

John Gapper, associate editor and chief business commentator at the FT, spent a day on the road with Wetherspoon's chairman, Tim Martin, and a day at Wetherspoon's head office. His report gives a penetrating insight into how decisions are made – a matter of interest for business students and would-be entrepreneurs, among others...

TIM MARTIN: 'IF THERE'S A NO-DEAL BREXIT, I'LL BRING THE PRICE OF BEER DOWN'

John Gapper goes on a pub crawl with the iconoclastic founder of Wetherspoons

It is a bright February morning — unusually warm, with the sun painting the English Channel towards Calais and Dunkirk an unseasonal blue — and Tim Martin is walking. He is striding through the Kent town of Ramsgate towards the Royal Victoria Pavilion, a former assembly rooms built in 1903, with an ornate interior based on Marie Antoinette's Trianon theatre in Versailles. Martin has two things on his mind.

One is what he spent to transform the 11,000 sq ft Royal Victoria into the most spectacular of the 883 public houses run by JD Wetherspoon, the pub chain that he founded four decades ago. The local authority handed over the dilapidated building free, but it cost £4.5m to restore in 2017.

"It's a hell of a bloody pub and it captured the imagination," he says. "The danger is that people come from far and wide to look, but business dies off when the novelty goes. It is a bit of a risk if it doesn't work."

His second topic — Brexit — also involves a bit of risk. There are only weeks left before the UK is due to leave the EU, and British politics is in chaos, but Martin is unworried. "I don't think there's a sword of Damocles hanging over us," he says. Half an hour earlier, he had gestured to a local reporter at another Wetherspoons, like a trader promising a bargain: "If there's a no-deal Brexit, I'll bring the price of beer down!"

Martin has been impossible to ignore since the 2016 referendum — his 6ft 6in frame, long shock of grey hair and square jaw are constantly on television, railing for Brexit. The 63-year-old, who grew Wetherspoons from a single pub in London to the UK's third-largest managed pub chain, with a market capitalisation of £1.3bn, has defied the business consensus that favours trade and economic continuity.

By throwing his weight behind what he calls the "motley crew" of Brexiters, he has given their political rebellion a stamp of entrepreneurial authority.

His is a personal crusade — although he has spoken at Leave Means Leave events, he does not belong to a political party. As in business,

he has trodden his own path, printing 500,000 beer mats advocating a no-deal Brexit, and replacing Belgian wheat ale with British across Wetherspoons branches.

The 17 million people who visited a "Spoons" in the past six months could read an in-house magazine lambasting the Remain "metropolitan elite", including the Financial Times. "A 'deal' is just a trap laid by the CBI, the FT and others for keeping us in the EU," Martin wrote in the latest.

The way in which Brexit and his business overlap is obvious as we enter the kitchen of the Royal Victoria, where a multinational team of workers is cooking energetically to meet Wetherspoons' benchmark of 10 minutes from order to meal being served. That, along with low prices (fish and chips with peas costs £7.75 in Ramsgate), cleanliness (the pubs' average hygiene rating is 4.97 out of five) and decent quality ensure that the average Spoons sells 3,780 meals a week, including 800 breakfasts.

The Royal Victoria's kitchen manager is Ildiko Kovacs, a 34-year-old Hungarian who has worked at three Wetherspoons pubs since moving to the UK as an EU citizen. The industry is heavily reliant on immigrants: of the 450,000 people working in British pubs and bars, 14 per cent are estimated to come from the EU, rising to 23 per cent in kitchens. At the Royal Victoria, there are 130 full-time and part-time workers, expanding to 200 in summer. Kovacs moved from a Spoons in Surrey for this job, buying a house in Margate with her partner.

She is an enthusiast, talking of trying to surpass the company's food sales record set by The Velvet Coaster in Blackpool. "Our record is £97,000 [a week] and we're going to try to beat Blackpool this summer," she says. "We're always in the high-volume mindset, getting it out as fast as possible...I can confidently say I love my job."

So you're not going to go back to Hungary? I ask. "Not unless I get kicked out, I guess," she says, cheerfully.

"Who can see into the future?" Martin replies, laughing uneasily. It feels tactless from someone who advocates Brexit, albeit on the virtues of democracy and free trade.

"I'm not against immigration," he had said as we walked through Ramsgate. "If someone has a job, I'm not trying to stop them coming here. I've said that when I've gone around the country talking and I've got a big cheer. There's a strong sense of grievance among Leavers that they're vilified for racism."

Martin's prominence ("If I get an invitation to speak on telly, I try not to turn it down," he says, and that morning had again argued his case on breakfast television) has brought him fans. In each pub we visited, he was accosted by at least one Leaver, all middle-aged men with short hair and a furtive look, as if confessing to a shameful passion. "Friends of mine read the bloody Guardian and I dare not mention the 'B word', but I'll be all right with you," says one.

