second referendum or a decision made by parliament. It would probably require a change of heart by Jeremy Corbyn, who opposes a re-run of the referendum, and by May. One possible scenario is that May, unable to pass a withdrawal agreement through Parliament, receives Labour's support for a second referendum, to put Brexit back to the people and ask them to choose between her negotiated exit, or remain.

Opponents of overturning the Brexit vote, or at least putting it to a second vote, correctly argue that doing so would be divisive. But division is now impossible to avoid; Brexit-induced resentment will fester,

no matter the eventual outcome. And remain at least leaves the UK in a better economic state, with greater government resources to address the resentments that played a part in Leave's victory in 2016.

Most probably, May will attempt to amend the withdrawal agreement and political declaration and then push the subsequent parliamentary vote to the wire. To pass her deal, the threat of no deal will need to be tangible, and for that to happen the March 29 deadline will need to loom large. The EU will not extend Article 50 for the purpose of further British procrastination, but would consider it if it were necessary to allow time for implementing legislation to pass, or for Britain to hold a referendum. May would then be reliant on Labour votes to outweigh those of the DUP and Conservative hardliners. This is a risky strategy that could easily backfire, but may end up being the only card she has left.

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