Seizing the Argument

How Labour can save Britain from Brexit disaster

A Policy Network Paper

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About the author

Roger Liddle is a Labour member of the House of Lords. From 1997 to 2004 he served as special adviser on European affairs to prime minister, Tony Blair. From 2004 to 2007 he worked in Brussels, first as a member of the cabinet of trade commissioner, Peter Mandelson and then as an adviser on the future of social Europe to the president of the European commission, Jose Manuel Barroso. From 2008-10 he worked with Lord Mandelson as first secretary of state for business in paving the way for a return to a more activist industrial policy. Roger has written widely on European questions, including The Europe Dilemma: Britain and the Drama of European Integration, IB Tauris 2014. He currently serves on the European Union select committee of the House of Lords, is co-chair of Policy Network, represents Wigton for Labour on the county council of his native Cumbria, and is pro-chancellor and chair of council at Lancaster University.

About this paper

This paper constitutes some unsolicited advice from a former political adviser in the Blair and Brown governments, offered in good faith to a party under a completely different leadership – a leadership with a totally contrasting 'world view' to all its Labour predecessors. Despite Sir Keir Starmer's best efforts as Labour's front bench Brexit spokesperson, Labour is still in search of a coherent Brexit strategy. For all my many and fundamental disagreements with what Jeremy Corbyn stands for, the hope is that by shaping Labour's policy on Europe positively, a more forceful Labour opposition – and perhaps with the potential implosion of the Conservatives, a new Labour government – can succeed in shaping a positive European future for Britain.

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1. Preface

The text of this pamphlet went to press before Theresa May's early morning dash to Brussels last Friday 8 December 2017. There she sealed the deal between Britain and the European commission that 'sufficient progress' had been made on the three major first stage issues of the withdrawal agreement (citizens' rights, the 'divorce bill' and the Irish border). This enabled the commission to recommend to the European council meeting on Thursday 14 December that negotiations can now proceed to transition arrangements and the framework for the future partnership between Britain and the EU, including trade.

On Saturday morning the anti-European press, led by the Daily Mail, hailed this progress as a 'breakthrough': in their view, the major hurdles in the way of Brexit's 'Independence Day' had been surmounted. Yet by Sunday morning the equally anti-European Sunday Telegraph was implying a Brexit betrayal. The key to Friday's agreement was the crucial UK promise made to the Republic of Ireland that Britain would maintain 'full alignment' with EU rules in the event of no other solution being negotiated to avoid a post-Brexit hard border. As the European commission has noted, it is difficult to see how this pledge could be made consistent with the UK's declared intention to leave the EU's customs union and single market. The arch Brexiteers, Michael Gove and Boris Johnson (or their aides) have now briefed the Sunday Telegraph that they were misled by an assurance from Downing Street that this pledge 'doesn't mean anything in EU law'. Yet Gove and Johnson must have known that this pledge will be enshrined in the legally binding withdrawal treaty between the EU and the UK. Despite this, Gove airily writes a newspaper article claiming that if the voters don't like the Brexit deal Theresa May has concluded (by implication), a new Conservative leadership can win the next general election on a platform to change it, despite the binding international treaty obligations into which by then the UK will have entered.

In normal circumstances a newspaper spat between cabinet colleagues, some with their eye on the future party leadership, would not be worthy of that much attention. Yet we are dealing here with issues of absolutely vital importance to Britain's future.

Another denial of reality was today's statement by the Brexit secretary David Davis that a full trade deal with the EU can be wrapped up by the end of 2018. He must know that this is not what the EU is intending in the guidelines for the future negotiations that the European council is about to agree this week. Their intentions are that by next autumn there will be a two year transition deal in place and the 'framework' for the future partnership will be agreed, but most of the detail of the trade negotiations will be left until after the withdrawal agreement has been ratified and Britain has formally withdrawn from the EU. Davis by contrast talks ambitiously of signing a trade deal on the day after Brexit in March 2019. This mismatch of understandings underlines the unrealism of the government's belief that 'nothing is agreed until everything is agreed'. The truth is that Britain will sign and ratify the withdrawal agreement in the autumn of next year, but the eventual trade deal will take years to negotiate (unless, that is, we change course and argue for single market membership Norway-style). Britain will have signed up to the "divorce bill" well before we know the precise terms of our new trading relationship with the EU. Somehow or other David Davis and Theresa May will have to come to terms with these realities: they are almost certainly aware of them, but cannot face up to them honestly, because reality threatens the fragile unity of the Conservative cabinet.

My immediate reaction to Friday's agreement was of relief that that the chances of a total breakdown in the Brexit negotiations had been for the moment averted. A negotiation breakdown would in all probability have triggered a political crisis in the cabinet and Conservative party and heightened the risks that Britain would be walking away from the talks with all the immediate chaos and long-

term economic damage that 'no deal' would bring. Yet the outcome once gain appears uncertain. The hope that the catastrophic risks of 'no deal' were now lower than had been widely feared a few weeks earlier, have once again been dashed.

A central argument of this pamphlet is that in the event of a negotiation breakdown, in the choice between a catastrophic 'no deal' and the status quo (that is, our existing EU membership) Labour should argue for the latter. The only possible course is to seek a vote in parliament for Britain to suspend or withdraw Article 50, allowing at the minimum for time for a complete rethink of Britain's Brexit strategy to take place.

The *status quo* has to become an option despite the 2016 referendum result. Facts have changed and so are opinions too. In a representative democracy, MPs are the only people who can judge whether the terms of Brexit are acceptable. Given that the 2016 referendum was called, the electorate should have a say on whether Brexit should be reversed, either through a general election or another referendum.

A related point is that Brexit cannot be regarded as a 'done deal' until parliament has the opportunity to approve the final terms of any trade deal. This might not be until 2021 or later. This has implications too for what parliament will be signing up for when we leave the EU, as Nick Clegg has pointed out. Labour must keep open the option to call for the reversal of Brexit until parliament has had its final say on the trade deal.

The second main argument of this pamphlet is that if Labour in opposition cannot reverse Brexit, the party should at least come off the fence and argue for continuing membership of the single market and customs union as its long term best option for Britain. Already there is a strong 'jobs' argument for this policy position. Friday's Brussels agreement makes this a much more credible stance to take on political grounds, in that adherence to the rules of the single market and customs union is the only sure-fire means of guaranteeing the 'full alignment' that avoids the restitution of a hard border across the island of Ireland. Keir Starmer made much of this point in his reaction to Friday's Brussels agreement and it is clear that there is some movement in Labour policy. This is strongly to be welcomed. I hope that the Jeremy Corbyn/John McDonnell leadership will endorse the logic of the position Starmer is taking. If that is so, it should be reflected in a united parliamentary Labour party stance in favour of continued single market membership in the votes that are still due in the Commons on the committee and report stages of the EU withdrawal bill.

There is however an important qualification my pamphlet makes. Although I would like to see reform of EU free movement rules, I doubt now, if after over a year of frustrating discussions with the British, the EU will be in any mood to cut a special deal with Britain on free movement. In my judgment, that was possible a year ago. I doubt it now. This is not to rule out working with fellow social democrats and others on the continent for EU-wide reforms to free movement, for which there is growing support. But if we are to act in the best interests of Britain we must be intellectually honest and realistic.

Labour should concentrate on the significant domestic steps it can take, within existing EU rules, to tighten our treatment of free movement. We have not been prevented by the EU from taking these steps: for ideological reasons of their own, the Conservatives have refused to take them. Chapter eight discusses what might be the outline of a new Labour policy on migration. Equally it is vital that Labour devises a bold and comprehensive package of policies that addresses the problems of the 'left behind', which is particularly relevant to coastal towns, and the old industrial areas outside the big cities of England's north and midlands. Borrowing a phrase from my friend Pat McFadden MP, in chapter nine I outline the need for a "Marshall Plan for the left behind".

— Cumbria, Sunday 10 December 2017

2. Labour's historic responsibility

This is an essay addressed principally to Labour's leadership and its party members and supporters. It is about what should be Labour's goals on Brexit. Labour should be more self-confident in attacking the Conservatives on Brexit. The Tories' conduct of the Brexit negotiations has been a catastrophic catalogue of errors, as we chart in our next three chapters: they have shown they are not fit to lead the country in the most important set of international negotiations since the second world war. Labour's aim in opposition should be to suspend the present Brexit talks and demand a more coherent and inclusive national strategy.

In particular, Labour must do all it can to avert the present looming car crash of a 'hard Brexit'. This may be chaotic, or it may be somewhat more orderly, but either way it most certainly is not in the long term interests of Britain. In a choice between a 'hard Brexit' and keeping the *status quo* of our existing EU membership, Labour should have the courage to argue that a 'hard Brexit' is not the 'will of the people'. Opposing it can be argued for, quite legitimately in democratic terms, despite the 2016 referendum vote. Staying in the EU is far preferable to self-destructive self-mutilation.

If Labour in opposition cannot stop Brexit, then it should seek, at the very least, to neutralise its most economically and socially damaging aspects by remaining in the EU single market and customs union. This will prevent the Brexiteers achieving their central goal of deregulating and disarming the human rights, social, environmental and consumer standards that EU membership has semi constitutionalised in Britain's governance. Better to be a 'rule-taker' of European laws and regulations that, for most part, have a progressive European vocation at their heart, than a theoretically sovereign 'rule maker' that in practice will only make use of its 'new freedoms' to break free of the potential for a 'better regulated capitalism' that the EU single market represents. In opposition Labour should work with pro-European Conservative rebels, the Liberal Democrats, and even the SNP to build a majority in the House of Commons for a 'Norway style' 'soft Brexit'.

If however the present government implodes and Labour replaces it before March 2019, Labour should suspend Article 50 and extend the length of the two year negotiating process for withdrawal. If Labour takes office after March 2019 and we are still in a process of Brexit 'transition' or 'implementation', Labour should notify Brussels that it wants to use this opportunity to allow for a rethink of where our national interests lie.

Labour would not be defying the 'will of the people': rather in suspending Brexit before it becomes a 'done deal', Labour would be making a rational choice to allow further time for consideration of issues and consequences that were never put fairly to the public, still less properly analysed, at the time of the June 2016 referendum. A 'Brexit pause' would enable Britain to take into account developments in the 'future of Europe' debate in 2018 that France and Germany are about to open up under the determined and inspiring leadership of President Macron. This could well change fundamentally the context for Britain's future engagement with the EU.

If Labour remains in opposition, the party should begin to set out now a post-Brexit European policy for Britain in which it remains European in its values and the perception of its interests and that creates the conditions in which in due course Brexit can ultimately be reversed. Labour needs to frame a more positive European policy than the miserably constricted vision around which the Cameron/Osborne government sought to win the 2016 referendum. Labour should set its objectives for practical co-operation with our European partners over a wide field of issues where we share common values and interests with our fellow Europeans. It should set a bold agenda for a reformed capitalism in the framework of a revived European 'social market' economy. Labour should think

through the institutional arrangements for this wide agenda of mutual co-operation and cross border integration and how this fits with the architecture of a reformed EU that will emerge from the 'future of Europe' debate that is opening up.

My hope, as part such a Brexit reconsideration, would be that Labour would chart a new pro-European future for Britain that is more progressive and radical than New Labour succeeded in bringing about. Labour should then seek a democratic mandate, preferably in a general election, for its new European policy. Some take the view that the 2016 referendum can only be reversed by holding another referendum. I do not rule this out, but it is not my first preference, as referendums have been shown to be 'the device of dictators and demagogues' as Clem Attlee so prophetically warned in the 1940s. They settle nothing. If the consensus view of remainers is that a new referendum is necessary to legitimise Britain's new European policy, then so be it.

Of course delivering on this agenda will not be easy. For a start, Labour, like it or not, is the opposition, not the government. It is easy for authors of pamphlets to say what they like, but no opposition likes to tie itself down more than it needs to: it is not unreasonable for Labour to want to maintain 'room for manoeuvre' in the light of unforeseen developments. While it seems certain that the key decisions on Brexit will come to a head from now on until March 2019, the party and the country face a complex series of 'known and unknown unknowns' as Donald Rumsfeld would have characterised them, not least whether the government implodes, or can manage to negotiate some kind of Brexit deal, and how our EU partners are perceived as behaving.

Public opinion will be a vital factor. For those who follow political news closely, it must by now be evident that Brexit is not proving as easy as the Brexiteers claimed it would be in the June 2016 referendum. On the other hand the Brexiteers will claim that the EU 27 are attempting to hold Britain to ransom. Labour must demonstrate that the primary responsibility for the difficulty in the Brexit negotiations rests with the present British government's ineptitude and division. While there will be voices in Labour arguing that the party must tread carefully, Labour must offer the public a strong lead.

So far such a strong lead has been lacking. In the eighteen months since the referendum, Labour has offered different positions and still looks confused. Jeremy Corbyn whipped his MPs to vote through Article 50, even on the third reading of the bill when none of the guarantees that Labour sought during the bill's passage through parliament had been conceded by the government. Labour initially argued that the 'Norway option' for continued single market membership was impossible, then accepted it for a four-year transition and went on to say that it no longer ruled out continued membership of the single market and customs union for the longer term. Yet in the committee stage of the EU withdrawal bill, as recently as the last couple of weeks, the front bench refused to back an amendment by Labour's Ian Murray intended to facilitate continued membership of the customs union, with the shadow chancellor, John McDonnell, joining the Tories in the lobbies to vote against it. Labour says it will oppose 'no deal' but is so far resistant to the only logical position that flows from that, to support at the minimum extending the time period for the Brexit negotiations.

At a deeper internal level, Labour faces difficult choices on the direction of its Brexit policy, which are at root ideological not tactical. They raise existential questions about the party's identity and mission. They are difficult to face up to because the answers are in themselves difficult. And behind the different viewpoints lie strongly contestable interpretations of the June 2016 referendum result and deeply held myths about Labour's relative success in the 2017 general election.

On the one hand, does Labour seek to remake itself as more of a workers' party, delivering controls on migration? For sympathisers who identify with 'Blue Labour' thinking, and for many others who

hold to the belief that Labour is and must be 'the party of the working class', the 2016 referendum result was the confirmation of all they had warned of, in terms of what many see as Labour's liberal and cosmopolitan arrogance towards its working class base. On their logic, 'freedom of movement' is impossible to defend: and if that means no longer being part of the European single market, so be it.

