

## Brexit Without a Deal? A Crazy Idea That Might Happen

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bloomberg.com, July, 24, 2018

Nobody thought the U.K. would put jobs and money at risk by leaving the EU without an agreement on trade terms. Until now.



It could always be worse.

Photographer: Tolga Akmen/AFP/Getty Images

The prospect that the U.K. would leave the European Union without a deal setting out the terms of the withdrawal once seemed laughably remote. When it was mentioned at all, it was mainly as a negotiating tactic aimed at securing favorable trade and tariff agreements between the U.K. and the EU.

Even when Prime Minister Theresa May uttered the mantra “No deal is better than a bad deal,” few took it seriously. It was impossible to imagine the bad deal that was worse than a pileup of shipping containers at the border, grounded planes, hellish passport lines, medicine shortages, rising debt servicing costs and a nosediving currency.

Now some EU officials are said to put the odds of a no-deal exit at [50-50](#). While some 80 percent of the withdrawal terms have been agreed to, the remaining 20 percent is up in the air and time is running out. A deal was supposed to be concluded

by October to leave time for approval by the U.K. Parliament and the EU before the divorce becomes official on March 29, 2019. The withdrawal deal would be followed by a transition period in which the terms of the future trading relationship were hashed out. No deal would mean no transition period, either.

### [QuicktakeWhat No Deal Means](#)

But there's no majority in Parliament for any kind of deal right now, much less the [plan](#) that May revealed earlier this month, and which prompted a backlash within her own party and government resignations. The EU is likely to demand further concessions that Brexiters in both main parties will find hard to swallow.

Both the EU and the U.K. have stepped up preparations for a no-deal exit. The U.K. budgeted an extra 3 billion pounds (\$3.93 billion) for Brexit contingency planning last year (though some of it is [earmarked](#) for after the departure date), and will be publishing dozens of technical notices in the next two months to help businesses and consumers get ready for a no-deal exit. The EU has already put out [68 such papers](#); Bloomberg News reported some of the [measures](#) different EU countries were taking last week. The U.K. Department of Health is reportedly stockpiling medicines for the eventuality.

Thinking positively here (and this has been the sunniest summer on record in 42 years in Britain, so why not?), there should be every reason for both sides to avoid a no-deal scenario. The [International Monetary Fund](#) said last week that the cost to the EU in the event the U.K. leaves without a deal would be around \$250 billion, or 1.5 percent of annual economic output, with more than 1 million jobs lost. No deal would also be a failure for the EU's chief negotiator, Michel Barnier, and for the European Commission. U.K. voters would probably blame the EU as much as their own government.

For Britain, the risks are even bigger. Amazon's U.K. boss, Doug Gurr, reportedly told an audience that included Brexit secretary Dominic Raab that the U.K. could face "[civil unrest](#)" within weeks of a no-deal Brexit. Even if that's hyperbole, it's hard to see any outcome in which crashing out of the EU wouldn't leave Britain poorer for a long time.

"The overall cost of a hard Brexit, including the influence of slower migration flows, would be about 7 percent of GDP annually by the end of 2030," Bloomberg Intelligence analysts Dan Hanson and Jamie Murray have calculated. They estimate that a combination of new tariffs and a drop in the exchange rate would lead to inflation of around 3.6 percent; incomes would be squeezed.

By 2030, say the BI economists, the loss of output would rise to 290 billion pounds; more than 10 times the size of the Brexit bill and interest paid on borrowing to finance it.

Some hardline Brexiters have changed the language they use to refer to a no-deal scenario, preferring to call it a “World Trade Organization option.” By that they mean that the U.K. would trade with the EU according to the WTO’s most-favored-nation rules, under which the U.K. would be obligated to levy the same tariffs on imports from the EU as from other countries.

According to a study by [the Resolution Foundation](#) last year, most-favored-nation rules could lead to a 37 percent increase in tariffs on meat products and a 45 percent increase in tariffs on dairy, while clothing, footwear, beverages and tobacco products would be subject to an increase of 10 percent or more. But for Brexiters who promised that Britain would become a great trading nation after Brexit, saying “world trade” sounds a lot better than “no deal.”

“I think we are heading to WTO and I think WTO is nothing to be frightened of,” [said](#) leading Brexiter Jacob Rees-Mogg over the weekend. “I think we should carry on negotiating until the end. I don’t think we necessarily need the theatrics of walking away, but the truth is that WTO is likely to be all that they will offer us.”

Changing the language, as [George Orwell understood](#), is the first step to normalizing an idea. Convincing the public that trading on WTO terms is the only way to deliver on the Brexit vote seems far-fetched, but not impossible.

Meanwhile, apart from EU mandarins, nobody in Europe seems to be paying much attention. Last week, German Chancellor Angela Merkel took [questions](#) for 90 minutes from reporters in Berlin and was asked nothing about Brexit. Europeans see Brexit as a problem made in Britain. They are focused on the tariffs imposed by U.S. President Donald Trump, and also on Russia, immigration and their beach holidays.

Only a small hard-Brexit minority would seriously entertain a no-deal exit right now, but accidents happen. Preventing the unthinkable was what preoccupied strategists during the Cold War. The damage to exiting the EU without a deal would be grave, with the U.K. taking the big hit. Now, though, nobody dares say that it couldn’t happen.

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