

Brexit: No stable equilibrium

Larissa Brunner
Policy Analyst

The decision by EU leaders to extend the Article 50 process to 31 October (subject to review in June) averted a no deal Brexit on 12 April. However, even if the UK leaves the Union in the autumn, there will still be uncertainty as none of the three possible outcomes of the Article 50 process – deal, no deal or remain – will result in a stable equilibrium. Given the political dynamics in the UK and the deep split within its population and the main parties, the question of the country's relationship with the EU will continue to dominate domestic politics for many years to come, with negative consequences for the EU.

Given the political dynamics in the UK and the deep split within its population and the main parties, the question of the country's relationship with the EU will continue to dominate domestic politics for many years to come.

BACKGROUND – A DEEPLY DIVIDED COUNTRY

The public remains split

Though it is tempting to see the outcome of the Article 50 process – whether it is a deal, no deal or remain – as the end point of the Brexit journey that started almost three years ago, it is likely to be just the prelude to even greater uncertainty and instability.

Public opinion has not changed much since the referendum in June 2016. While there has been a modest shift towards Remain, by and large, the population is still split on the question of EU membership. In a YouGov poll carried out in January 2019, 54% of respondents said they would vote to remain in the EU, while 46% said they

would vote to leave.¹ This indicates a small rise in support for the Remain camp, compared to a YouGov poll carried out in August 2018 (52% Remain, 48% Leave) and the referendum itself (48% Remain, 52% Leave). However, when taking into account the margin of error – usually around 2-3 percentage points – the change remains small.

Though it is tempting to see the outcome of the Article 50 process – whether it is a deal, no deal or remain – as the end point of the Brexit journey that started almost three years ago, it is likely to be just the prelude to even greater uncertainty and instability.

Brexit as an identity issue

The lack of a surge in support for Remain, even though the past two years have shown how difficult and costly it may be to leave the EU, suggests that the question of EU membership is an ideological one and closely linked to identity issues. In an article published by The Conversation in January 2019, Geoffrey Evans and Florian Schaffner find that “Brexit has quickly and dramatically replaced the traditional party allegiances of Conservatives and Labour in the hearts and minds of voters”.² Moreover, not many people appear to have changed their minds since June 2016: in a YouGov poll carried out in February 2019, 89% of those who voted for Remain in 2016 said they thought the UK is wrong to leave the EU, while 83% of Leave voters said it was the right thing to do.³ This suggests that attitudes are now ingrained and may not shift greatly in the short or medium term. This means that the UK will remain polarised on this issue.

UK party politics will also continue to be dominated by Brexit. The Conservatives have become closely associated

with delivering the UK's exit, while Labour has been trying to maintain a strategic ambiguity in an attempt to appeal to frustrated Remain voters, and at the same time, avoid alienating its supporters in Leave-voting constituencies. Both parties appear to prioritise their own red lines – party cohesion and preserving or trying to obtain power – over minimising the damage to the country caused by Brexit. Though so far there has been no serious realignment of the party landscape despite both parties' deep divisions over Brexit, this possibility cannot be excluded going forward, especially if a second referendum or a snap general election takes place.

Though so far there has been no serious realignment of the party landscape despite both parties' deep divisions over Brexit, this possibility cannot be excluded going forward, especially if a second referendum or a snap general election takes place.

STATE OF PLAY – THE DIFFERENT SCENARIOS

The difficult route towards a deal

Despite being rejected by Parliament several times, May's deal is not quite dead yet. The EU has granted the UK a second extension until 31 October, subject to review in June. If the cross-party talks between Conservative and Labour leaders succeed, it is possible that the withdrawal agreement and the – most likely amended – political declaration will be passed in Parliament with the help of Labour votes. However, it is unlikely that May and Corbyn will do so, as three hurdles remain: May's opposition to permanent customs union membership; the demand by many influential Labour MPs (though not Corbyn) that a second referendum be held; and the question of how it can be ensured that the next prime minister does not backtrack on any compromise reached on the desired future EU-UK relationship.

In addition, passing the Withdrawal Agreement is not the only obstacle. After being approved by the House of Commons, the Withdrawal Agreement would also have to be converted into legislation. This would most likely be highly contentious as MPs might see it as a fresh opportunity to influence the process, especially those that supported the deal only reluctantly. The UK could still leave without a deal if the process is not completed by 31 October and the deadline not extended by the EU.

Hard long-term choices

Even if the Brexit deal is passed, possibly with a beefed-up Political Declaration that includes permanent customs union membership, neither Remainers nor Brexiteers would be satisfied. For Remainers the deal would not go far enough in maintaining a close relationship with the EU and preventing the negative consequences of Brexit,

while for Brexiteers it would go too far. The fact that the deal has been rejected twice (and the Withdrawal Agreement three times) in Parliament illustrates this.