No one should ignore genuine working-class concerns about migration and dismiss them as racist. Yet re-connection with this section of working people demands honesty, On any objective analysis, immigration is not the root cause of the problems of the so-called 'left behind': to address that problem requires innovative policy thinking in a wide range of areas, including migration of course, but not with an exclusive focus on it. There are options for tightening control of EU migration and tackling abuses which lie within EU rules that the Conservative government has chosen not to take. Domestic policies should be developed to cut the reliance of some employers in their business model on the ready availability of low-skilled migrant labour. However, to make control of immigration a centrepiece of any renewed appeal to this section of the working class vote would be an appeasement of populism, not faithfulness to the quintessential social democratic mindset that requires 'the pursuit of truth to the bitter end'.[1]

From a different perspective, Labour is a party that today is in search of a new political economy from that of the New Labour years. The priority is to generate new thinking on how the economy can be managed to deliver broad based growth that leans against growing inequality and social injustice, in place of the flawed 1990s assumption that markets could be guaranteed to deliver the 'rising tide that would lift all boats'. This is often now described as ending New Labour's acceptance of 'neoliberalism': if by this is meant a political philosophy that accepts a 'small non-interventionist state', this is a difficult charge to levy against New Labour. The Blair and Brown governments strengthened individual employee rights (not least through acceptance of the EU's Social Chapter), legislated for the national minimum wage, greatly increased public expenditure on tackling poverty and greatly expanded the size of the state in improved public services. The Corbyn leadership believe however that Labour must depart in a sharply leftward direction towards greater state control of the economy. This is much more than a rejection of New Labour. The rhetoric appears to mark a major shift from the classically social democratic view of the relationship between the state and markets that the Kinnock/Smith leadership had brought Labour to accept by the end of the 1980s.

The Corbyn leadership is concerned that its advocacy of a greater role for the state in managing the economy will come up against the constraints that the rules of the EU and its single market allegedly impose on national discretion in economic and industrial policy. The answer depends of course on how statist and interventionist Labour intends to be. State aid rules do not rule out public ownership, but they do place limits on the unfair competition resulting from massive state subsidies. Import, capital and exchange controls are not consistent with EU single market rules.

On these ideological choices, this author believes that Labour should work within the European consensus in favour of a social market economy. But one has to be clear: this need not be a re-creation of the old *status quo*. The social dimension of the social market requires tighter regulation in areas like tax, corporate governance, and a stronger pillar of social rights. This reform programme has to be pursued with more wholehearted commitment than at times shown in the period of the last Labour government. Backing full British membership of the single market should go along with advocacy of a programme of Europe-wide reform, not a special deal for Britain. This would be the most economically beneficial option for Britain, with the greatest egalitarian potential for our society. Not only that, it ties Britain's long-term future closely to the EU.

Our European friends and partners are the countries with which in the modern world we share the closest values and interests. The closer the economic ties, the less will be the risks of mid-Atlantic

1. The quote is from Hugh Gaitskell's moving preface to Evan Durbin's "The Politics of Democratic Socialism", one of the outstanding works of social democratic thinking of the twentieth century.

disengagement and competitive race to the bottom and the more will be the possibilities of political co-operation for common ends. This is the right policy for the party and, as it happens, the right choice for the country as well. On Brexit, partisan interests need not be in conflict with the national interest. As the Conservatives quarrel and divide, Labour should stake a bold claim to be the party of the national interest.

3. The Brexit conundrum: three overlapping negotiations

'Brexit means Brexit' has proved to be one of the most meaningless aphorisms invented by politicians to cover up their own lack of a coherent national strategy for the UK's future. It has allowed eighteen months to be wasted in empty posturing and botched Brussels negotiations without the government, even now, fully facing up to the hard choices Brexit requires the country to make. As matters stand, there is uncertainty over a December deal on the opening of trade talks, and agreement on a transition/implementation period, in return for a more generous financial commitment by the British on the so-called 'divorce bill'. But there is still no clarity on the nature of the long term relationship with the EU that Britain wants, in an ugly new verb, to 'transition to'. Theresa May insists publicly that the whole deal can be wrapped up by the autumn of next year. Yet the government has still to address coherently the fundamental question Michel Barnier recently posed: how European a nation does Britain intend to remain post-Brexit? The answer will determine the closeness of the economic relationship with the EU that the government claims to be seeking through a deep and comprehensive trade deal. Mrs May accepts the principle of Britain's future 'regulatory alignment' with the EU, but it is unclear what she means and who will follow her. How have we got to this point of looming crisis? Can the impasse be resolved by this weakened, chaotic government?

The Brexit negotiations have three distinct but overlapping components

- First, the withdrawal agreement under the Lisbon treaty's now infamous Article 50. This is essentially about the technical details of the UK-EU divorce: the issues that Britain as an existing EU member state has to sort out with its EU partners in order to ensure an orderly withdrawal, before we become, in EU parlance, a 'third country'. Much of this is obvious, though complicated, such as the rights of EU citizens living in Britain and the rights of British citizens living abroad in other EU member states. On finance, the final accounts need to be settled: essentially these consist of the liabilities Britain has incurred during its period of membership for which as yet no payment has been made – the so-called 'divorce bill', though this is in practice a long list of legally binding contingent liabilities the UK undertakes to meet in the years ahead, rather than a single 'lump sum' payment. Article 50 also provides for an agreement on the framework for the future relationship, in terms of both trade and other areas of co-operation, such as research and security. This framework will at the most settle principles, not details. The specifics need to be settled in legally watertight, separate new treaties between Britain and the EU that will take much longer to finalise. To come into force, the Article 50 withdrawal treaty has to clear the relatively low hurdle (by EU standards) of a simple majority of the European parliament and a super-qualified majority of the European council. That means no awkward member state can exercise a veto: a principle ironically that Britain for most of its period of EU membership has only surrendered with deep reluctance! However the most significant thing about the Article 50 treaty is that it determines a withdrawal date, two years after the article is first invoked. If no agreement can be reached by then, the withdrawing member state automatically leaves the EU on that date. 'No agreement' gives the Brexiteers what they want, but at the considerable price of a disorderly, disruptive Brexit. The two-year deadline can be extended by unanimous decision of the European council. More controversially, many experts believe that a member state that has invoked Article 50 could unilaterally withdraw that invocation at any time in the two year period or before the withdrawal agreement is ratified, though the British government continues to insist that this is not its understanding of the legal position and that, anyway, as far as the government is concerned, the invocation of Article 50 is irreversible. If a British government did change its mind, there is a possibility that the legality of the move would have to be determined by the European court of justice.

- A new and separate treaty (or treaties) will be needed to agree the specifics of the future relationship post Brexit between the UK and the EU. This new treaty would cover most importantly the economic relationship. Even if Britain opts for trading with the EU 'on WTO terms', then some form of 'bare bones treaty' to minimise border frictions would be strongly in the interest of both sides. This would basically be about the administrative rules and procedures of a customs partnership; trade in goods that are specially regulated because they raise significant health and safety issues such as nuclear materials and possibly pharmaceuticals; and the aviation safety rules necessary to keep planes flying between Britain and the continent. Such a 'bare bones' deal would not involve continued membership of the EU customs union or single market, nor would it avoid the need to apply WTO tariffs. A new treaty will also be required to regulate the modalities of continuing co-operation with our close neighbours in areas as diverse as security, foreign policy, climate change, overseas development and education and research. There is nothing to prevent these agreements being negotiated in parallel with the Article 50 withdrawal process, but signature and ratification can only take place once Britain has ceased to be an EU member. Also, in contrast to the Article 50 withdrawal treaty, the trade treaty will require full ratification by member states "in accordance with their respective constitutional requirements" (that means in Belgium for instance, approval by lots of different parliaments), with the possibility of referendums in some countries.[2]

- The third distinct area for negotiation is how Britain moves from A to B, in EU speak, from being a 'member state' to a 'third country', in the least disruptive and frictionless way possible. A 'transition' deal would be part of the Article 50 agreement and therefore covered by its (relatively) quick and easy approval process. It is commonly assumed that such a transition/implementation arrangement can only be on the basis of the *status quo*: in other words, continuing membership of the single market and customs union. The British government itself has poured cold water on the prospect of anything different, because business would have to adjust twice to new arrangements. Business attaches great importance to such a transitional deal because it avoids the immediate prospect of a 'cliff edge' in March 2019. There is however a logical flaw in the assumption that quick agreement on a 'transition' deal can provide business with the certainty and stability it seeks, for it offers no clarity on the final destination point. Nevertheless it buys time. But according to John Kerr (Lord Kerr of Kinlochard, one time British permanent representative to the EU and drafter of Article 50) it is not at all clear that it will avoid the 'cliff edge'. There is no legal base in the treaties for a transition to be extended and ratification of the trade deal may take much longer than 2021.

Theresa May insists in calling what virtually everyone else calls a 'transition' period, an 'implementation' period. This difference of wording hides potentially big differences of substance over how much of the detailed negotiation of a new trade treaty can in practice be concluded before Brexit day. Mrs May first drew this distinction in her January 2017 Lancaster House speech where she rejected "some form of unlimited transitional status, in which we find ourselves stuck forever in some kind of permanent political purgatory" (not an overgenerous way of describing EU membership). However she accepted in that same speech the need to "avoid a disruptive cliff edge" and referred to "phased implementation" of a trade agreement on different timescales for different sectors.

The prime minister is correct in that to avoid chaos, any agreement will require a significant period for implementation. Take two examples. First, assuming that on Brexit Day Britain ceases to be a member of the single market, (an assumption I argue Labour should oppose), complicated new customs arrangements will need to be put in place. This will be an expensive business. Furthermore, if extensive disruption at border ports is to be avoided they will take time to test and implement.

2. The Netherlands held a referendum on the EU's partnership agreement with Ukraine. On an issue that affects the economic and political future of Ireland more than any other member state, and with their constitutional liking for referenda, is it implausible to think of an Irish referendum on the relationship with Britain which could turn into a major constitutional crisis in both countries?

Secondly, again, were Britain to leave both the EU and the single market, 'free movement comes to an end': a formal statement of legal fact that Jeremy Corbyn misleadingly reiterated in the 2017 general election campaign as though it represented a hardening of Labour's approach to immigration. However the change on Brexit Day will be theoretical and symbolic: it cannot in practice lead to any immediate tightening of immigration policy because the Home Office will not, at the very minimum for two years and possibly for much longer, have the capacity to administer a system of controls on EU nationals coming to visit, study, work and live in Britain.

Implementation can only begin once a deal has been agreed. Theresa May's apparent confidence that every aspect of the negotiation can be completed before March 2019 is regarded by most EU experts and insiders as completely unrealistic. Maybe the broad principles for a trade agreement could be agreed in that timescale, though how much clarity and certainty such a set of principles would provide for business is open to doubt, but a comprehensive trade agreement could take years – a minimum of three and possibly up to seven, to negotiate and ratify. **This is why the often-repeated mantra that 'nothing is agreed until everything is agreed' will not apply in the case of the UK's EU withdrawal. The legal commitment to pay up on the 'divorce bill' will be made on ratification of the withdrawal agreement in March 2019: the precise benefits of the trade agreement may not be known until its ratification some years after.**

There are major political problems for the Conservatives with what sounds like practical common sense. The Brexiteers are committed to incompatible goals. On the one hand, they are desperate to get Britain out of the EU as quickly as possible, in truth, their opponents would argue, before the British public has the chance to see the error of its ways and change their mind! On the other hand, they have strong views about the eventual destination on any trade deal, which could greatly complicate the process of negotiation.

In her Florence speech Mrs May implied that a trade deal should be relatively easy to negotiate because Britain and the EU "share a commitment to high regulatory standards. The government I lead is committed not only to protecting high standards, but strengthening them". She did go on to explain that there might be areas where "we and our European friends have different goals or where we share the same goals but want to achieve them through different means". In these cases the prime minister accepted there would be consequences for UK access to EU markets and vice versa. "To make the partnership work, because disagreements inevitably arise, we will need a strong and appropriate dispute resolution mechanism". Not of course the ECJ, or a British court, but something "appropriate".

For Brexiteers, however, the whole point of Brexit is to break away from EU standards and rules, which in their view are holding Britain back. For them, as long as Britain sticks close to EU rules, it cannot conduct an independent trade policy: the great 'opportunities' of 'Global Britain' will be thwarted. But that means a more complex and time-consuming trade deal, not one based on the fact that Britain and the EU are at present convergent because we have fully adopted the EU acquis and follow single market rules. There is a fundamental incompatibility of both timing and substance between Mrs May's seeming objectives and what the Brexiteers want. This is the impasse in which the Conservative government potentially now faces. How did it get here?

4. The Conservative catalogue of errors

Error one: Party conference hubris

The Brexiteers have always claimed consistency. But it is the consistency of the false claims on which the leave campaign was fought. The central essential falsehood is the assertion that Britain could leave the EU (and 'take back control'), yet continue to enjoy the same trading relationship with the continent that it enjoys as an EU member. As Boris Johnson infamously put it, "we can have our cake and eat it". It was confidently asserted that because the Germans would still want to sell us their cars, the Italians their prosecco and the French their wines and cheeses, Britain would face no new trade barriers as a result of our exit from the EU. To suggest otherwise was 'scare-mongering' by experts or people who did not 'believe in Britain'.

The first major error of Mrs May's premiership was to throw her lot in with the Brexiteers and not challenge directly this central falsehood. In retrospect, her October 2016 speech to the Conservative party conference may have sealed her, and perhaps the country's, fate. In that speech, Mrs May committed her government to a "vision of a truly Global Britain" because "100 days ago, that is what the country voted for": a truly heroic but questionable interpretation of what leave supporters thought they were voting for.

She delivered this message with a hubristic self-confidence about Britain's position in the world, summed up in the following soundbite:

> *"We don't need – as I hear some people say – to 'punch above our weight'. Because our weight is substantial enough already. So let's ignore the pessimists, let's have the confidence in ourselves to go out into the world, securing trade deals, winning contracts, generating wealth and creating jobs".*

Boris Johnson could not have put it better, except that when he did a year later, in his now infamous article in the Telegraph and his speech to the 2017 Conservative party conference, the prime minister's self-confidence in the direction of her Brexit policy had so faded, that his call "to let the British lion roar" was seen as an act of presumptuous rebellion.