But it has also provoked a media backlash and unsettled his board. He says that the company's four non-executive directors differ with him on Brexit: "I don't talk to them much about it because it's too emotional." David Page, an old friend and founder of the Franco Manca pizza chain, who voted Remain, says it is "as personal to him as the pubs. I think he's sad about how divisive it has become but when Tim makes up his mind, it takes an earthquake to change it."

Martin's image as a genial host who welcomes everyone is at stake: if the pub landlord is a bore who harangues his customers, some will find another watering hole. There is no sign of it yet — Wetherspoons' sales grew by 5 per cent last year... Still, he admits the danger, even as he pushes forward. "God, no. You wouldn't have gone along this path to build your business," he says. "Too risky, too divisive."

Every Thursday morning, in an office block near Watford Junction station, north of London, a ritual occurs. It is the weekly management meeting at Wetherspoons' head office, known as the Wether Centre, where department and area heads gather, along with a sample of pub and kitchen managers and people from all levels, to pursue its distinctive approach to business, as recorded in its annual report: "The company aims to make lots of small improvements to its pubs."

The god of small improvements was Sam Walton, late founder of Walmart, the US discount store chain, and Martin is his disciple. "Walton's guys would go out on the road on Monday and they weren't allowed back in the office until Thursday afternoon," he recounts. "They would bring in ideas from customers and staff. The key is not to have the top brass reaching too many decisions."

Martin, who lives in Exeter, is travelling in when the February 7 meeting starts at 8.30am. John Hutson, Wetherspoons' chief executive since 2004 and a low-key counterfoil to Martin, sits on a stool at the front of the room, dressed in a black jersey, facing 80 managers seated in rows.

Among the first items on the agenda is whether to drop Comic Sans, a quirky font that some, notably Tina Coppiters, Martin's friendly and loyal personal assistant, use on internal documents. There is a jokey debate on whether Comic Sans is Wetherspoons' official font and whether it matters.

Hutson leans forward to catch a remark. "Michelle says Comic Sans uses a bit more ink. We might save £5 a year by changing," he reports.

"People's Vote," a wag calls from the back.

"We'll stay as we are, even though it turns out we don't know what that is," Hutson concludes. He turns to the next item, whether pizzas should be served with steak knives to cut them (the consensus is yes). Later, they debate whether to use latex-free kitchen gloves (yes); whether to add kombucha fermented tea to the drinks menu (perhaps); and where to put baby-changing facilities (women's toilets in new pubs).

At 9.30am, Martin enters, dressed in his usual black Levi's jeans, striped Gant polo shirt and black Dr Martens shoes, as if he picked an outfit about the time he opened his first pub in 1979, and has seen no need to change. "Morning, chaps," he says (the term "chaps" includes women — 39 per cent of senior managers are female). "Morning, Tim," the class mumbles.

Martin relays some of his latest experiences visiting Wetherspoons' pubs and one of its 57 hotels, which the business began opening in 1998 to fill out its buildings. His gripes include "one of the worst bin areas I've ever seen" at one pub, and there being only sparkling water in his room when he stayed at The Bull & Stirrup in Chester. "There were biscuits, which I thought was good, but who drinks fizzy water at night in a hotel?" he asks.

"Someone who hasn't had the Merlot," Hutson interjects.

Recording minutiae is not the chairman's role in most companies but it is sacrosanct for Martin. "Helping to provide information on customers' and employees' views by calling on pubs" is one of his official duties listed in the annual report. "I call it the 1,000 components of a BMW — you have to go along with a notebook and write down all

the little things," he says. "Management intensity" is what he believes retains customers' loyalty to a Spoons after the buzz of an opening fades.

The other foundation of its growth is scale and efficiency, passed on to the customer in low prices. "Wetherspoons is a thoroughbred with blinkers — it serves the same as others at a 30 per cent discount," says David Page. A pint at a Spoons is reliably cheap, leading to the urban myth that it buys discounted beer from suppliers just before the sell-by date. The truth is prosaic: like Walmart, its margins are low and its volumes very high.

The company has roiled the industry since floating in 1992 at a value of £46m. "Tim has stayed exceptionally grounded in what customers are saying and thinking," says Richard Pennycook, finance director in the mid-1990s. "He also had the skill to make it scale, which is rare, and the patience and tenacity to stick at it for year after year. From early on, he wanted to have 1,000 pubs."

It is not the biggest pub chain — Greene King and Mitchells & Butlers directly manage more of the UK's 39,000 pubs, while companies such as Ei Group (formerly Enterprise Inns) lease thousands to "tied" landlords. But it frightens local bars the most when a Wetherspoons opens nearby. They are vulnerable after decades of pub closures, squeezed by everything from taxation to changing family habits.

