

# Cumberland Advisors Market Commentary – Britain's Constitutional Crisis

“A constitutional outrage” exclaimed the traditionally neutral House of Commons Speaker, John Bercow. “An affront to democracy ... an intolerable attempt to silence Parliament,” declared the editorial in the August 29<sup>th</sup> *Financial Times*. These were reactions to Prime Minister Boris Johnson's request to the queen to shut down the UK Parliament for five weeks, via a procedure called prorogation. The queen had little choice but to agree. There were demonstrations against the prorogation in major cities. Two court cases are underway seeking to stop the shutdown, but their prospects of success look slim.



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Johnson is facing a revolt in Parliament over the moves he has made in his game of chicken with the European Union (EU). He insists that he will let the UK exit the EU without a deal on October 31 unless the EU changes the terms of its current proposal to make them acceptable to his government. The EU has said it will consider changes, with the condition that any changes must assure that the border between the Republic of

Ireland and Northern Ireland will remain free of border posts and checks. No new proposed deal has yet emerged. An apparent majority in Parliament, including a sizable number of members of Johnson's Conservative Party, consider Johnson's strategy to be dangerous for the UK. Some support leaving the EU but strongly oppose a no-deal Brexit, which risks doing significant harm to the UK economy. Others opposing Johnson would like to reverse the Brexit referendum decision and remain in the EU. A bill drafted across party lines by a number of members of Parliament would prevent a no-deal Brexit unless Parliament agrees to it; and absent an agreement on Brexit, the prime minister would have to request a three-month extension from the EU.

Johnson's response to this attempt by MPs to block a no-deal Brexit was to state that such an action would "plainly chop the legs out from under the UK position." He has added that there are "no circumstances" under which he would request the EU to delay Brexit. Rebel Conservative MPs have been warned that those who support the above-mentioned bill will face expulsion from the party and deselection. Tuesday, one Tory rebel, Phillip Lee, dramatically defected to the Liberal Democrats, taking his seat on the opposition benches while the prime minister was addressing Parliament. That move means that Johnson has lost his working majority. The threat of expulsion of Tory rebels would further destroy Johnson's majority.

As this is being written late Tuesday, September 3, Johnson has lost a vote, 328 to 301, in which the MPs took control of the House of Commons agenda. They will bring forward the above bill Wednesday, which would force Johnson to delay Brexit unless MPs back a new deal or vote for a no-deal exit. In view of today's vote, this bill is expected to be approved.

Johnson has said that he would consider a vote to block a no-deal Brexit as a vote of no-confidence in his government. This stance is seen as a clear threat that Johnson may seek a general election. In order to do that, he would require the

support of two-thirds of the MPs. October 14 is said to be the likely date for the election, should it occur. On the other hand, if the opposition fails to pass the law preventing a no-deal Brexit, it appears likely that they would try to bring down the government with a vote of no-confidence, which in turn could lead to a general election.

This unprecedented political turmoil took the pound on Tuesday to its lowest level in three years, below \$1.20. Investor concerns about the implications of a no-deal Brexit look well-founded. A report by the Cabinet Office, which was recently leaked, predicted disruptions at ports, causing shortages in fresh produce, vital drugs, and fuel. Two of Britain's refineries will likely close. Clashes between British and EU fishing boats could occur. The likely reimposition of a hard border with Ireland is particularly concerning. New trade arrangements with all of Britain's trading partners will take considerable time to work out. The government's analysis has projected that fifteen years following a no-deal Brexit, the British economy would be 9% smaller than if Britain had stayed a member of the EU. Boris Johnson dismisses these concerns, but we do not. The EU, for its part, is considering classifying a no-deal Brexit, if it occurs, as a "major disaster," which would allow EU countries to apply for assistance from the EU's solidarity fund. Stay tuned as developments unfold.

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