Mrs May could have approached that October 2016 conference speech differently. As by instinct a 'one nation' Conservative, she could have talked about the narrowness of the leave victory and the overriding need to unite a bitterly divided country. She could have explained how this necessarily meant rallying behind a consensual vision of Britain's place in the world, of course outside the EU, but acceptable to those parts of the country that had voted remain, especially London, Scotland and Northern Ireland. She could have gone on to explain to her elderly audience of middle-class Conservative activists that what had motivated the leave vote was a mix of factors which went far beyond the desire of those seated in the hall to assert their pride in Britain and enthusiasm for regaining national sovereignty. She could have pointed to the understandable disaffection that had so magnified the leave vote in parts of the country that had been the biggest losers from de-industrialisation and globalisation: first, a decade of low and stagnant wages; secondly, longer term economic changes that had destroyed working people's self-respect and created a dismal prospect for the low skilled of often unfulfilling service jobs; and thirdly a huge wave of unplanned immigration from the EU that affronted popular perceptions of 'fairness'. She could have sketched out a raft of new policies to tackle the economic and social problems of the 'left behind' who had voted for Brexit: the 'burning injustices' that her 2017 general election manifesto was to speak of with such passion. She should then have concluded that her concern to address these injustices

put a moral obligation on the Conservative party and government to avoid a 'hard Brexit' at all possible costs – and to recognise that prioritising sovereignty above all else came at a cost to living standards. Of course in the autumn of 2016 the economy was still growing at a respectable rate and the predicted Brexit economic shock had not occurred, except in terms of the post referendum fall in sterling, the impact of which would unfold over the coming year.

Instead Mrs May freely chose to make a speech of Brexit triumphalism. The narrow victory of the leavers was absolute and irreversible.

> *"Whether people like it or not, the country voted to leave the EU. We are going to be a fully independent sovereign country, a country that is no longer part of a political union with supranational institutions that can override national parliaments and courts. And that means that we are going, once more, to have the freedom to make our own decisions on a whole host of different matters, from how we label our food to the way in which we choose to control immigration.*
>
> *So the process we are about to begin is not about negotiating all our sovereignty away again. It is not going to be about any of those matters over which the country has just voted to regain control. It is not therefore a negotiation to establish a relationship anything like the one we have had for forty years or more. So it is not going to be a 'Norway' model. It is not going to be a 'Switzerland' model. It is going to be an agreement between an independent, sovereign United Kingdom and the European Union.*
>
> *I know some people ask about the 'trade-off' between controlling immigration and trading with Europe. But that is the wrong way of looking at things. We have voted to leave the EU and become a fully-independent sovereign country. We will do what independent sovereign countries do. We will decide for ourselves how we control immigration. And we will be free to pass our own laws".*

This was stirring stuff for her Conservative audience but carried with it an inescapable logic: it implicitly ruled out continued UK membership of the EU's single market and customs union. It stamped on the notion that the European court of justice could retain any form of jurisdiction in post-Brexit Britain, even when this might be in the national interest. It asserted Britain's sovereign independence in making policy in areas as diverse as product safety rules and migration, in seeming ignorance of the reality that these subjects are the 'bread and butter' of modern trade deals.

By seemingly sweeping off the table options for Britain's post-Brexit future that even Brexiteers had once regarded as perfectly feasible, Mrs May both constrained her negotiating room for manoeuvre in Brussels and nailed her standard to the 'hard Brexit' that the 'Adullam's Cave' of hardcore anti-Europeans in the Conservative parliamentary party support. As with so many Conservative leaders who came before her, on Europe the unity of the party and the safeguarding of her own leadership, took precedence over consistency with positions that the prime minister had argued with conviction in the referendum campaign a mere four months before.

Error two: The deeply flawed 'plan for Britain' set out at Lancaster House

Theresa May's Lancaster House speech in January was the first major statement of the government's vision for Brexit. But she continued to sing from the same Brexiteer hymn sheet as her party conference harangue. Though couched in the reassuring rhetoric of Britain seeking a 'deep and special partnership with the EU', its whole philosophy was based on a fundamental contradiction: that Britain can leave the EU in order to 'take back control' of its 'borders, laws and money' and at the same continue to enjoy in terms of trade, as David Davis had put it to the House of Commons in December 2016, "exactly the same benefits" as Britain does now as full members.

The speech reiterated that Britain's EU withdrawal should not be seen as "a decision to turn inward. Not the moment Britain chose to step back from the world". Rather "it was the moment we chose to build a truly Global Britain. A magnet for international talent and a home to pioneers and innovators who will shape the world ahead [despite the public desire to cut immigration which in most analyses of the referendum features as a strong explanatory factor in the leave vote]. A truly Global Britain – the best friend and neighbour to our European partners , but a country that reaches beyond the borders of Europe too … [to] old friends and new allies".

However the speech then proceeded to cross a number of EU 'red lines' as far as determining how close and special the economic relationship with the EU could be. First, Mrs May continued to assert that sovereignty trumped economics. Britain must regain "control of our own laws". Brexit must "bring an end to the jurisdiction of the ECJ in Britain. We will not truly have left the EU if we are not in control of our own laws". And as for free movement, "Brexit must mean control of the number of people who come to Britain from the EU". In addition "the days of Britain making vast contributions to the EU every year will end".

These *obiter dicta* of the Brexit vote had, in her view, an inevitable consequence. While Britain was seeking a "new and equal partnership", we did not want to end up "half in, half out. We do not seek to adopt a model already enjoyed by other countries. We do not seek to hold on to bits of our membership as we leave … the freest possible trade in goods and services that I am proposing cannot mean membership of the single market. To all intents and purposes [that would] mean not leaving the EU at all."

Mrs May also specifically rejected continued membership of the EU customs union on the same basis as now. "I do not want Britain to be part of the common commercial policy and be bound by the common external tariff. [That is the pooling of sovereignty by EU member states over external trade negotiations and the setting of external tariffs, which was the founding principle of the common market] But I do want us to have a customs agreement with the EU" [a necessary requirement to cut the inevitable bureaucracy and lorry queues of trade across what becomes with Brexit, an EU border with a 'third country']. Maybe Britain could become an "associate member [of the customs union or a] signatory to some elements". But nothing should interfere with Brexit Britain's ability to conduct an independent trade policy: we must be "free to establish our own tariff schedules at the WTO".

The trade agreement Britain is seeking would in Mrs May's words, be "new comprehensive bold and ambitious" [her EU counterparts would at least agree with that!]. In her eyes though, the task of securing "the greatest possible access to the single market on a fully reciprocal basis" was a lot simpler than some imagined. "It makes no sense to start from scratch when Britain and the remaining member states have adhered to the same rules of many years". But also for the EU to resist the widest possible single market access would be an act of self-harm. "I do not believe that the EU's leaders will seriously tell German exporters, French farmers, Spanish fishermen, the young unemployed of the eurozone and millions of others that they want to make them poorer just to punish Britain and make a political point".

This 'we can have our cake and eat it' optimism was rounded off with what was intended as an implied threat. The EU had to understand that 'no deal is better for Britain than a bad deal for Britain'. Some people in Britain may think this statement credible. EU bodies have however conducted detailed studies of the consequences of 'no deal' which demonstrate that Britain would be a far bigger loser than the rest of the EU, which is not surprising when one reflects that the UK market represents a mere 8 per cent of EU27 external trade, whereas the EU market represents well over 40 per cent of the UK's. But Mrs May lowered her standing and credibility with the EU side by pointing out that in the event of 'no deal' a Brexit Britain would take full advantage of her "freedom to set competitive tax rates" and would be "free to change the basis of Britain's economic model", presumably to some

kind of deregulated mid-Atlantic tax haven (some would say a Singapore or Hong Kong, though that is probably unfair to them). This is what most continentals believe the Brexiteers want to do in any event: so Mrs May undermined what little trust there is that Britain wants a comprehensive trade deal with a high degree of regulatory convergence.

Error three: Indecent haste in triggering Article 50

In her October 2016 Conference speech[3] the prime minister announced that the government intended to give formal notice of our withdrawal to our EU partners under Article 50 of the Lisbon Treaty by the end of March 2017. Mrs May proclaimed "we will invoke it when we are ready. And we will be ready soon." This proved to be another piece of over-confidence and hubris. When Brexit negotiations commenced, it quickly became evident that Britain was far from ready, not in terms of official preparation, but in settling the firm political steers that negotiators require to be effective. At the same time Mrs May's letter to Donald Tusk, the president of the European council, triggered the start of the two year deadline for agreement that can only be extended by unanimity in the European council.

To be fair, Brussels officials were keen on this timetable too. It was convenient. Britain would no longer be an EU member by the next round of European parliament elections in May/June 2019, following which the choice of the next president of the commission would need to be made. Crucially there was **no domestic reason of state** for the London government to trigger Article 50 in March 2017. The pressures were entirely political from within the Conservative party: Brexiteer backbenchers were champing at the bit to secure the date two years later when Britain would finally leave the EU. To appease that pressure, and perhaps with the intention already in her mind to call a snap general election, Theresa May fired off her letter to Tusk without detailed prior discussions as to how the negotiating process would be conducted and sequenced, as Sir Ivan Rogers, the UK's former permanent representative in Brussels, recently pointed out[4]:

> *"I did say last autumn I would not agree unequivocally to invoke Article 50 unless you know how Article 50 is going to work, because the moment you invoke [it], the 27 dictate the rules of the game … my advice was that [invoking Article 50] was a moment of key leverage … if you wanted to avoid being screwed on the negotiations in terms of the sequencing".*

This miscalculation had serious consequences. The commission and the EU 27 went ahead and freely determined their own agenda for the talks to suit themselves. Their negotiating mandate was agreed unanimously, and for the EU, in a spirit of exceptional unity. They laid down that three major issues had to be tackled first:

- the status and rights of EU nationals resident in Britain and British nationals resident in EU member states;
- the question of the border in Ireland, in recognition of the undeniable fact that, of all EU member states, the Republic of Ireland had the most at risk in terms of both trade and political stability as a result of Brexit;
- and the settling of accounts as a result of Britain's EU departure – the so-called 'divorce bill'.

Only when the European council judged 'sufficient progress' had been made on these three issues would the agenda be widened to consider questions of trade and the future UK-EU relationship. Thus the EU effectively cornered the British into making a sufficient financial offer to allow negotiations to move on to the trade issues of greatest import to the British economy.

3. Speech by Theresa May to the Conservative party conference, 2 October 2016.

4. Evidence given by Sir Ivan Rogers to the House of Commons treasury select committee, 24 October 2017.

Error four: The general election debacle

All this took place while Theresa May was fighting a general election that was supposed to 'strengthen her hand' in the Brexit negotiations. There was no compelling domestic need to call the election that the prime minister announced on 18 April, 21 days after her Article 50 letter was sent to Donald Tusk. Indeed Mrs May had strenuously argued – on the record, on seven separate occasions in her nine months as prime minister – that she would not call an early election. However sometime in the new year, her political calculations changed.

First the Conservatives performed exceptionally well in two byelections held on 23 February in two heavily working-class leave voting seats, Copeland and Stoke-on-Trent Central. UKIP was shown to be in a state of collapse. As for Labour, the virtually universal assumption of the time was that Jeremy Corbyn was leading the party to a general election defeat of 1930s proportions.

Secondly, Brexit had gained renewed domestic momentum as a result of the process for triggering Article 50. While the government resented its defeat when the supreme court ruled that the executive could not invoke Article 50 without parliamentary legislative assent, it proved a tactical not strategic setback. The passage of the bill went extremely well from the government's perspective. With the honourable and very considerable exception of Kenneth Clarke, Conservative MPs united to support Article 50. Labour was split, the House of Lords discombobulated and public opinion solidly behind the argument that with the referendum and Article 50 vote, Brexit was a 'done deal' – or so it seemed.

Theresa May chose to justify the calling of a general election in terms that seemingly ignored these facts:

> *"At this moment of enormous national significance, there should be unity here in Westminster, but instead there is division. The country is coming together, but Westminster is not."*

The second reading vote on Article 50, with 498 in favour and only 114 against, was as near unity as a vibrant democracy can manage. The public, especially those who had voted remain, may have sensed the opportunism and cynicism of the PM's motives. Her rhetoric dismissing remainers as cosmopolitan 'citizens of nowhere' upset them even more. The prime minister's personal performance in the campaign did not live up to the presidential style in which she chose to fight it. And Jeremy Corbyn surprised everyone by fighting a stronger campaign than anyone expected. The Conservatives lost their overall majority.[5] More significantly, the prime minister lost her authority and seemingly her personal self-confidence. In the immediate aftermath of the result she considered resignation. For some weeks she appeared a broken woman. Government policy on Brexit drifted, because depression, drift and indecision lay at the very heart of the May administration.

Error five: Mid summer drift

Through its own miscalculations, the government had before the general election allowed the commission to gain the upper hand in the negotiations. After the general election, the government should have taken decisive steps to regain the initiative, but instead the drift continued, despite Mr Davis' valiant attempts to keep up spirits with his good humour. How could the government have better demonstrated its desire to achieve quick progress?

First, the UK should have made a stronger, bold move on citizens' rights. The government half attempted this, but the attempt went off at half-cock. The government reassured EU citizens resident in the UK that they would have clear rights to 'settled status'. But the government had needlessly

5. The Conservatives won 318 seats in a House of Commons. That effectively numbers 643 members, as the seven Sinn Fein members do not take their seats. The government has an overall majority of 13, only as a result of its 'confidence and supply' agreement with the 10 Democratic Unionists. It does however have a majority of 56 over Labour. And on European questions, seven Labour MPs voted with the government on the EU Withdrawal Bill in September and a further 6 abstained.

antagonised EU citizens by the bureaucratic complexities of existing Home Office procedures, which it should have changed at the outset. Its initial set of proposals on 'settled status' turned out to be not as generous as claimed on such complexities as family reunion. Instead of offering unconditional guarantees, EU citizens complained they were being used as bargaining chips. In Brussels Theresa May's red-line on ECJ jurisdiction proved a major hindrance to agreement. How could EU citizens be guaranteed that the rights on offer would not be subject to later amendment by a sovereign UK parliament, changes that would then be upheld by UK courts duty bound to follow UK statute law? The government has since given ground on these questions, but the opportunity to show leadership and resolve on the issue was missed.

Secondly the government should have produced an ambitious draft of the 'framework for the future relationship' as provided for in Article 50, demonstrating the UK's sincerity in wanting a close post Brexit relationship with the EU. There can only be one reason why the government has failed to take such an obvious step: the cabinet's inability to agree on a set of high level principles encapsulating their vision for that long term relationship. It does not take much imagination to highlight the points of tension in a bitterly divided Conservative party:

- on the economy and trade, the degree of regulatory convergence that the government accepts as desirable or whether the UK wants to choose a wholly different path as a sovereign nation;
- whether Britain is prepared to accede to European cross border jurisdiction in order to maintain present levels of police and intelligence co-operation in the fight against terrorism and international crime;
- whether on questions of climate change we still see ourselves as a European nation adhering to European standards;
- what institutional arrangements beyond our membership of Nato we believe are necessary to underpin our mutual interest in foreign policy and defence co-operation with our European allies.