"The price of a pint has really gone up. It feels ridiculous when you are paying £5 for one in London and you are standing outside," says Christopher Snowdon, head of lifestyle economics at the Institute of Economic Affairs think-tank. The number of pubs has fallen from 69,000 in 1980, while the volume of beer drunk in them has almost halved from 23.4 million barrels (6.7 billion pints) in 2000 to 12.6 million in 2017. More is bought in supermarkets and shops and consumed at home.

Last year brought a measure of relief — beer sales in pubs stabilised after falling for all but one of the past 18 years, partly thanks to warm summer weather and fans watching England World Cup games at pubs, according to the British Beer and Pubs Association. "The pub is the last social hub in some rural areas, with banks and post offices closing. People really care about them," says Brigid Simmonds, BBPA chief executive. But in a flat industry, the growth of Wetherspoons is at the expense of others.

Martin did not just invent a more efficient pub, he expanded what a pub could be. In 1946, the writer George Orwell listed its ideal qualities as "draught stout, open fires, cheap meals, a garden, motherly barmaids and no radio". Martin banned music in his pubs, as well as naming some The Moon Under Water, after Orwell's mythical ideal pub. But his ambition for food was greater than Orwell's "cut off the joint, two vegetables and boiled jam roll, for about three shillings".

Wetherspoons started selling coffee from cappuccino machines, which now comes with free refills, in 2000 and opened for breakfast six days a week in 2002; food has grown from 18 per cent of sales in 2000 to 35 per cent last year. The change is evident as we walk into The Sir Norman Wisdom in Deal to find the rear area full of dining tables. The staff are enthusiastic but Martin is uneasy — he still wants what is known in the trade as a "wet-led" hostelry, where the prime activity is drinking.

"This looks congested, as if it's putting the drinkers off," he says, getting more worried when told of a plan to put in seating booths. "It sounds like someone's running riot, going around imposing booths." His comments, while amiably phrased, are not to be treated lightly...

Rather than quantity, the business has shifted towards size and profitability — the average new opening last year was 5,200 sq ft compared with 3,640 in 2013. The archetypal Spoons has, as Orwell put it, "regulars who occupy the same chair every evening and go there for conversation as much as for the beer", but they are propping up a far bigger bar than the local of Orwell's imagination. The Moon Under Water has grown into the Royal Victoria Pavilion.

"I felt quite ill, bit of a gut ache, and for the first time in my life I went to A&E. They said it's gastroenteritis, although they didn't do many tests, and you don't like to make a fuss. That was on Monday; on Sunday, I was operated on for a burst appendix. I lost half my bowel," Martin recalls of the medical emergency that struck last October, from which he is still recovering.

As on other topics, he has his views on the National Health Service that eventually saved him ("My criticism of the NHS is that it's too much the sacred cow. It doesn't get the scrutiny it should"). He was later told by a Wetherspoons pub manager in Exeter that, unlike him, she had been treated privately for appendicitis under the company's medical insurance. "I was pleased about that," he says, "I thought it was good, really."

An egalitarian story is useful at the moment. Martin evangelises about treating his 40,000 staff well — "People aren't paid a hundred grand a year in this industry, so if it's not an attractive environment, they go elsewhere." But staff from two pubs in Brighton went on strike over wages last October. "I work in a great team and that is rewarding," says Chris Heppell, one of the strikers. "But Wetherspoons makes millions from our hard work and we're trapped between low pay and the rising cost of living."

Martin still smarts from becoming lost for words in a video interview with the leftwing campaigner and Guardian columnist Owen Jones, who accused him of paying "poverty wages". He shakes his head. "I've never lost my cool in all these years, so he's got a bit of talent."

Wetherspoons is not the meanest pub employer: its over-25s starting rate of £8.26 per hour is 5.5 per cent higher than the £7.83 legal minimum wage (though lower than the voluntary "living wage" of £9 an hour) and it pays 15.8 per cent higher on average. It also gave £43m in bonuses and free shares last year, 82 per cent of which went to pub employees.

We are lunching in the Royal Pavilion at a high table with a sea view — fish and chips for me and jacket potato with tuna mayonnaise (£6.75) for him, delivered in less than 10 minutes. Martin talks about his father, a Royal Air Force pilot who left at 29 with vertigo, and took a sales job with Guinness. Martin was born in Norwich and grew up in both Northern Ireland and New Zealand as his father's job moved.

"He used to call me insubordinate. His idea of anathema was someone who argued all the time," Martin says. Yet this iconoclasm was crucial to Martin's success. Having studied law at Nottingham university and moved to London to study as a barrister, he found it hard: "I thought, 'I can't spend my life reading at half the pace of everyone else.'" But he also studied at another bar — an independent pub in Muswell Hill, London, that was not tied to a brewer and served Ruddles County bitter.