Moreover, the second phase of the negotiations would highlight the dilemmas inherent of Brexit, principally the trade-off between becoming a rule-taker and avoiding economic harm, making it difficult to conclude any long-term relationship. There are essentially three options for the future EU-UK relationship: a no deal outcome after the transition period; a Canada plus-style agreement, or a Norway plus agreement. All three models come with conditions or have consequences that would be difficult for some in the UK to accept.

If the transition period ends in no deal, the backstop for the Irish border will kick in (assuming – as is likely – that no technological solution that avoids the need for a hard border is found) and the UK will effectively remain in a customs union with the EU. This means that it will not be able to have an independent trade policy on goods (i.e. tariffs). Accepting this would be difficult for Brexiteers, as the prospect of an independent trade policy is the last remaining potential economic benefit of Brexit after other promises made during the referendum campaign, such as the 'Brexit dividend' have been discredited or exposed as lies.⁴

However, any remaining checks or differences in market access (in terms of health and safety, product standards etc.) could still disrupt the flow of goods, especially between the island of Ireland and Great Britain. Trade in services between the UK and the EU would become more complicated if no arrangements, such as mutual recognition and equivalence, are in place. This could hit the UK's service-based economy and particularly the financial services sector hard, with implications for jobs, fiscal revenues and local economies.

Regardless of how and why Article 50 could be revoked, as long as the UK remains inside the EU, dissatisfaction would build.

Neither Remainers nor Brexiteers would be happy with this outcome. Brexiteers would object to the backstop, while Remainers and moderate pragmatists would be concerned about the economic fallout. Both groups would call for changes, exacerbating the polarisation and tension between those wanting a close relationship with the EU and those hoping to cut all ties.

A similar logic applies to the Canada plus model. Again assuming that no technological solution for the Irish border is found, any agreement would have to incorporate the backstop. While it would be based on a comprehensive free trade deal, the provisions for trade in services would probably be limited, hitting the services sector. In effect, it would be the worst trade deal in history, with no benefits from increased trade, just

the costs of market disintegration.⁵ It is hard to see how Brexiteers, Remainers or moderate pragmatists would be satisfied with this model.

Norway plus (i.e. single market and customs union membership) may be the option that is most easily compatible with the backstop, as it would allow for frictionless trade even in services. However, its conditions – rule-taking, freedom of movement for people, permanent customs union membership and contributions to the EU budget – would raise questions about whether it can deliver on the objectives of Brexit. It is very likely to generate widespread discontent, not just among hardcore Brexiteers. Meanwhile, Remainers would see it as second-class EU membership, with almost just as many obligations but fewer rights than before.

Never-ending Brexit debates?

In all three cases, both Remainers and Brexiteers would be unhappy, and the political battles about the UK's relationship with the EU would continue. Particularly in the case of Norway plus, small or technical decisions by the EU could become politicised, while the UK could repeatedly seek further concessions, for example on freedom of movement. Moreover, if the UK government or Parliament decides against alignment, for example on a specific piece of legislation, the ensuing conflicts with Brussels may have spill-over effects on other areas of cooperation and further entrench Euroscepticism in the UK. It is not difficult to imagine that in future general elections or party leadership contests, candidates would campaign on promises to change the EU-UK relationship. A stable equilibrium would be out of reach.

Back to the negotiating table after no deal?

A no deal outcome would result in even greater instability. The immediate aftermath would be chaotic: UK-EU trade, supply chains and travel would be disrupted; planes might not take off; prices of imports from the EU would rise and push up inflation; and fuel, certain foods and medicines could become temporarily unavailable. In light of this chaos and the prospect of longer-term costs such as less UK-EU trade (as the UK would fall back on WTO rules), lower GDP growth and knock-on effects on jobs and fiscal revenues, the UK would face enormous pressure to return to the negotiating table sooner rather than later and agree to some kind of deal.

As a precondition for engaging in serious trade talks, the EU would probably ask the UK to agree to its three main priorities as encapsulated in the Withdrawal Agreement: the financial settlement, citizens' rights and the backstop for the Irish border. In light of the time pressure, the EU and UK would probably agree on a basic, bare-bones trade deal that removes or lowers tariffs for goods but contains few provisions on services.

As a consequence, the UK would be stuck in the backstop with a minimal trade deal – hardly a satisfactory outcome for anyone. Again, there would be pressure to opt for one of the extremes: cutting ties with the EU completely for political reasons or opting for a Norway plus-style model

for economic ones. The Brexiteers' arguments would be boosted by the resentment created by the acrimonious divorce and the loss of goodwill and trust between the UK and the EU.

While the short-term disruption and long-term costs of this scenario would be high, the state of no deal would most likely last only several weeks before some sort of agreement emerges. No deal is therefore not a stable equilibrium either, though any ensuing agreement would hardly be more stable.

Remaining would not settle the debate

Revoking Article 50 would not provide stability, either. There are three routes to revocation: a second referendum, a general election, or revocation without either of those options.