In the absence of such high level agreement on post Brexit goals, the handling of negotiations was bound to lurch from drift to crisis and then back again. This is precisely what has happened. In absence of any British bold moves that might have changed the atmosphere, two of the 'first phase' issues are heading for crisis: the financial settlement and now Ireland.

Error six: Complacency and indifference that has allowed the unthinking return of the 'Irish question' to British politics

There is no escape from geography. Brexit recreates the reality of a land border between a Britain outside the EU and the Republic of Ireland, for whom EU membership is a source of pride and national identity. In her Lancaster House speech, Theresa May emphasised her determination to maintain the common travel area with the Republic, working to deliver a "practical solution … while protecting the integrity of the UK's immigration system". She made no direct reference to the problem of the customs border except to reiterate that "nobody wants to return to the borders of the past" and the need for "a practical solution". At Florence in September Mrs May was more explicit: "we will not accept any physical infrastructure at the border".

Soothing words and high level aspirations initially kept the Republic quiet, but on the customs border, the promised practical solutions were slow to emerge. David Davis, the Brexit secretary, for

a time appeared to believe that innovative thinking and imaginative new technological solutions could wish away the necessity for a customs border between north and south. When on closer examination this appeared in the realms of fantasy, his insistence (in keeping with the prime minister's Lancaster House speech) on ruling out continuing UK membership of the customs union made the problem seem even more intractable. The government then aggravated the problem further by ruling out a clear but more limited proposal by the taoiseach, Leo Varadkar, for a unique arrangement that would cover Ireland north and south, where both sides of the border would remain part of the customs union. This was on the grounds that this would require customs border to be put in place between Great Britain and Northern Ireland and compromise the integrity of the UK single market. It was a curious set of propositions that the British government found itself arguing: on the one hand, a customs border between Ireland north and south could be wished away, while on the other if the whole of Ireland remained in the EU customs union, a hard customs border between Great Britain and Northern Ireland would be an impossible necessity!

At root, the real problems are political, not technical. 'The border' is a deeply symbolic issue for the unionist community in the north, indeed it is their *raison d'etre*. Before Brexit, political tensions between unionist and nationalist politicians in the north were already rising. For reasons that are little to do with Brexit, trust between Sinn Fein and the Democratic Unionists appears to have broken down. The devolved administration has collapsed. The Belfast Good Friday agreement appears in meltdown. The UK government has been forced to take powers to set the Northern Ireland budget – a short step away from the full re-imposition of direct rule. Into that mix, Brexit alters the calculations that the various parties bring to the table in efforts to reconcile their differences. Brexit has made them more fraught.

The DUP knows it need not make any compromises that it is reluctant to make, because the Conservative government at Westminster depends for its survival on DUP votes. At the same time, Sinn Fein senses that its principled opposition to Brexit on the grounds that it deals a heavy blow to their conception of the unity of the 'island of Ireland', might solidify nationalist commitment to Irish unity and shift a sufficient section of moderate unionist pro-European opinion to accept it as the lesser of two evils. The Sinn Fein hope is that a new 'border poll', called at the right moment, might be successful.

The reality is that a hard customs border would be a political as well as economic disaster for Ireland. It would become a natural target for the small minority of republicans who have refused to renounce violence. If the border ends up needing to be policed by guns, a return to the Troubles cannot be far away. The British government recognise this appalling risk but are clearly positioning themselves to argue that if a 'hard border' is imposed, it will not be of their doing: it will only be happening because an inflexible, rule-bound and bureaucratic European commission insists on the establishment of a customs border! This ignores the plain fact that it is only because of Britain's choice for Brexit that this problem has emerged: the UK is therefore solely responsible for reinstituting a hard border between north and south, and in addition, the British government has categorically rejected, entirely for reasons of its own self-preservation, the only obvious solution. For those who care about the Irish peace process, the prospect that the Irish government might block progress on Britain's Article 50 negotiations is regrettable but understandable.

Error seven: Miscalulation over the 'divorce bill'

Despite Brexit's disastrous potential to return 'the Irish question' to the centre of British politics, the most salient issue for the first phase of Brexit talks has been the financial settlement. Not surprisingly, Europe's demand for an exit bill of many imprecise billions has become a major source cause of political tension. But it clear that this is a deal-breaker for the EU as well as potentially for

Britain. The EU is losing the member state which in absolute terms has been the second largest contributor to its budget.

In the eyes of the Brexiteers, the whole idea of a divorce bill is bewildering. For them, the appropriate analogy is the individual member resigning from a golf club: no one expects such a person to continue paying their subs after their departure or to be asked for a contribution to the costs of the infrastructure of the continuing organisation. However in continental eyes, the analogy is more the tab at the bar: after a long night's drinking with your partners, you can't expect to walk away without picking up your fair share of the 'tab'.

The commission calculates the size of this 'tab' as something in the order of €60bn. Essentially this represents political commitments Britain has solemnly entered into as an EU member for which the bill has not crystallised nor been paid. As Michel Barnier, the EU's chief negotiator put it in July "it is indispensable that the UK recognises the existence of financial obligations that arise simply from the period during which it was a member of the EU."

British ministers were slow to accept the reality of this outstanding obligation. The British negotiators initially questioned the legal basis on which Britain had to meet those obligations. A widely quoted House of Lords report had concluded that in the opinion of their legal experts the obligations were not strictly legally binding: they were policy commitments Britain has made in good faith as an EU member. On 11 July, Boris Johnson, the foreign secretary pronounced that Brussels can "go whistle" if they think they can persuade Britain to pay an "extortionate bill" before we leave. Barnier responded icily to his comments: "I'm not hearing any whistling, just the clock ticking".[6]

It took too long for the prime minister to accept that she had to move from very general language about Britain "always honouring its international obligations" to an acknowledgement of specific liabilities. And when she did move, in her Florence speech, the movement was inadequate to satisfy the EU, yet too much for the Brexiteers to stomach. Florence saw a major shift in tone on the prime minister's part. She made two major concessions, though they were elided together, perhaps in the hope that the Brexiteers would not realise the full extent of what was being conceded!

> *"I do not want our partners to fear that they will need to pay more or receive less over the remainder of the current budget plan as a result of our decision to leave. The UK will honour commitments we have made during the period of our membership".*

In the first sentence, Theresa May acknowledged that Britain would continue to make payments into the EU budget in 2019 and 2020 on the basis agreed in the 2013 budget settlement. This avoids our partners, particularly the Germans, having to fill a gap in the EU budget before the end of the EU's present seven year budgetary settlement. However, in the second sentence, Mrs May signalled that the British government accepted a wider obligation to honour commitments made during its period of membership. This is Brussels-speak for political commitments made in the past, the cost of which have not yet been billed or paid: in other words, the divorce bill. These commitments range from investment projects, to aid to non-EU counties such as Ukraine, to responsibility for Britain's share of the bill for funding the pensions of EU civil servants. At Florence, Theresa May implicitly accepted that the UK will pay significant additional sums beyond its full budget contributions for 2019 and 2020.

In its own terms, the Florence speech was a well-judged attempt to appeal to our European partners to help generate momentum in the Brexit negotiations. It received a warm, if not enthusiastic reception on the continent. The problem was the divisions and travails it revealed in her own cabinet. The speech did not even paper over the cracks. These were on full display in the 4000-word essay which Boris Johnson published in the Telegraph six days before it, setting his rhetorically ambitious 'vision' for a Brexit Britain. This led to vicious party in-fighting in the weeks that followed.

6. Report by Jim Brunsden, Financial Times, 11 July 2017.

If Theresa May was to get the Brexit talks moving, she needed to be much clearer on money before the October European council. But domestic divisions made it impossible for her to make further movement. Brussels and the member states on the other hand calculated that time was on their side and wanted to see further British commitments on the divorce bill before they would extend the remit of the Brussels talks to transition and trade. The October Brussels summit failed to achieve the breakthrough in the Brexit negotiations that Theresa May had hoped for, and for which her Florence speech had been intended to pave the way. However, while the European council stuck to the view that insufficient progress had been made, in a gesture widely seen as not wishing to isolate the British prime minister, the council did signal that it would begin its own internal preparations on trade and transition on the basis that the British would make further moves before the December European council on the outstanding three questions: EU citizens' rights post Brexit, the Irish border and the divorce bill.

The immediate question is politically what new offer Theresa May can risk making, involving as it does putting significantly more money on the table. *Force majeure* is driving some Brexiteers to accept through gritted teeth the logic of some divorce payment, but for others, such weakness would be giving in to an unacceptable 'ransom' demand. Ian Duncan Smith, for example, has commented:

> *"They think we blinked in Florence and now they believe we will blink again. We must not blink. The one big hand we have is money. They are desperate. If we give away that, we give away any chance of getting a good free trade agreement. We cannot give any more ground on this.*
>
> *Tory eurosceptics are getting really unnerved. It is stretching them to breaking".*

It is now clear that the negotiating impasse in Brussels can only be resolved by breaking the political impasse in London. There is a fundamental problem here. The British, particularly the Brexiteers, imagine that they could use money as a lever to ensure better trade access. But in the EU mindset this linkage does not exist. The EU intention has been to get the 'divorce bill' settled before any trade negotiations start. This is not just because they see this as a means of forcing Britain to pay up. In their eyes, the British are making a major miscalculation in thinking that the offer of money can buy trade access, based on their fundamental misunderstanding of the nature of the single market. The degree of trade access depends on compliance with the rules of the single market and British preparedness to ensure regulatory convergence with the EU. Barrier free trade cannot be bought: it can only be achieved by regulatory compliance.

There is also a problem of timing. The withdrawal treaty in EU eyes must settle the divorce bill. Yet only the more detailed trade treaty, which they assume will take several years to agree, can determine the precise terms of the UK-EU long term economic relationship. Britain simply has to commit to pay up before it knows the final degree of trade access it will obtain.

5. The coming Brexit crunch

As the December European council approaches, there appear to be essentially two opposing views in the British cabinet: one represented by the chancellor, Philip Hammond; the other by the leading Brexiteers, Boris Johnson and Michael Gove. Theresa May hovers uncertainly in the middle.

Mr Hammond's view became apparent over the summer holidays. While Brexit may bring fresh economic opportunities in the longer term, the risk is of considerable short term economic damage to the UK, coming on top of weakening growth and even weaker productivity. Economic growth in the UK is already slowing. Firms are delaying investment decisions: in the case of the City, some are in the process of setting up new offices on the continent. According to a CBI survey of their members, 10 per cent of businesses are already implementing their post-Brexit plans; another 25 per cent will implement them at the end of 2017 if there is no agreement on transition by then; and a further 25 per cent if nothing is settled by the end of March 2018. Britain is, on this analysis, weeks away from the serious economic impact of Brexit becoming evident.

For Mr Hammond, and those who think like him, there is only one route forward that minimises the Brexit political risk. First, Conservative party unity can only be maintained by delivering Brexit, or as Boris Johnson describes it 'Independence Day' at the end of March 2019. Party unity could not survive a decision to renege on the referendum result. Virtually all Conservatives accept this. Only one Conservative MP, Kenneth Clarke, voted against the invocation of Article 50 and even he now accepts that Brexit will be difficult to stop.

Secondly, if the Conservatives are to have a chance of defeating Labour in a general election at some point between 'Independence Day' and the end of the current five-year parliament in June 2022, the government must at all costs avoid a 'hard Brexit' that leads to a sudden economic shock. The immediate answer to legitimate business concerns is a transition period which avoids a 'cliff edge', gives companies time to adjust and the nature of the UK's long term economic relationship with the EU to be settled in an orderly way in hopefully a less politically fevered atmosphere. Hence the economic and political logic of a transition deal which Mr Hammond, virtually singlehandedly and to his great credit, made central to the Brexit talks as a result of insistent, and at times very public, pressure for much of the August holiday 'silly season'.

Thirdly a transition buys time to make the case for a 'softer Brexit'. This is the cause to which the hard core of committed pro Europeans in the Conservative parliamentary party have now committed themselves. Mr Hammond, for the moment at least, has accepted the cabinet consensus that Britain will be leaving the single market, though he is clearly fighting for an outcome that as far as possible maintains the economic *status quo*. He has the support of a decisive group of backbenchers (decisive, that is, in terms of the government's parliamentary majority) who have deliberately chosen to concentrate their efforts at increasing pressure internally within the party for a 'soft Brexit', not to stop Brexit altogether.

Mr Hammond's tactical approach to Brexit is consistent with the pragmatism that has made the Conservative party the most successful vote winning machine in British political history. But it outrages the ideological Brexiteers. In their eyes, Mr Hammond is a provocative remainer who refuses both to accept the logic of Brexit and to use the prestige of his office as chancellor of the exchequer to trumpet its 'opportunities'. Add to that the reports of his strained relationship with the prime minister, and given the huge political pressures he faces in terms of domestic economic management, his hold on office may be tenuous. Yet he has a fair claim to be motivated not just by his view of the national interest but by a wise judgement of the Conservative party's interests too.

At one point it looked as though Mr Hammond was winning the battle. Mrs May made the trip to Florence for her Europe speech on September 22nd. in which, in addition to her more emollient tone on the 'divorce bill', her central proposal was for an implementation period in which the economic *status quo* would be maintained for a limited period. The prime minister declared in her speech that she estimated that the length of that period should "as of now" be two years.

Brexiteers found this an alarmingly loose formulation: in their eyes any hint that transition might stretch longer is a major risk to Brexit. It is also, only with the deepest reluctance, that Brexiteers accept that the only transition deal available from the EU 27 would be one that maintains the obligations as well as benefits of continued membership of the single market and customs union. For sovereigntists who are obsessed with ending the jurisdiction of the ECJ in the UK, this is a difficult pill to swallow, particularly if Britain is required to accept the operation of new EU laws in the period after we have formally left. Michael Gove has already made clear that in any implementation/ transition period, it would be unacceptable to him for the EU fishing quotas still to be applied to British waters: quotas over which in an 'implementation period' after Brexit day, Britain would have no say in determining.

Any form of implementation/ transition period also requires the leading leavers to accept two further unpleasant realities. First, contrary to claims made in the June 2016 referendum campaign, 'freedom of movement' will not end on Brexit day. Secondly, contrary to the false promise that leave would result in £350m extra a week for the NHS, substantial continuing contributions will have to be made to the EU budget for the transition period of the transition in addition to the eventual 'divorce bill'.

