

Inside Brexit

Oliver Hartwich | The New Zealand Initiative | 01 July 2016

A week ago, Britain took a leap into the dark when it voted for Brexit. As we are still trying to understand the implications, I thought you might be interested in a few personal observations around the Brexit referendum.

I previously worked for Policy Exchange (from January 2005 until October 2008), the London think tank most closely linked to David Cameron and his group of Tory modernisers.

When I started at Policy Exchange, our chairman was Michael Gove (now Justice Minister, co-convenor of the Vote Leave campaign and candidate for the Tory leadership). The executive director was Nick Boles, who later became chief of staff to Boris Johnson, is now Minister of Skills and runs Michael Gove's campaign. George Osborne, still Chancellor of the Exchequer (but who knows for how much longer?), launched one of my reports when he was Shadow Chancellor.

And David Cameron? Well, he started his campaign for the Tory party leadership with not one but two speeches in our small Westminster offices. He needed the second event because for the first one, hardly anyone had turned up.

Once elected leader, Cameron and his shadow cabinet were frequent speakers at our events, and we had a close (sometimes too close) working relationship with the party.

It was an exciting time since there was a young party leader desperate for new ideas, and there was a young think tank full of exceptionally bright and motivated people eager to develop them. So it was a bit like The New Zealand Initiative (except we're truly non-partisan – and a good thing too!).

During my time at Policy Exchange, I got to know many of the politicians who later happened to find themselves on different sides of the Brexit debate. Quite a few of my former colleagues ended up in Parliament and government. I was close to Michael Gove when he became shadow housing minister, and I had numerous dealings with Chris Grayling (now Leader of the House and another prominent Brexiteer) when he was responsible for welfare policy.

Which makes it all the more fascinating for me to watch the events in Britain from afar.

So here's my take on what we have just witnessed and what we can expect this to mean.

When I worked among the Tory modernisers, Euroscepticism was widespread. They were acutely aware of the failings of the European Union. We watched with horror as the EU

ignored the votes of the Dutch and French in their referenda on the European Constitution. We shared the view that Europe desperately needed to reform if it did not want to decline.

What I never encountered, however, was any kind of drawbridge mentality. Those Tory activists and politicians were no Little Englanders. Their outlook was international, trans-Atlantic and global. It was definitely not inwards. They wanted to trade with Europe; they wanted to travel to Europe; they had no problem with European migrants like me. But they distrusted the EU.

Rather strangely, despite their deep-seated Euroscepticism, hardly anyone wanted to talk much about Europe, or at least not in public. That was because Europe was toxic as an issue. Europe had plagued the Tory party since the days of Margaret Thatcher. It ended her time in Downing St and paralysed her successor, John Major.

We knew that Europe was Pandora's Box. For us at Policy Exchange, and for the Tory party leadership, the unwritten guideline was to avoid the 'E' word like the plague. It was Fawcett Towers like: "Don't mention Europe. I mentioned it once, but I think I got away with it all right."

David Cameron certainly knew why he did not want to talk about Europe. He was an advisor to Chancellor Norman Lamont when Britain got kicked out of the Europe's Exchange Rate Mechanism on Black Wednesday 1992. He thus had first-hand experience of the dangers of Europe.

In his first party conference speech as leader, Cameron told his party to stop "banging on about Europe". And he certainly did.

It took Cameron another seven years (!) to deliver a big speech on Europe. By that time, in January 2013, he had already been Prime Minister for almost three years, and he was under pressure not only from his Eurosceptic, grumbling backbench MPs but also from the populist UK Independence Party. That was when Cameron announced to hold a Brexit referendum.

Well, actually he didn't. He said he would hold such a referendum in case he won the 2015 election. But seriously, not even Cameron would have expected that. His Tories were trailing Labour in the polls. His only hope to cling on to power would have been to continue the coalition with the Liberal Democrats, the most Europhile party in British politics (other than the Scottish Nationalists and Sinn Féin). Incidentally, that would have given Cameron the perfect opportunity to dump the referendum. And even if he had to hold one, couldn't he always count on Labour to win it for him?