Though May remains opposed to a second referendum, it is a possibility if Parliament supports it in a future round of indicative or binding votes. In the case of a Remain victory, Leave supporters would be incensed, which would lead to a realignment of the political landscape. The European Research Group (ERG) could splinter from the Conservative Party and establish itself as the champion of Brexit. Alternatively, Nigel Farage's Brexit Party could take that role. The UK Independence Party (UKIP) could resurface. If Labour adopts a clear position in favour of Remain, it could see defections from Leave-supporting MPs. If it does not, Remain-supporting MPs could switch to Change UK.

An early general election could lead to a revocation of Article 50 if Labour wins on a clear Remain platform. However, this scenario is unlikely. There may not be enough votes in Parliament to force a snap election as neither the Conservatives nor the Democratic Unionist Party (DUP) or Change UK have much to gain. Rather than adopting a clear position for Remain, Labour would probably try to maintain its ambiguous stand on Brexit for as long as possible so as not to alienate voters in Leave-supporting constituencies. Moreover, a general election would probably lead to a hung Parliament, leaving the main parties essentially in the same position as now.

In both cases, Brexiteers would question the legitimacy of the vote if turnout is low or the result close or inconclusive. There would be pressure for another vote as a tiebreaker.

Revoking Article 50 without holding a second referendum or general election would be legally possible while the UK is still an EU member state, but politically extremely difficult. It would most likely tear the Conservatives apart, and preventing this has been one of May's main objectives in the Brexit process so far. If the government chose this option, it would most likely be for tactical purposes or to buy time. However, the ECJ has made it clear that this is not possible.

In all three cases, Leave voters would feel betrayed and may lose trust in the established political system. This

would have grave consequences for the next general election. The Conservatives would suffer heavy losses, while hardliners such as Farage's Brexit Party or the ERG would benefit, especially if they manage to capitalise on resentment towards 'the establishment' that betrayed 'the people'. In the UK's first-past-the-post system, it is possible that most majority-Leave constituencies will end up with hardline MPs in Parliament. Pro-Brexit hardliners could also campaign on a promise to trigger Article 50 again and this time leave with a 'clean', no deal Brexit without any delays – which would have severe consequences for the UK, Ireland and the rest of the EU.

From the EU's perspective, any outcome of Brexit will be suboptimal.

Regardless of how and why Article 50 could be revoked, as long as the UK remains inside the EU, dissatisfaction would build. The UK would probably seek concessions from the EU, for example on freedom of movement, which the EU would be unlikely to grant. This would lead to resentment, increasing pressure to leave the EU after all.

Again, a stable equilibrium would be out of reach.

PROSPECTS – TOWARDS EVEN GREATER INSTABILITY?

None of the three scenarios outlined above would result in an equilibrium. The question of EU membership will likely continue to dominate UK politics for many years. This will lead to a greater polarisation and disintegration of UK politics and society. The political, social and geographical divides revealed and exacerbated by the Brexit process could deepen. The chasm between London and the wealthy southeast, on the one hand, and poorer regions, for example in the northeast or Wales, on the other, is likely to widen as the latter will be hit hard by Brexit and might struggle to recover. Brexit, in particular, a no deal outcome, could also have implications for the unity of the UK: another Scottish independence

referendum appears inevitable, although the outcome would be uncertain, a border poll could lead to the reunification of Ireland.

Does close engagement even make sense for the EU?

From the EU's perspective, any outcome of Brexit will be suboptimal. Its preferred outcome, the UK as a member state that is fully committed to the European project, is, in the foreseeable future, not available. The second-best outcome, a close and positive relationship with the UK, also increasingly appears out of reach. Faced with the prospect of one of the remaining third-best options coming to fruition, the EU will need to decide how to react, both strategically and tactically. This will involve asking tough questions: what price should it be willing to pay to try and build a long-term relationship with the UK, and where should it draw the line? Is it even worth investing in a long-term relationship at this time, given the instability in the UK? Could the EU perhaps benefit from isolating itself from the UK's chaos for a certain period of time, lest it continues to divert attention and resources away from other pressing issues? Regardless of how EU leaders choose to answer these questions, the instability caused by Brexit will not end anytime soon.

Could the EU perhaps benefit from isolating itself from the UK's chaos for a certain period of time, lest it continues to divert attention and resources away from other pressing issues?

The support the European Policy Centre receives for its ongoing operations, or specifically for its publications, does not constitute an endorsement of their contents, which reflect the views of the authors only. Supporters and partners cannot be held responsible for any use that may be made of the information contained therein.

¹ YouGov poll, "[What UK Thinks: EU](#)", January 2019.

² Evans, Geoffrey and Schaffner, Florian: "[Brexit identities: how Leave versus Remain replaced Conservative versus Labour affiliations of British voters](#)", *The Conversation*, 22 January 2019.

³ YouGov poll, "[Where we stand on Brexit](#)", March 2019;

⁴ "[Does the 'Brexit dividend' exist?](#)", *Full Fact*, 18 June 2018;

⁵ Zuleeg, Fabian (2018), "[The road to nowhere? Prospects for a post-Brexit trade deal](#)", Brussels: European Policy Centre.