For Brexiteers, the distinction is vital between a period of time to allow implementation of a deal, once it has been agreed, and what might become an open ended space in which further negotiations continue. At one point in response to Ian Duncan Smith in the House of Commons, Theresa May appeared to go along with the first interpretation of what her Florence speech intended: the implementation period would start only when the EU deal was tied up in autumn 2018 (which is thought by all except the Brexiteers, to be completely unrealistic). Her statement in the Commons was later nuanced by Treasury sources and a Downing St official spokesperson. What Theresa May means by 'implementation' remains, at least in public, a mystery wrapped in an enigma.

As for the Brexiteers, it is uncertain how they see their aims and tactics. In one sense there is a simple, over-riding answer. They want Britain clearly out of the EU at the end of March 2019. The government's loss of its overall majority in the June general election, and more seriously the loss of the prime minister's authority that has continued to decline since, have added a sense of urgency and desperation in their determination to achieve the earliest possible departure. For they can no longer take for granted their previous assumption that the Conservatives will be in office long enough with a safe majority to secure their overriding goal.

Hence the resurgence in October of the so-called 'no deal' option. Brexiteers have never believed the dire expert forecasts of the harsh economic consequences of a 'hard Brexit'. But even if they believed that an element of those forecasts might be right in the short term, the uncertain long term electoral prospects of the Conservatives are also probably making them more reckless in terms of willingness to undergo short term political costs in order to get what they want: to tolerate, as they see it, short term damage for what they believe as a matter of faith, will be longer term national gain. So the prospect of 'no deal' does not frighten the horses as much perhaps as it once did. But the question is whether they see the threat of 'no deal' as a tactic, which will in their view, deliver a better deal from the EU or in the new post-election circumstances, as the best available outcome.

"No deal is better than a bad deal" was one of the more politically misjudged lines of Theresa May's

Lancaster House in January. It has to be remembered that she is the person who gave life to this soundbite. She is responsible for opening up in the Conservative party the view that this might be a viable stratagem, even though she has spent much of the rest of this year trying to soften the impact of what she then said. At this moment of perceived deadlock in Brussels, the Brexit camp are united that Britain must talk up 'walking away' from the negotiations as a realistic possibility. The government, or at least the chancellor, has been attacked by Brexiteers for making inadequate preparations for 'no deal' and for being unwilling to commit public funds to preparing for this eventuality. The government originally conceded that it will spend up to £250m on preparing for a 'no deal' contingency: in the November budget, the chancellor upped his estimate of spend on Brexit preparations to £3bn. In all probability, it was a promise he had to make in order to keep his job.

But is talk of 'no deal' more than a tactical ploy? The chances are that on this question, most Brexiteers don't know their own mind. The popular discourse is that the 'threat to walk away' has to be present in any successful negotiation. It is what every business person or buyer has to 'have in their back pocket' if they are to reach a good deal. But the parallel is a false one. Walking away from the Brexit talks would not be like walking away from buying an overpriced business, house or car. In these situations the prospective purchaser may face some opportunity costs, but no real immediate damage: you walk away and the *status quo* prevails. Yet if Britain were to walk away from the Brexit talks without a deal on the divorce terms, the result would not be the *status quo*: it would bring certain disruption to trade and a high possibility of chaos. At its most extreme, a breakdown of the Brexit talks could mean that planes to and from the continent would no longer fly, nuclear materials and pharmaceuticals no longer cross borders, many EU citizens would become illegal foreigners in this country, and massive legal uncertainties would prevail about the status of thousands of business and insurance contracts.

David Davis insists that such a prospect would be so horrific for both sides that some form of 'bare bones' withdrawal agreement would be reached with the EU 27 in order to resolve the legal uncertainties. He may be right on that. But even then, at the ports, a full regime of customs controls would need hurriedly to be put in place, leading to potentially chaotic delays as lorries queue at the ports on either side of the Channel, disrupting cross border supply chains and leading to a temporary food crisis as supermarkets could no longer depend on regular 'just in time' supplies of perishable foods. A 'bare bones' agreement might contain an 'implementation' period before Britain and the EU traded with each other 'on WTO terms' so that these difficulties could be mitigated. Even then, Britain could unilaterally commit billions of public expenditure to a new system of border controls at the cutting edge of technology without solving the border problem: for if our continental neighbours, particularly France and Belgium, are not willing to do the same, there would still in all likelihood be massive problems of disruption. It is unclear whether the EU would sign up for a 'bare bones' agreement without receiving up front UK payment of the 'divorce bill'.

Brexiteers argue this would never happen because of the damage our partners would suffer as well. Most people are unconvinced by this assessment of relative bargaining strengths. The threat to walk away is a diminishing asset on the two-year timetable for the Article 50 agreement. It seems highly unlikely in terms of practical preparations that all that would need to be done to cope with a 'no deal' Brexit, could in practice be done by March 2019. Walk away now and we might have some chance of making the best of it. Walk away as the clock reaches midnight on 31 March 2019 and real chaos would ensue. Is this how the Brexiteers wish their project to be remembered?

In the eyes of most of the business, civil service and political elite, the Conservative government has no realistic political alternative to some kind of deal with the EU. The political and economic shock of walking away from the Brussels negotiating table would be extraordinarily 'high risk': while EU member states would also suffer disruption and damage to trade, the damage would be massively

one sided. This makes the government's negotiating position fundamentally weak. Our EU partners see threats to walk away as bluster. The best forecast remains that a transition that maintains the *status quo* in all but name, will be messily agreed. But political behaviour is of course not always rational and Conservative prime ministers have a poor record in standing up to eurosceptic pressures.

The prime minister remains politically weak. The continuation of her premiership appears dependent on the support of the most committed anti Europeans in the Conservative parliamentary party, such as Ian Duncan Smith. In the short term Mrs May might win sufficient backing in the cabinet to do a deal on starting trade talks at the December 2017 European council, though it is not at all clear at the moment of writing how she will resolve Irish concerns. The internal battle in London will then turn to the parameters of the trade deal, the negotiation of which a commitment to an enhanced 'divorce bill' payment is intended to unlock. For all the Florence speech's emphasis on the need for a 'transition' or 'implementation' period, the key question of 'transition to what' remains unanswered. The bigger picture of the government's vision for post-Brexit Britain is still extremely sketchy.

In her Florence speech, on the future economic relationship, the prime minister was vague. She dismissed both the 'Norway' option of EEA membership and the 'Canada model' of a free trade agreement, but was obscure as to what something 'in-between' might look like. She takes for granted that the EU27 is ready to contemplate a 'bespoke' trade model for Britain, but that is itself unclear. However the key unresolved question for such a 'bespoke' model is the degree to which that model seeks to break free of Britain's current regulatory convergence with the rest of the EU. The more Britain seeks to break away, the more complex and fraught its negotiation will be. The idea that such a treaty could be negotiated by March 2019, looks hopelessly ambitious, not to mention the political complexity of its ratification. For committed Brexiteers, this can only mean one thing: years, if not decades of being bogged down in what they see as the morass of an EU that will try to hold Britain as close as possible to EU rules and standards, when the Brexiteers are itching to break for freedom.

On one reading of the present conjuncture, the present cabinet implodes, simply because it cannot agree on Britain's longer term goals for our economic relationship with the EU, or perhaps even before that point is reached, on the precise terms of a transition towards that goal. This situation could well arise where there is no majority in the House of Commons for the 'hard Brexit' for which the majority of Conservatives opt, but equally no means of mobilising the underlying Commons majority for a 'soft Brexit' because pro-European Conservatives are unwilling to create the conditions in which a Labour government might come to office. In such a deadlock, there is 'no deal' with Brussels and 'no deal' in the present House of Commons for a viable way forward for the country.

In this situation a new leader of the Conservative party may well emerge, almost certainly committed to a 'hard Brexit', and on his or her own volition, or following a defeat in the House of Commons, see no alternative but to call a general election to obtain a mandate for such a policy. Such an election would be fought on a patriotic cry of securing Britain's independence, invoking the Dunkirk spirit to back a brave Britain standing alone against the Brussels bullies, and claiming the mantle of national unity against a Corbyn-led Labour party that threatens to turn Britain into a state planned, state dominated economy with the same long term prospects for prosperity and freedom as Cuba, Venezuela or North Korea! In June 2017 a paler version of this strategy failed. Could it succeed in 2018 or 2019? The Conservatives may feel the battle cry of Labour's betrayal of Brexit would this time win over working class voters. On the other hand the problems of Brexit and its likely economic impact will have become much more evident to voters in the intervening year.

Alternatively the core leadership of the present cabinet gradually edge towards a Brexit consensus, first in their bitterly divided own ranks, and then in Brussels, on a more or less *status quo* transition

that leads to eventual Brexit, where Britain formally leaves the EU's single market and customs union but endeavours to stay as close as possible to its essential features. Given that this approach is anathema to many Brexiteers, as well as in apparent contradiction of some of the EU's stated 'red lines', this will be a long and bumpy road.

It may be that the Brexiteers are close to resolving in their mind that Britain should choose a very different future. They may accept the necessity for an Article 50 withdrawal agreement in order to avoid the massive potential disruption of a breakdown in negotiations. They may also reluctantly agree that a limited implementation period is unavoidable to give Britain time to put in place workable border arrangements and recruit the customs and immigration officers necessary for Britain to survive Brexit without chaos. But they may also be coming to the view that they are prepared to abandon the pursuit of a 'deep and comprehensive' trade agreement with the EU as simply not worth the bother, and too high a price to pay in terms of denying Britain the 'opportunities' of Brexit. If this is their view, they will have to opt instead for a WTO trading relationship between Britain and the EU as their preferred long term arrangement. This could cause as profound a division in the Conservative party as that created by the repeal of the Corn Laws in 1846 and the Chamberlain plan for tariff reform and imperial preference in 1903.

6. The inadequacies of Labour's current position

This chapter argues that Labour should become much bolder in its opposition to Brexit. As the Brexit disaster unfolds, Labour must move away from its commitment that, come what may, the referendum result is irreversible. It would be an abomination of democracy for Labour to whip its MPs to vote for Brexit terms which they believed to be wholly opposed to our national interests and which were never honestly explained to voters in the referendum. Labour should regain the confidence to make the basic case for representative democracy.

To state the obvious, Labour **lost** the 2017 general election, though many Jeremy Corbyn supporters find this self-evident truth hard to accept. The Conservatives are in government, maybe in office but not in power, but far more strategically placed to determine Britain's Brexit future. Most political attention has therefore focused on what Labour can achieve on Brexit from the opposition benches, given Conservative divisions. But Labour cannot escape asking itself difficult questions about its attitude to Brexit in the longer term. The government wants Brexit 'done and dusted' by the spring of 2021: agreement on a final deal before March 2019, with a two-year implementation period to follow. The consensus view is that this timetable will prove impossible to meet: the most that can be agreed by March 2019 is "the framework for the future relationship", while the completion of the detailed negotiation of a trade deal would take place in the transition period following Brexit. Many Brussels insiders believe that completion of the trade deal will take several years beyond that. By June 2022, a UK general election will need to be held. By then, the final trade deal will not have been ratified by all 27 EU member states and it may not even have been finally agreed. A general election, even on the assumption that this parliament lasts its full term, will in all probability create an opportunity for Labour to pull Britain back from Brexit disaster.

Yet this is not an opportunity some in the current Labour leadership relish. For them, Brexit is a distraction from the socialist transformation they now see their victory in the party's internal battles as facilitating. Their ambitions are to end austerity, dispatch neoliberalism to the history books and implement a new (as yet extremely imprecise) model for economic management in which the state plays a far bigger role. In their eyes, Europe is a subject to be wary of, an obsession of the vanquished Blairites. It is a question that divides working people from a proper appreciation of the class interests that should unite them. The old suspicions of the EU as a 'capitalist club' are still strong: for the old hard left, EU rules remain an insuperable obstacle to building 'socialism in one country'.

Others though on the Corbyn left are more reconciled to working for 'socialism' within the framework of the European Union. They argue for a 'different Europe', not a rejection of Europe itself. This may be a legacy of 1980s euro-communism: the lead here was initiated by the Italian Communist party, the PCI, committing itself to European integration. This started a revisionist process in Italy that eventually led to the creation of the progressivist 'broad front' of the Olive Tree coalition and today's Partito Democratico. This experience contrasts with that of the French Communist party, the PCF, which stood loyally by its anti-capitalist anti-EU faith, and as its reward, has undergone steady marginalisation and virtual collapse since that era.

The new parties of the 'anti-austerity' left on the continent, Podemos in Spain and Syriza in Greece, which have similarities of style and social composition to Corbynism, are also pro-European. While their success reflects the anger felt in their countries about the euro, or more correctly, the way it has been managed, and the mass unemployment and social despair the eurocrisis brought with it, neither Podemos nor Syriza have called for exit from the European Union. Alexis Tsipras, Greece's Syriza prime minister, rejected 'Grexit', despite the draconian austerity he was forced by 'the Troika' to accept, precisely because he identified as a 'European' for whom his country's EU

membership represented a path to progress and modernity for Greece, rather than a return to a Balkanised isolation. Even his former finance minister, Yanis Varoufakis, who thought there was a viable alternative to brutal austerity, argues powerfully for reforming Europe from **within**. For those who see themselves as international socialists in positions of influence in Corbyn's Labour party, Brexit, which by definition isolates British socialism from the progressive left in Europe, must be somewhat uncomfortable.

There are also tactical reasons why Corbyn's Labour cannot ignore Brexit. The threatened loss of jobs in sectors of the economy dependent on inward investment is of vital concern to his trade union backers, such as Len McCluskey of Unite. Among the hundreds of thousands of new Labour members who support Corbyn, the 'idea of Europe' appeals to the idealism of many, although the indications are that their loyalty to 'Jeremy' and what they think he stands for, overrides all other considerations. The shadow chancellor, John McDonnell (who in the leadership group is by reputation the most eurosceptic) has to reflect on the implications of Brexit for Labour's relationship with business. He must realise that key elements of Labour's economic programme strike alarm with the business community, especially its proposed hikes in corporation and personal taxation and promises of nationalisation. Keeping Britain in the single market on the other hand might well stave off business criticism and create more discretion for socialist policies in other spheres of policy.

Other factors could weigh heavily with Corbyn and McDonnell. They are Irish republican sympathisers to their core. The unfolding of Brexit on the troubled politics of the island of Ireland could make a huge impact on them. For all the British protestations and solemn commitments to the contrary, it seems difficult to envisage how the restitution of some form of 'hard border' can be avoided, unless the government abandons its commitment to leave the EU customs union. Yet a 'hard border' would represent a sharp reversal of progress in the Northern Irish peace process and possibly trigger a return to violence by dissident republicans. The Belfast agreement brought Sinn Fein into the democratic process in the north and has enabled the party to make itself a major player in the south. Where Sinn Fein sees its interests in the coming months and years, Corbyn and McDonnell will feel a strong pull to follow.

