

Hard Brexit or No Brexit: May Proves a Savvy Negotiator

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I promised you an explanation of where the cult of central banking leads us. But that'll have to wait. The [Brexit](#) battle is hardening up. Everyone involved is puffing their chest and making tough statements they'll later have to walk back on. It's too good to miss.

After a meeting between the British prime minister and the EU Commission president, the media circus went bananas. The German newspaper Frankfurter Allgemeine claims to have access to leaked information about the meeting. Apparently the dinner highlighted an enormous gulf between the British and EU positions on Brexit negotiations.

European Commission president Jean-Claude Juncker said Theresa May is living "in a different galaxy". One of his diplomats described the British approach as "absolutely delusional". May promised to be a "bloody difficult woman", something her election competitor Jeremy Corbyn could never claim.

The list of haranguing goes on and it's plastered all over the media. Some of it is a little more substantive than just words though. The EU has upped the Brexit bill to around €100 billion.

But all of this is nonsense. This isn't Versailles. The notion that we are competing parties in the negotiations is completely misguided in and of itself. Negotiations are about finding mutually beneficial ground, or walking away.

So what's going on?

Obviously all of this is the usual political nonsense. France, the UK and Germany all face elections in coming months. Politicians are talking tough to avoid another Donald Trump moment.

Why the media's portrayal of Brexit is a farce

Some of the contradictions are glaring. The Telegraph claims Germany is trying to undermine May in her electoral efforts because a weaker Conservative Party would tilt the Brexit negotiations in favour of the EU. But it wouldn't.

Not days ago the same paper argued May's current weak position in Parliament puts her at the behest of extreme Brexiters. Relying on them makes a hard Brexit more acceptable to the Conservative parliamentary majority, which dramatically weakens the EU's position.

May wants a bigger and more moderate majority to make a deal more popular. That's good news for the EU. Imagine if Germany was blamed for a hard Brexit by driving people to nationalism.

The EU's more amusing games were explained by Ambrose Evans-Pritchard, also in The Telegraph:

The Frankfurter Allgemeine alleged that Mr Juncker was astonished by Mrs May's talk of a sub-deal on the rights of EU expatriates by June. But as the Telegraph [reports](#), diplomatic documents show that this was the formal request sent to Brussels by the UK side several weeks ago.

Playing dumb is a great negotiation strategy if the other party's position is fundamentally flawed. But the British are leaving the EU. They're offering cooperation. By making cooperation expensive, the EU is doing nothing more than being belligerent and shooting itself in the foot.

You have to hand it to May. Given the EU's opening salvo of words, saying that [a hard Brexit is better than no Brexit](#) looks like a damn smart move. The possibility has to be on the table up front or threatening it will look like a concession later.

The EU is bluffing an open hand

If you've ever played poker you know it's about human nature as much as the maths. But if the hands are laid open, it's almost entirely about maths. You can't bluff if everyone knows the cards.

Everything about Brexit is public knowledge. We know trade information, budget commitments, EU asset ownership, migration patterns, regulatory requirements and everything else the EU and UK must agree on.

We also know that a deal is preferable to everyone – the only reason to fold on a deal is if the other side is hell-bent on cutting off their nose to spite their face. That's the sort of relationship you should run from in the first place.

Taking absurd negotiating positions in the Brexit negotiations is completely bizarre. It's the same as bluffing with an open hand. You just look stupid and make a good outcome less likely.

Isn't it enormously telling that the EU is the one threatening to restrict trade and cooperation on things like trade, policing and security. All those young voters who voted Remain are now seeing the EU for what it really is. An exclusive protectionist club of deluded members who believe in the political institutions of the EU over its aims and goals of free movement and trade. The UK is the one seeking trade deals, migration deals and cooperation.

If we take Brexit as a certainty, then the EU's position makes no sense. It is using the process of leaving as leverage over the negotiation of future deals. But we can just leave...

So why all the hubbub?

The EU's biggest powers are all set for elections in coming months. Germany, the UK and France are all set to vote. They saw what happened to Hillary Clinton. They want to be just a little like President Trump. And that means being "all tip and no iceberg", as an Australian politician once called his opponent. He also called him a desiccated coconut, but the meaning of that one eludes me.

Europe's politicians are punting on the idea that their voters will reward them for punishing Britain instead of promoting the best possible deal. The best possible deal is obviously the closest possible union, otherwise the very premise of the EU is implicitly discredited.

I think the European politicians have it dangerously wrong. If Britain suffers a vindictive EU and is successful, it would be the end of the EU. If Britain remains in close union and is successful, the EU must merely change to remain relevant. Belgium's finance minister has figured this out and is calling for a quick and easy deal.

Always remember, any restrictions between Britain and Europe prevent British and European citizens from completing mutually beneficial trades. Otherwise that trade wouldn't have happened in the first place. This is why a free-trade zone is so good – it maximises the number of mutually beneficial dealings.

Any departure from this by restricting trade is bad because people miss out on the benefit. Whether it's with an EU member or not makes no difference to the people doing the trading.

If the political institution of the EU puts its own interests over those of its citizens, its days are numbered.

EU negotiators are on melting ice

The ground is falling out from under the EU's economic feet. Italy's airline Alitalia has the government's permission to file for bankruptcy again. Italy's banks are drowning in bad loans as it is. Will this be the trigger that [London Investment Alert subscribers are waiting for?](#)

Meanwhile, Britain's manufacturing sector is expanding at its fastest pace in three years. The key to the improvement was the "intermediate goods" sector, which covers goods used in the production of other goods. "The British manufacturing industry is moving at such a pace that suppliers are struggling to keep up with demand," a director of the Chartered Institute of Procurement & Supply told the Financial Times.

A CBI survey reported that overseas orders are surprising British manufacturers, many reporting them at the highest level since July 1995.

Clearly Brexit is a complete and total disaster for our economy...

Our agriculture sector is the worry though. Without Europe's Common Agricultural Policy subsidies, British farms would lose most of their income.

Unfortunately, it looks like the government will replace the EU with its own support instead of following New Zealand's model of liberalising the industry and creating a new agricultural powerhouse.

Until next time,

Nick Hubble
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