Unfortunately for Cameron, he ended up winning an absolute majority last year. As I argued in my *Business Spectator* column after last year's election:

"There is no way in which Cameron could come to a negotiation result with the EU that will satisfy both his party's Europhiles and its Eurosceptics. One wing or the other will always be dissatisfied with

the outcome – and rebel. And, of course, the referendum could also fail to produce the outcome that Cameron would like to see. It could force his government to stay in Europe even if he had failed to gain substantial concessions from Brussels. It could also force him to leave the EU even if he has gained any such concessions."

That is exactly what happened. By promising the Brexit referendum and then winning the election, Cameron had chained himself to a time bomb which predictably detonated last week (well, [I had predicted it](#)). And no, not even Labour could save Cameron under their hapless leader, Jeremy Corbyn. Ironically, it means that both Cameron and Corbyn may now be finished because of Cameron's gamble.

Cameron deserves a lot of the blame for the way things have played out. Not for the first time, he had put tactics before strategy. This time it backfired.

The other culprit is, of course, the European Union itself. Its arrogant power-grab of the past two decades had only made such an anger-fuelled referendum possible. I write about it [in my NBR column](#) this week. You may also want to have a look at my essay [Why Europe Failed](#), which the Initiative published last year.

So what next for Britain, and the EU?

Well, it obviously depends on who will be Cameron's successor, whether he or she will call a general election, when the formal proceedings to withdraw from the EU will start, and how the EU will respond to all of that.

Unfortunately, none of this can be predicted with any reasonable degree of confidence. We have never witnessed anything like Brexit. There is no rule book we could follow. And no, Greenland's departure in 1985 can hardly offer any guidance.

Whoever becomes British Prime Minister will need to square the circle of retaining access to the European market while opting out of unlimited European migration and the EU's political structures. It is a tough task, but not impossible. However, it depends on the EU's cooperation.

The European Union should not have an interest in shutting Britain out. It is Germany's third largest trading partner. Unless Berlin wants to damage its car industry, they better keep the trading relationship with the UK alive.

Then again, this is the EU – so economic considerations could well play second fiddle to political considerations. Among some European politicians, there is a wish to punish Britain and send a signal to other wobbly EU members.

Whatever the EU will do to Britain, the next big task for any future British Prime Minister will be to negotiate trade deals. For the past 43 years, Britain did not have a trade policy of its own as it was part of the EU. London now quickly needs to establish trade agreements if it

does not want to fall back on World Trade Organisation rules. The problem is that there are hardly any trade negotiators left in the British Foreign Office.

One final observation: In a way, it is a pity that Boris Johnson will not become the next Prime Minister. Boris is a great fan of strengthening Britain's ties with the Commonwealth and had previously suggested to establish a Free Labour Mobility Union between Britain, Australia and New Zealand. Of course, he only made this proposal as Mayor of London so it may not have happened anyway (and you never quite know with Boris).

On the other hand, with Boris out of the race, the new front-runner could well turn out to be Michael Gove. Michael is highly intelligent, a convinced reformer and popular with party activists. He was the most radical Education Secretary Britain has had for decades (the Initiative interviewed him in London for our education report [Around the World](#)). Michael would make a good Prime Minister.

Next stop... Africa!

The New Zealand Initiative is hosting Kiwi entrepreneur, Rich Lister and pioneer of capital markets in Central and Eastern Europe and Africa, [Stephen Jennings](#), for a dinner lecture on [Thursday 14 July 2016](#). Whether or not you are a likely investor in Africa, it's a subject worth learning more about – so do join us!

– Graham Rich, Managing Partner & Dean, PortfolioConstruction Forum



Dr Oliver Hartwich is Executive Director of [The New Zealand Initiative](#), the Wellington-based think tank formed by the merger of The New Zealand Business Roundtable and The New Zealand Institute. www.nzinitiative.org.nz. Dr Hartwich is a member of [PortfolioConstruction Forum's core faculty](#) of leading investment professionals.