More widely, Liam Fox's obsessive pursuit of an independent trade policy will prove a major destabiliser of the present UK constitutional settlement. The UK government will insist on Brexit on retaining at Westminster the EU's present powers to maintain the integrity of the single market and conduct trade policy, rejecting full devolution of powers over agriculture and fishing, which are at present partly devolved. The major bargaining chips the UK has in trade negotiations with, say, Australia, New Zealand, the United States, Brazil and Argentina will be liberalisation of access for their 'cheap food' to the UK market. This may benefit poor families, but it is a mortal threat to the livelihood of sheep farmers as well as beef and pig producers – and these types of farmer are overrepresented in Northern Ireland, Wales and Scotland. The Scottish parliament will make an issue of this and deny its 'legislative consent' to the changes in the devolution settlement that Brexit brings in its wake. This will invite Westminster to override the will of the devolved assemblies regardless. Separatist and nationalist passions will be reignited. The farmers will have on their side a massive environmentalist consumer lobby, objecting to the import of meat from countries where animal welfare standards are lower and there are perceived health and environmental risks. This is high politics for Corbyn. A key strategic objective is to rebuild Labour's strength in Scotland and consolidate it in Wales. His instinct will be to empathise with the separatists' objections, but argue that a socialist United Kingdom would not sacrifice the 'nations' on the altar of neoliberal trade deals. The logic of his position leads back into British acceptance of pooled EU sovereignty over trade and customs.

What chance is there that Labour policy on Brexit might change: that a new Labour government once in office, on 'looking at the books' and having the benefit of full insider assessment of where

Brexit is leading, would pause the whole process and ask Brussels for a further period of grace while it conducts a national re-think of Britain's European strategy? So far Labour policy on Brexit has been consistently hardline in affirming Labour's acceptance of the referendum result and asserting that Britain is leaving the European Union. Jeremy Corbyn made that commitment the day after the referendum result, calling for Article 50 to be invoked that weekend, until someone pointed out to him that matters were a trifle more complicated than that statement allowed for. Corbyn ordered a three-line whip on Labour MPs to vote for the Article 50 legislation in February 2017. He then sacked front-benchers who refused to tow the party line. Not only that: he insisted that Labour MPs vote with the Tories for the bill on third as well as second reading, after all Labour's proposed amendments had been voted down. There has as yet been little suggestion from Labour the referendum decision could be overturned or the people consulted again, except in a letter to a constituent from Diane Abbott, the shadow home secretary that she later described as "poorly worded", without explaining which bit of the wording she was referring to! Yet this may prove a significant straw in the wind.

When it comes to Britain's future relationship with the EU, Labour has so far stuck to 'constructive ambiguity': the phrase by which David Davis once characterised the government's Brexit negotiating position. Before the summer Labour's position was one of extreme opacity. Labour's aim was to achieve the 'full benefits' of the single market without actually being members – the classic, much criticised 'have your cake and eat it' position from which the government is now tentatively edging away. Labour argued the focus should be on 'outcomes' not on existing EU models or institutions like membership of the EEA or continued full participation in the single market and customs union. If Britain were to remain fully in the single market, the public would not understand what had changed as a result of the Brexit vote. A future Labour government would be denying itself the new economic 'freedoms' that Brexit supposedly offers. Acceptance of EU regulations without Britain having any say in their formulation, would be an unacceptable affront to our parliamentary sovereignty. Mr Davis could not have put it better himself!

There has since been a significant and welcome shift in tone. Labour now proposes a longer transition period of up to four years in length. In addition, Labour is crystal clear that the existing rules of the single market and customs union would prevail during this four-year transition. Yet the shape of Labour's vision for the ultimate economic agreement with the EU is still vague. Labour, we are told, would pursue a 'jobs first' Brexit. Membership of the customs union and single market is not ruled out for the longer term. Labour supports a 'progressive Brexit' where Labour maintains adherence to high social and environmental European standards, with no 'race to the bottom' and wants to develop the closest possible co-operation with our European friends and former partners in the post-Brexit era. There are some real differences with the Conservatives here: on the length of the proposed transition, the greater clarity of the rules under which that transition would operate, and the wider keeping open of options for Britain's future long term relationship with the EU. Crucially Labour's commitment to continued regulatory convergence with the EU stands in sharp contrast to the view of hardline Brexiteers. Labour's call for a progressive Brexit, its rejection of a 'race to the bottom' on standards, and its commitment to a continuing close relationship with the EU stand in stark contrast to the various visions for a 'Global Britain' that many Conservatives support.

'Constructive ambiguity' has already yielded Labour a political dividend. Psephologists believe it was crucial to Labour winning a far higher vote than expected in the June 2017 general election. On the one hand it allowed leave voters, particularly those who in the 2015 GE had backed UKIP, to vote Labour as a protest against Conservative "austerity" in the belief that Labour fully accepted the referendum outcome. More significantly, it encouraged remain voters who reacted against Theresa May's 'hard Brexit' rhetoric, to back Labour as the only available vehicle of protest.

Some Labour remainers interpret Labour's opaque stance as a cautious preliminary to more robust opposition to Brexit, once the problems with the negotiations become apparent and public opinion on Brexit begins to shift, as remainers fondly hope. Yet events at Labour conference somewhat dampened this optimism. Conference had the opportunity to choose a motion for debate that would have committed Labour to a policy of seeking membership of the single market on a permanent basis. This had much potential support. For the trade unions it would have been in line with the TUC policy statement agreed at their September congress. As for constituency delegates, research led by Professor Tim Bale has shown that two thirds of party members support staying in the single market, with a further 20.7 per cent saying 'more yes than no' and only 4.2 per cent in favour of leaving.

That the party did not come off the fence at Brighton was a deliberate choice of the Jeremy Corbyn leadership. His supporting faction, Momentum, successfully advised delegates to vote against putting a 'soft Brexit' motion on the agenda. This came as a grave shock and disappointment to a 'broad church' of Labour pro Europeans uniting such figures on the left as Manuel Cortes, the general secretary of the TSSA, and Clive Lewis, the Norwich MP who made his reputation as an outspoken Corbynista, with Labour's pro-European moderates such as Heidi Alexander, Ben Bradshaw, Chris Leslie, Alison McGovern, Pat McFadden and Chuka Umunna.

The success of this Momentum manoeuvre was doubly disappointing in that it undermined the positive move forward on transition that Keir Starmer had made a few weeks earlier. A move to support single market membership would have been perfectly logical in the light of Mrs May's Florence speech. In that speech, Theresa May explicitly rejected both the 'Norway' and 'Canada' options for Britain's future relationship with the EU. Labour could have said at Brighton, we want to be a 'Norway', but as a far bigger economy and more influential power than Norway, we want to explore a more equal relationship with the EU than Norway enjoys. Brighton was a disappointing failure on the central political issue of our time. Events at Conference have made it clear that, while Sir Keir holds the brief, it is Messrs Corbyn and McDonnell who still ultimately dictate the policy.

More than that, for Labour the biggest question on Brexit remains unanswered. Where does Labour stand in the far from impossible eventuality – of either 'no deal', or disastrously poor terms that the Conservatives are forced to accept? Might then the party argue that the *status quo* is in the national interest and perhaps support calls for a further referendum? Or will Labour stick to its present view that the June 2016 referendum vote and parliament's backing for the invocation of Article 50 are binding and irreversible in all circumstances? These questions have so far been met with sullen silence. Yet a powerful case against the binding nature of the 2016 referendum can easily be made.

First, the June 2016 referendum only offered voters a crude binary choice, remain or leave. But there are a range of multiple choice options in deciding how to leave, each of which has more limited attractions compared to the *status quo* than the catch-all Brexit proposition. As the public becomes more aware of the extraordinary complexity of Brexit, none of these radically different leave options might individually might have carried a majority in last June's referendum vote. In theory, the June 2016 referendum would have had more legitimacy if the Cameron government had first determined that it supported leave, then established from Brussels the possible terms of exit and finally put those in a referendum to the people as against the *status quo*. That would have been a meaningful choice: remain or leave as posed in 2016 was not.

Secondly in the absence of the people being offered a genuinely informed choice, the only people who can decide on the acceptability of the particular form of Brexit proposed, can be members of parliament. Citizens' juries could offer a guide but no more. MPs are representatives (not delegates either of their party machine or of the 'popular will' of the people) who are paid to make these kind of judgments and if the voters do not like what they have decided, they can vote them out at the next general election.

Thirdly, a referendum only captures the majority view at a single point in time on a matter that could have profound consequences for decades. The argument that, because there has been a 52-48 vote in a referendum 'the will of the people must be obeyed' – forever, whatever the circumstances – is surely bogus. Facts change. Opinions change. The essence of democracy is that people have the right to change their mind which they frequently do at general elections. This is why politicians as opposite in temperament and politics as Clement Attlee and Margaret Thatcher despised the concept of the referendum, as "a device of dictators and demagogues". And that is why referendums are so beloved of dictators because they can so easily be manipulated and there is no way back. Think back to the 2016 referendum.

- Who explained that the exit bill for leaving the EU could be as high as a third, perhaps more, of what we annually spend on the NHS? Instead voters were infamously told that Brexit would release an extra £350m a week for the NHS.

- Who told voters that there would be no change in immigration policy for at least five years after the Brexit vote and that even then, any restriction on numbers in likely to be token? It has since emerged that the Home Office lacks the basic capabilities to manage our borders. The insistent voices of business that they simply cannot survive without an adequate supply of EU migrant workers, cannot simply be ignored.

- Who set out the consequences of pursuing independent trade deals with the rest of the world? The price we pay for this vision of a Global Britain is likely to be the loss of free trade for nearly half our exports. There will be little prospect of barrier free trade with the EU unless we stick rigorously to European standards. Yet if we stick to European standards, and provide assurances of regulatory convergence, what will be the scope for more 'ambitious' trade deals?

Who made these points in the referendum? Who was even aware of them? The leavers will of course say the remainers had their chance. But the truth is that referendums are decided by gut and emotion, not by careful examination of the facts. That can only be the role of our representatives in parliament. If MPs have serious doubts about the damage to their view of the national interest that they believe Brexit is taking, surely the referendum result cannot prevent them acting as they see fit. If that means a general election on the decision they have taken or a further referendum, then so be it. At the moment Labour seems unwilling to confront this question. At some stage it must. Labour must regain the confidence Clem Attlee had in making the case for representative democracy.

7. The socialist case for the single market

Labour still hesitates to make British membership of the EU single market and customs union its explicit Brexit goal. It is high time this hesitation was abandoned. This chapter deals with the arguments of those who see the single market as the enemy of socialist values: the next with those who think Labour should not commit to the single market because they baulk at a commitment to free movement and unrestricted EU migration.

Many on the left recoil at the very idea of the single market because they do not feel any empathy with 'markets' *per se*. Is this what Labour's new leadership at heart believes? Does that explain their apparent reluctance to commit to the goal of single market membership?

In his conference speech this September, Corbyn described the central task for Labour as to build "a new model of economic management to replace the failed dogmas of neoliberalism". But to reject neoliberalism is not the same thing as to reject the role of markets in the running of a modern globalised, interconnected, consumer driven economy. Neoliberalism is a doctrine of the small state, a belief that there is no higher purpose to politics than cutting taxes and regulation, that 'state failure' is a far bigger risk to a free society than market failure (despite the appallingly deep social and economic consequences of the 2008 banking crisis). One can support a role for a strong and active state in a competitive market economy without subscribing to the doctrines of neoliberalism. In that same speech Corbyn went on to speak of a "new and dynamic role for the public sector **particularly** (my emphasis) where the private sector has evidently failed". That statement implies that, under the right conditions, the private sector can succeed.

The new Labour leadership needs to clarify its ideological position. Is it seeking radical reforms to capitalism, but content to work within the framework and constraints of a market economy? Or is it aiming to replace this model with one in which state investment, planning and ownership plays the dominant role? If the latter is the case, this is a far more fundamental change of course for the British left than a rejection of New Labour. It would mark a sharp break with the political economy of every Labour Leader since Attlee. It would be a rejection of modern European social democracy as symbolised by the German SPD's formal rejection of Marxism with the adoption of the Bad Godesburg Declaration in 1959: "the state wherever necessary; the market wherever possible". Corbynism would then be reopening ideological debates about the meaning of socialism and the role of public ownership that would take the left back to at least the 1950s.

Of course, in the 1970s, Tony Benn argued with extraordinary passion and eloquence that EU rules were a major obstacle to his 'alternative economic strategy'. His legacy is the complaints of some on the left about EU state aid rules restricting Labour's ability to pursue a socialist industrial policy. Corbyn talked vaguely in his Conference speech about "a Brexit that uses powers returned from Brussels to support a new industrial strategy to upgrade our economy in every region and nation". Most European social democrats would argue that state aid rules have never proved a significant obstacle to progressive policies or politics. The left's fears about the single market have been shown to be theoretical not practical: witness President Macron's recent nationalisation of a failing French shipyard!

For single market rules to be problematic, Corbyn and McDonnell would have to hold a quite different view of the discretionary power of governments in a global market economy to anything any European government has attempted in modern times. There are rumours that McDonnell is 'war gaming' what would happen in the event that an incoming Labour government faced a confidence crisis in the financial markets and a run on the pound. The most important historical

experience of Corbyn and McDonnell 's political youth was the 1976 IMF crisis, when Jim Callaghan's Labour government had to obtain an IMF loan to support the pound and stave off potential bankruptcy. The then young activists in London Labour Briefing rejected what Denis Healey felt he had no acceptable alternative but to do, and bowed the knee to pressure for public spending cuts. At the time the left argued that In face of a balance of payments crisis, they would have introduced import controls; in face of a run on the pound, they would enforce stricter capital controls; in face of a collapse of industrial investment, they would direct the boards of private sector companies through 'planning agreements' to make productive investments.

Such measures would definitely be in breach of our EU treaty obligations today. Yet Britain is a much more internationally integrated economy than it was in 1976: national measures which the Labour government judged too difficult then, may be quite impossible now. Yet the question remains open of what shapes the world view of the present Labour leadership.

As against these theoretical speculations, the positive arguments for the single market are both pragmatic and principled. The arguments of pragmatism are about jobs, tax revenues and public services. Economic growth makes socialism or social democracy a lot easier to practice. An enlarged cake can be more equally divided without creating embittered losers. Growth also delivers buoyant tax receipts out of which more generous public services can be funded without the need to raise tax rates. True, in the last decade the social democratic growth model has become more problematic. While the old social democratic assumption that a rising tide of growth lifts all boats can no longer be regarded as universally valid (hence the continued squeeze on wages for median households), that does not mean we should reject the need for growth per se. Progressives need new innovative policies to address Britain's huge productivity problem, without which growth prospects for the period ahead are dismal, even before the impact of Brexit is factored in. But the counterfactual proposition that voluntarily putting ourselves outside the European single market would be a stimulus to growth, finds hardly any expert backers. In what is already a terrible situation, we should avoid further self-inflicted wounds.

Britain's national strategy of EU membership had a solid economic logic to it. Originally it was to enable British industry to participate in a common market enjoying its *trente glorieuse* of dynamic growth. In face of the collapse of British manufacturing in the 1980s, the coming of the single market facilitated the only industrial strategy that Margaret Thatcher was prepared to support: the promotion of overseas inward investment into the UK as a 'gateway' to the European market. That has been a notable success. The best example of this is the remarkable resurgence of British-based car manufacturing, largely under foreign ownership, which today accounts for an extraordinary three quarters of a million jobs. Complex cross-border supply chains have developed, which even the Brexiteers now half-acknowledge, need to be protected. Hence the typical 'have your cake and eat it' talk of seeking a new tailor-made customs partnership with the EU, while still exiting the EU customs union itself. The government appears to have promised some overseas manufacturers, such as Nissan, that they will be compensated for any disadvantages Brexit incurs: Labour can avoid what may turn out to be sizable spending costs by simply staying in the single market.

More controversially in Labour circles, the single market helped transform the City of London, consolidating London's success as Europe's leading financial centre. True, the City unbalanced the British economy and increased inequality. True, huge inward capital flows to London-based banks put upward pressure on the exchange rate, contributing to the rapid further decline of manufacturing, (which was unforeseen and unexpected) under the Labour governments of 1997-2010. True, financial regulation was inadequate (Labour was partly to blame); speculative behaviour, which sometimes bordered on criminality, went unchecked; and the ensuing crash has created deep and lasting economic damage. True, public perceptions of City excess and rising inequality strengthened the sense of grievance of the 'left behind', greatly magnified by the 2008 financial crisis and was undoubtedly a key contributor to the leave vote in June 2016.

This is a powerful charge sheet. Yet the positives of the City should not be forgotten from a Labour perspective. London is the world's leading financial centre. It can boast sets of top-class skills that nowhere else in Europe can. It once had a culture of honest dealing which gave London its global reputation, which has not been entirely lost by the excesses of the last decades. Yes, it needs to be properly regulated – and it was Labour's Alastair Darling who in 2008/9 put the City under the new machinery of EU-wide regulation that was being rapidly developed to deal with the consequences of the 2008 crisis. But it is in popular parlance, a 'goose that lays the golden eggs'. No one knows precisely how much business the City will lose as a result of Brexit (some of the most pessimistic estimates are as high as 25 per cent). The impact on UK tax revenues of the loss of profitable activities and high paying jobs can only be significant and adverse. Some commentators have talked about a £10bn loss of revenues from the City. In a low productivity economy which is looking forward to growth of only 1.5 per cent per annum in the next five years, this must be a serious concern to any incoming Labour chancellor.

Exit from the single market would also be a huge blow to the whole of Britain's thriving service sector, home of our fastest growing exports and earning massive balance of payments surpluses for Britain. This is much larger in economic scope than the 'City' and includes films, law, architecture, design, accounting, consultancy, and most of our vibrant 'digital economy'. Brexit will be damaging for three main reasons: the loss of automatic rights for British businesses to do business on the continent; the loss of 'free movement' entitlements which enable British personnel to work anywhere – with no notice or bureaucratic formality – servicing clients anywhere in the EU; and the UK's departure from EU frameworks of regulation. These are not just technical questions with an important bearing on jobs: they are about what kind of country we are and can become.

The service sectors, so under threat as a result of Brexit, are part and parcel of modern Britain's great intellectual, cultural and creative strengths. They are the product of a world-class university system and strong research base. Of course, progressives want to see widened social access to higher education, a fairer system of student support and closer links between universities and high level apprenticeships and commercially applicable R&D. Nonetheless the knowledge economy is a great British strength. High quality services offer high quality jobs that it should be Labour's mission and purpose to promote. Mrs May dismisses modern Britons working in these sectors as 'citizens of nowhere': in fact they are citizens of a diverse, modern Britain without rigid hierarchy and class distinction, working in services that offer wide opportunities for individuals to succeed and find personal fulfilment. They also generate huge tax revenues that enable the prospect of a better life for all.

But more than these pragmatic arguments, it is surely time to bring values back to the centre of the debate about Britain's future relationship with the rest of Europe. The fundamental issue on Brexit is whether Britain remains economically and politically as closely aligned with the EU as it is possible to be. (This matters whether Brexit ultimately happens or not). With Trump in the White House, and security and environmental threats increasing all around us, it is clear that politically more than ever Britain should share a European vocation. But on economics too, the single market is central to a credible prospect of a 'social market' and better regulated capitalism. 'Hugging the EU close' is essential because our values as progressives dictate it should be.

The single market is a social market because it is underpinned by a huge *acquis* of rules that guarantee everything from basic workers' rights to consumer protections, environmental obligations and health and safety standards. Not all of these rules are perfect. Many could be improved. Yet in truth, the single market remains the best existing defence we have against a 'race to the bottom' in the modern world. And it provides a model of political economy which could permit a much better regulated capitalism.

Even if Britain ends up (I hope temporarily) outside the European Union, Labour should campaign with our fellow European social democratic parties for higher standards to which Britain should still adhere. It is the EU that gives our societies the political capacity and clout to act against unscrupulous business that attempts so-called tax, regulatory and social 'dumping'. Labour should be pressing in the EU for a strengthening of the social pillar, for example, for:

- a European charter of rights for workers in the gig economy;
- corporate tax harmonisation necessary to weaken drastically the current incentives for tax avoidance;
- new rules on the determination of top pay, as the European parliament had the courage to impose in the case of bankers bonuses.

Some on the left will argue that a Labour government in Britain could enact these measures of their accord, without waiting on Europe. In some cases this may be true. But it is more difficult to regulate capitalism through national action in a globalised economy where national controls have limited effectiveness. It is often not easy even in the EU, but at least the EU still has clout as the most wealthy single market in the world. It has much more power vis a vis global businesses than even a socialist Britain could ever enjoy on its own. Ask Google!

One issue with EU rules is that they are difficult to change because they represent an embedding in law of a consensus among the political parties, social partners and the member states, which has been carefully and often painfully arrived at. But unless one believes in the permanent electability of Labour governments, that is a strength as well as a weakness. The existence of an EU *acquis* of workers' rights in effect constitutionalises social and economic rights.

When the Brexiteers complain about loss of sovereignty, make no mistake – this is what they want to change. Why is it that the Brexiteers stand so committed to their ideology of a Global Britain and hate the European Union with such passion? It is because they believe it is the EU that is holding Britain back. For them that means EU membership has prevented the completion of the Thatcher revolution. They want out of the EU so that they can, as they see it, liberate business from oppressive bureaucratic rules and seize the opportunity to destroy the European social model that they so despise. These are the values and mindset that led to the tragedy Grenfell Tower. Full membership of a strengthened EU single market points Britain in a completely different direction of political change.

8. Managing migration, yet accepting freedom of movement

This chapter is about how Labour should handle the issue of 'free movement'. How does Labour respond to the central, probably decisive argument of the 2016 referendum campaign that only by leaving the EU could the UK escape EU 'free movement' rules and 'take back control' of its borders? The clear belief on the part of many people who voted leave on these grounds was that by taking back control, levels of immigration could be drastically cut. This was a vote to cut numbers: it was not a vote, as some leavers now argue simply to regain a technical sovereignty over our borders.

In the immediate aftermath of the referendum there was a view on the continent that in order to keep Britain engaged as a European power, despite Brexit, it should be possible to reform 'free movement' and maybe even offer Britain continued membership of the single market shorn of its free movement obligation. (A distinguished group put together by the Bruegel think tank suggested this.) However this scenario quickly became unrealistic after Mrs May rejected a 'soft Brexit' in her October 2016 Conference speech. As a result, Britain can forget any special favours on 'free movement' in the coming trade talks. In this context, David Davis' promise that he would seek to secure continued free movement in the financial services sector sounds ambitious, if not ludicrous. Free movement for bankers, but not for fruit-pickers, food process workers or people at the coffee bar counter making Macchiatos comes across as insensitive, inegalitarian and unnegotiable.

In the last year, the British government has squandered any goodwill it might have had. Twelve months ago a Labour initiative to keep Britain in the single market, but engage in a positive discussion on the reform of free movement might have gained traction. It is almost certainly now too late. This of course sharpens the political problem for Labour. The 'jobs first' Brexit that Labour seeks, will involve sticking to the existing free movement rules. How then can Labour explain its choice for the single market to Labour supporting leave voters who voted in the referendum for a cut in immigration? I suggest a four-pronged approach:

First, recognise more openly the genuineness of public concerns over the high levels of migration there have been in the last two decades

It is not 'racist' to argue that what has happened could have been better managed. The proportion of the UK working age population that were born abroad doubled between 1997 and 2015 from 8 per cent to 16 per cent. The eight million people born abroad comprise 3.3 million from the EU/EEA and 4.6 million from the rest of the world, though half this latter group are now UK citizens. Much immigration to Britain in recent times has come about because of what most people would regard as "good things" about our country. We can boast universities and colleges at which students from all over the world want to study. High skill migration brings clear national benefits to the economy and the public finances: we would only be able to afford worse public services without it. In the wider economy we now enjoy historically very high levels of employment. Migrants come here because there is a ready availability of jobs. Who would fill these jobs if migration was drastically cut? There is no 'reserve army' of British born unemployed waiting in the labour market wings, certainly not in London and the south east. Crops would rot unharvested; the building sites for the new housing and infrastructure Britain so desperately needs would be undermanned; NHS waiting lists would extend and the social care crisis be magnified. In many different sectors of the economy presently-profitable businesses would not be able to recruit the staff they need.

However, to spell out the benefits is not to endorse the view that large scale migration is entirely unproblematic. There are legitimate concerns about the impact of low skilled immigration. David

Metcalf, who was chair of the government's migration advisory committee, summed up the conclusions of all the academic work on low skilled migration from **both** the EU and non-EU, in the following measured way:

The main benefits go to labour intensive-employers who often cannot get an adequate supply of UK-born labour. Migrants also gain via the higher UK income compared with that in their own country. Costs, often focussed in particular locations and sectors, include:

- Rapidly changing populations with possible implications for cohesion and integration
- Congestion – extra pressure on housing, education, health and transport services
- A small negative impact on wages of low paid workers
- Serious exploitation of some migrants – it is difficult to estimate true numbers – because of inadequate enforcement of minimum labour standards.
- Low skilled migrants have a neutral impact on UK-born employment rates, fiscal contribution, GDP per head and productivity.

There is little evidence to suggest that migrant workers put British-born workers out of work. But the ready supply of low skilled immigration may impact on employer willingness to invest in upskilling a native workforce. Too many companies and institutions have adopted business models that depend on migrant labour.

Labour is uniquely placed to lead a balanced debate on migration: a debate that should have taken place in the referendum campaign and never did. It should start now.

Secondly, act within the scope of the existing rules governing 'free movement' to curb its abuses

The EU's existing rules allow a member state to send home any migrant who overstays beyond three months without getting job, but that did not emerge until after the referendum. At present Britain is administratively incapable of enforcing such a rule because we do not require migrants to register their address once they are in the UK. Yet this is not an onerous or discriminatory requirement. Other EU member states do it.

Similarly President Macron has just won an important victory in the council of ministers to reform the posted workers directive. This prevents undercutting of locally agreed wage rates by employers and contractors from other member states who pay their workers less. In Britain it is at present difficult to enforce such a rule because of the absence of collective bargaining coverage over much of the private sector workforce. But a Labour government could insist, as part of its commitment to greater labour market fairness, on the restitution of something like the old Fair Wages Resolution which required public service contractors not to undercut equivalent wage levels in the public sector. This would enable posted workers rules to be applied more widely in the economy.

The government has already rectified some of the mistakes it made in the 2010-15 parliament, for example restoring the migration impact fund and some of the earlier cuts in public sector training budgets which left the NHS scouring for doctors, nurses and other paramedics across the continent. Yet the inability of central government to identify quickly the strains that migration can pose on housing and public services and act, locality by locality, to address them has been a Whitehall failure

of planning. The government should have been able to identify where housing shortages were acute, where overcrowding and waiting times in doctors' surgeries, A&E and maternity departments were becoming intolerable, and where teachers needed extra help to cope with children speaking a wider range of languages in their classrooms. Where there should have been coordinated data collection and monitoring by Whitehall as a basis for ministerial action, there has been inertia.

Similarly, enforcement of minimum wages and labour standards has been lacking. There was a step forward with the establishment of the Gangmasters' Authority. But the wages inspectorate lacks the resources to enforce the minimum wage and other basic labour rights. If we are to have laws, they should be obeyed. In the absence of such enforcement, stories of abuse are magnified in the public mind.

Thirdly, address directly the problem that too many business models have become dependent on a ready supply of low skilled labour

It has become too easy for many employers to rely on bright, enthusiastic and 'eager to earn' EU citizens and neglect the training and upskilling of British workers. Too many companies are locked in what economists would call a 'low skill equilibrium'. How can Britain break out of this? Some of the elements of necessary reform are already in place. The Conservative government has introduced a 'training levy' on employers: this recognises the existence of a crucial market failure that no firm will invest much in training if its rivals can avoid the costs of training by poaching workers other companies have trained.

Labour should go further. The worst failings of the British labour market and training system appear to be concentrated in particular sectors: construction, social care, hospitality, food processing. The government should consider the creation of statutory wage and training councils in these problematic sectors with a remit to raise skills and productivity, enforce wage standards and offer new employment opportunities to young people whom our school system has failed or whose parents live in areas where decent jobs are sparse.

These councils should contain equal numbers of employer and employee representatives, but like the low pay commission have an independent chair to ensure clear decisions where consensus is impossible to achieve. These new councils should have statutory authority over wages and be responsible for training. They should have the budgetary capacity and powers to ensure employers are offer adequate numbers of training places and apprenticeships. Not only would these councils be responsible for enforcement of minimum wage legislation; they would also set higher statutory minima for employees who attained recognised skills, giving employees a clear incentive to train.

Such a system would not discriminate directly against migrants – but through its control of training budgets the wage and training councils would encourage employers to recruit young people from British schools and create new opportunities for them. The target group should be the third of our school leavers who still fail to secure five decent GCSEs. The councils should offer additional support to employers for young people whose basic educational standards need bringing up to scratch. The councils should be set targets to recruit young people from parts of the country with fewer job opportunities and lower labour participation. Britain needs to make this effort on behalf of our own disadvantaged young people if public confidence is to be rebuilt in an open and tolerant society.

Fourthly, Labour should expose the unreality of the 'taking back control' argument

Following the EU referendum, Theresa May moved rapidly to commit the government to ending free movement as it presently operates. But the detail of the new controls planned on EU migration

to the UK have been slow to emerge. It is clear the government has no intention of acting on migration before the date set for leaving the EU in March 2019. It is also clear that there will be no effective controls on EU migrants coming to Britain until the end of the government's so-called implementation period two years later. Free movement will in theory have come to an end, but with no visible impact on anything. After that date, it seems the government is intending to manage migration by a system of checks on employers and landlords, not by tightening border controls. Yet the prime minister insists that she remains committed to the Conservative manifesto goal of reducing total (non-EU as well as EU) net migration to the UK to the tens of thousands. Who is kidding whom here? Surely there is room for Labour to tell the honest truth.

Labour could therefore make a much stronger argument about migration than it has attempted since Jeremy Corbyn became leader. But there is a deep reluctance to engage. Underlying this are the real tensions within the party's electoral support base. Virtually all the main sections of the party – trade unions, rank and file members (both old and new), as well as Labour MPs, of whom all but 10 supported remain in the referendum – are pro-European by instinct – except notably the inner core leadership of Jeremy Corbyn and John McDonnell and their circle of intimates on the far left. Against that, while many of the most strongly supporting remain constituencies are Labour held, two thirds of all Labour-held constituencies in the 2015-17 parliament, voted leave.

These fissures are greater simply than electoral geography. They involve contested interpretations of the 2016 referendum result – and indeed of Labour's surprisingly strong performance in the 2017 general election. In truth they are at root deeply ideological divisions about Labour's future. If Labour's present ambiguities cannot be resolved, Labour will not successfully emerge as the political vehicle for a broad based opposition to a 'hard Brexit.

Within the ranks of Labour's Brexit acquiescers are many who interpret the referendum result as a clarion call for Labour to reconnect with its working class base. While in the June 2016 referendum, a decisive majority of Labour's 2015 supporters had backed remain, this was not true of working class voters as a whole. The high turnout in the referendum of many working class voters, or rather traditional non-voters (people who had not ventured to the polls in significant numbers for a generation), arguably gave leave the decisive edge. Of the two and a half million people who voted in the referendum but who were eligible to vote and did not do so in the 2015 general election, it is estimated that 80 per cent voted leave. This leave surge among certain sections of working class voters, including these habitual non-voters, was widely interpreted as a revolt against the political establishment. As a result, Labour analysis of the leave victory in the June 2016 referendum has tended to be simplistic: it was a revolt of the 'left behind', the 'losers' from globalisation, the product of three decades of 'neoliberalism and austerity'. Some, but not all, accept that immigration trumped all else: others see it rather as the symbol, but not the real cause of discontent.

These are highly tendentious interpretations of the referendum result. The golf clubs of comfortable, suburban, small town and rural England contained legions of leave voters! A majority of Conservative voters backed leave not remain: the reverse was true of Labour supporters. David Cameron failed to convince a majority of Conservative voters to follow his lead on Europe. Also non-white voters and some of the poorest parts of the country – Merseyside, Glasgow, and housing estates in inner London – strongly voted to remain. As for the very high leave vote in many midlands, northern and Welsh industrial towns and one time coalfield communities suffering historic economic decline, this was matched in many seaside towns that have lost their lustre which were once bastions of Conservative support. The referendum result, in fact, demonstrates that social class was not the decisive factor in determining whether people voted leave or remain. Far more significant predictors of how people voted were age, ethnicity and education level.

So while the 'left behind' analysis is part of the referendum story, it is not the whole story. The reason it has gained traction in Labour quarters is that it suits the ideological preferences of those

who want to take the Labour party in fresh directions. The argument is made that to 'reconnect' with its 'natural' support base, and be true to the representation of the working-class interests which was the Labour party's raison d'etre in the first place, then Labour has to back the kind of Brexit it is assumed its potential working class voters favour. Through the referendum, it is said, Labour's working class base has made a clear democratic choice to restrict EU migration. Continued membership of the single market would make this impossible. So while Britain should argue for the best possible economic deal, ultimately Labour voters have opted for a 'hard Brexit' where Britain takes back control of its borders and uses that new sovereignty to cut immigration by significant numbers. Not to deliver on this Brexit promise, even worse not to deliver on Brexit at all, would be seen as a great betrayal in Labour's traditional heartlands of support. The consequence would bring about a structural shift in British politics in which there was no party with the distinctive mission of representing working people. Rather politics would in all likelihood eventually divide between a new party of centrist pro-Europeanism and a Conservative party which had remade itself as one of nationalist populism.

Is this how voters think? There are some grounds for believing that the stridency of voters' views on immigration is exaggerated. British Future has shown that voters' attitudes to reducing the numbers of migrants is nuanced. Only a fifth of people want to cut immigration of skilled workers: more would prefer the numbers of migrant doctors, engineers and scientists to increase. And while two-thirds of people would like fewer low-skilled workers in future, that is not the case across the board: only one in four would cut the number coming to work in care homes, for example. There is also some evidence to show that if people are given a stark choice between maintaining access to the single market or restricting free movement, people choose the single market.

The suggestion that migration control is the means for Labour to reconnect with its former working class supporters is flawed in its own terms. Labour should be wary of promising more than it ever could deliver. There is a valid argument that the British economic model has become over dependent on supplies of cheap migrant labour. But simply to cut off the supply of migrant labour would have severe consequences for businesses whose model depends on the availability of that labour: their success is of course a source of domestic jobs as well. In addition arbitrary migration restrictions could have potentially devastating consequences for vital public services, especially in hospitals and social care.

Advocates of the view that Labour must reconnect with its working class base on immigration often share a wider lament for the decline of 'Labourism' that took hold after 2010 in the shape of the 'Blue Labour' debate. But is the decline in our society of the need for hard unrelenting manual labour, the erosion of class distinctions, the development of a more diverse, individualistic society in which people are freer to pursue their own life goals something Labour should regret? Some would regard these trends as among social democracy's greatest achievements. Of course there are real social and economic problems that arise from the loss of the economic backbone of traditional industrial communities. Active government could and should have done more to address these problems. But to turn the Brexit cri de Coeur into a literal interpretation of what it means for public policy would be perverse. What the 'left behind' need are real solutions to their grievances.

9. A 'Marshall Plan' for the left behind

I owe the title for this final chapter of this pamphlet to the originality of my friend Pat McFadden MP, a staunch pro-European representing a high leave voting constituency in the Black Country, just as I represent a division that voted strongly leave on Cumbria county council. On Europe we do not agree with the people who voted us into office, but we are trying in our different ways to represent them, by thinking hard about the reasons why they voted in the referendum as they did, and feel so alienated from the state we're in. In politics it is not good enough to be against society's ills. And this is especially true for a party of the progressive left. We only win when we offer programmatic solutions.

England has long had massive problems of regional inequality. This inequality is growing and though there is a political consensus that 'something must be done', what is being done is incoherent, underfunded and does not match the scale of the challenge. We see the evidence for this in two recent government reports. The new industrial strategy highlighted the huge scale of the productivity gap between different parts of the United Kingdom. The state of the nation report from the social mobility commission painted an extraordinarily bleak picture. For nearly a century, since the post Great Depression recovery of the 1930s, our prosperity had been overwhelmingly driven by London and the south. To quote the commission's report: "the UK now has greater disparities in economic performance than any other European country".

In my home county of Cumbria, Labour's backing for the so-called depressed areas was historically a source of great political strength. The problems of the 'left behind' are not some new invention of the 2010s. In the inter war years whole villages were unemployed where the pit had closed or never reopened after the general strike. Hugh Dalton's Distribution of Industry Act passed under the wartime coalition established the 'development areas', built advance factories on new industrial estates, and put in place the system of licenses, grants and aids that transformed the old depressed areas. And this achievement was built on with great success by the unfairly maligned Wilson governments of the 1960s and 70s, with 45 per cent investment grants and the regional employment premium.

The Thatcherite deindustrialisation of the 1980s however devastated economic recovery in the old depressed areas and brought low parts of the Britain that had previously enjoyed great prosperity such as the Black Country and the Nottinghamshire coalfield. It was against this background that Europe became a new source of hope. Labour became enthusiastic converts for Europe on the promise that the economic gains of the single market would be balanced by the Delors commitment to a more social Europe: a market of social rights as well as high environmental, consumer and health and safety standards across the whole EU. At the same time regions that lost out from competition and market concentration were promised fiscal transfers through the EU structural funds that would enable them to retrain workers who lost their jobs and rebuild new sources of competitive strength.

Back in government in 1997, Labour pursued a strong regional policy through the Regional Development Agencies. EU structural funds played a key role in Labour's drive for urban regeneration, transforming big cities such as Manchester, Birmingham, Liverpool, Glasgow, Newcastle, Sheffield, and Cardiff in the belief that revived cities could be the dynamic growth points of a wider region. However no comprehensive solution for the regeneration of old industrial towns and mining areas was conceived or implemented. Yet this only accentuated a feeling of neglect. Decaying shopping centres became a powerful symbol of relative decline.

Social Europe was also strengthened by Labour. *Inter alia*, the Social Chapter was signed, part time and agency workers directives implemented and EU anti-discrimination laws were passed. However

a major opportunity to promote partnership at work (through the information and consultation directive) was regrettably missed as a result of the government bowing to ill-conceived employer opposition. Labour rightly judged Britain's labour market flexibility to be a strength in facilitating a high employment, job creating economy, but failed to grapple satisfactorily with its shortcomings. In the 2000s it began to look as though Britain was trapped in a 'low pay, low skill' labour market equilibrium which no satisfactory policy measures were devised to address. Pockets of low employment participation remained prevalent and where there were jobs, they were predominantly in low skilled, low wage and low status service industries.

Moreover, the potential transformative impact of EU social and regional funds in the UK was weakened as a result of the 2004 enlargement and the mistaken decision not to expand the size of the total EU budget, despite the fact that the EU had made the correct political choice to welcome as members the impoverished citizens of struggling post-Soviet democracies. There was no social preparation at either EU or national level for the consequences of the 2004 enlargement. The social and economic challenges posed by the mass migration of young unemployed people from the new member states were neither anticipated nor adequately responded to.

The referendum result showed that a vision of Britain's membership of the EU based principally on the benefits of the single market, has proved both inadequate and flawed. Leave voters did not believe that they had benefited from the single market and European economic integration. That is why 'project fear' flopped. The awkward truth for the remain side is that the economic benefits of the single market – and more widely of free trade and globalisation – have not been distributed in a fair and transparent way. There is an urgent need now to develop a new political economy and industrial strategy that spreads the gains of economic growth more fairly across Britain. This should have been a bigger social priority for the centre left before Brexit; it is now an economic necessity in the light of it.

Britain needs a new economic plan. And finding resources for this plan will be more difficult as a result of Brexit and the disappearance of the structural funds which have been one of the few consistency reliable sources of funds for economic and physical regeneration for the past four decades. There is still no guarantee from the government that this vital source of regional investment will be sustained from domestic sources long term into the future.

Inequalities in public spending between north and south are huge – one estimate the social mobility commission quotes is £6bn a year. Even where public spending is relatively generous per head as in the north east, almost half that spending goes on welfare as against just six per cent in stimulating the regional economy through investment in science, employment and transport. In London, despite the persistence of pockets of great inner-city deprivation, the equivalent figures are one third and 12 per cent.

Labour now has to devise a credible regional policy for today – when Britain is unlikely to attract big new manufacturing plants, small firms are the major source of employment growth, services are Britain's major competitive strength, and it is a new generation of innovation and high-tech entrepreneurs who are likely to deliver the best future jobs. There has to be a comprehensive policy addressed to areas of visible decline. We need to launch an urgent debate on what needs to change. The key components of such a plan might be:

- A concerted effort to regenerate the decaying centres of our old industrial towns: tackling empty properties, not allowing heritage to decay, creating attractive units that can be offered to retail and other businesses at rents and business rates that rise from nugatory to more significant levels in line only with commercial success, and bringing back a mix of housing to empty sites near centres.

- A drive for educational opportunities, starting with a massive expansion of quality 'early years' provision and expanding access to university for a whole new range of 'non-conventional' students.

- The regions need to transform the quality of their public services, particularly teaching in low performing schools that have been tolerated for too long, but also doctors and nurses in areas that have to bear the brunt of ageing and unhealthy populations. That needs big incentives for young professionals, particularly for youngsters to come back home after university which many of their parents would dearly love. Why not devise a scheme to reduce and cancel the burden of university tuition fees for university students of proven capability who commit to spend five years teaching, doctoring or nursing in the most deprived areas of our regions?

- HS2 could be a great uniter of the north, midlands and south's present divided economies. But it will do little for towns unless it is accompanied by connected investments in local transport hubs.

- Better connectivity will help broaden out networks of research and innovation. The government's commitment to expand the nation's research and innovation budget is to be applauded. However at present 46 per cent of this goes to Oxbridge and the top London institutions. A modern regional policy would set a target for the new UKRI to reduce their share of a much expanded budget from 46 per cent to say 30 per cent. that means taking risks in backing potentially job creating innovation outside the present Golden Triangle.

- The north needs to become the magnet – and the government needs to design that magnet – for a new generation of entrepreneurs, scientists and engineers – some will be overseas academics, some refugees from countries that deny basic freedoms – who want to work in our universities, build businesses and establish permanent homes in parts of the country where the surroundings are amongst the most beautiful and uncongested in Britain.

- Projects that offer real economic returns must not be held back by public sector deficit constraints. But the promised returns must be independently audited in advance by an expanded infrastructure and public investment commission.

It is in the interests of the whole country, non-Londoners and Londoners alike, that Labour develops a Marshall plan for the regions. In the 1960s Labour self-confidently made the arguments for regional policy on the grounds that it was in the interests of London as well as the north – to have a better balanced distribution of growth across the whole country. Relevant then, even more relevant now: in taking the pressure off house prices; in creating new exciting opportunities for dynamic young people in other parts of the country where their expectations of the good life can be somewhat better than renting an affordable bed sitting room. Labour has to own this new political economy. This is essential to rebuilding the cross-class coalition of progressive middle class and working people that has been the precondition of every successful period of Labour in government: 1945, 1964/66, and 1997/2001.