He ended up buying it for £40,000 (partly financed by selling his flat) plus a holiday for the seller in Jamaica, where Martin's father was then working. Wetherspoons, named after a teacher at one of his schools, was independent from the start: he avoided buying pubs with ties to brewers, often converting other properties instead. Its pubs can be found in former cinemas, post offices and banks.

His belief in Brexit parallels his faith in the British pub as a demos, in which everyone has a voice — like a Wetherspoons management meeting. Orwell complained in the 1940s that a ban on children in pubs had "turned these places into mere boozing-shops instead of the family gathering-places that they ought to be". Martin defines the distinction between a pub and an American bar, or a French café, as the social mix: "You meet a cross-section of people in a pub. That's what makes it different."

For him, Brexit is an opportunity to regain sovereignty rather than ceding control to European bureaucrats. "From a teenager, my thought was that democracy is essential for the future...if the world's going to survive, you need countries like China and Russia to be democracies. If everyone's got a vote, including women, it's a brilliant way to avoid conflict. A lot of people [think] you can have too much democracy and you do better if you give power to énarques (the French elite). I've hardly had a sensible conversation about this, it's so riven with emotion."

It might also be because he argues without compromise, and his views have grown

harder since 2016. "Once you start arguing, I suppose you tend to marginalise, then radicalise yourself," he says. From backing something like single market membership before the referendum ("We can do a fantastic deal with the French, as have the Norwegians and the Swiss...if they can do well outside the EU, so can we," he said on Sky television in February 2016), he now insists on a complete breach.

"I would go for no deal, just get out and try to negotiate from there. I think there's all sorts of agreements the EU would be willing to do then. I wouldn't try to get a 50,000-page document that covers every damn thing, all at once. It's too complicated," Martin says. His radicalism fits his hostility to limits on British sovereignty; it also evokes an insubordinate young barrister buying a pub without a draught beer tie to any brewer. He could run it exactly as he wanted.

The English Romantic painter JMW Turner called the skies over east Kent "the loveliest in all of Europe". He is commemorated in the Turner Contemporary gallery in the Victorian seaside resort of Margate, where Martin's driver drops us a mile short of The Mechanical Elephant pub. The late afternoon sun is indeed lovely, falling across the Dreamland amusement park and Margate bay.

Martin has always been a walker — the first time we met, in the Knights Templar, a Spoons converted from a former bank in Chancery Lane, he was a few minutes late because he had walked across London from Paddington. As we emerged from the first pub on our tour of Kent, the Eight Bells in Dover, he cited a Thomas Hardy poem about the poet treading the same ancient path as when a child: "The Roman Road runs straight and bare/ As the pale parting-line in hair."

By Margate, he has visited four pubs that day, and has three more to go. But he is on alert as we reach The Mechanical Elephant, named after a contraption driven by an engine that "walked" the front with holidaymakers on its howdah in the 1950s. We stop to check the state of its flower baskets and three posters that are supposed to be on display. "How f-ing difficult is it to get right?" he mutters.

The Mechanical Elephant is on the endangered species list — it has been trading in a lacklustre fashion and a new manager has been brought in to make improvements. But as Martin enters the pub, filled with locals having a Friday afternoon pint of beer, his mood elevates.

"I didn't realise you were so tall," says one drinker at the bar.

"I'm wearing high heels today," Martin replies, easing happily into bar room banter. "I've heard they're popular in Margate."

"I should have brought my mate in.

He's playing golf this morning. He's so Brexit you could have talked to him for hours."

"We might drive each other mad," Martin says. He introduces himself to the bar staff, getting one name wrong, then correcting it carefully in his notebook. "I think I'm getting hard of hearing," he apologises. "It wouldn't be surprising — it's all that Captain Beefheart in the 1970s."

Having ordered a cup of tea, he is soon perched by a high table at the rear, talking to the Elephant's new manager about his revival efforts. I chat to a group of middle-aged men gathered with pints at a table. One is Bernie Stone, a 64-year-old retired bricklayer who is a forthright Brexiter.

"I think England is an island on its own and it should work on its own. We don't have to be in the EU and pay them money left, right and centre," he says. "We have exports that go to Canada, America, China etc. We used to be a strong country. We are still a strong country."

As I go, Martin is mulling over refurbishments with the manager, warming to the idea of reviving the Elephant. "We'll be moving the bar upstairs and generally sprucing it up, I think," he says.

Some other entrepreneurs who supported Brexit have invited charges of hypocrisy by planning to relocate themselves or their companies abroad. Sir James Dyson, founder of the consumer electronics company, is shifting his headquarters from the UK to Singapore. Sir James Ratcliffe, founder of the chemical group Ineos, has been reported to be considering moving to Monaco himself to avoid tax.

Martin is not leaving. The UK government received £729m in taxes from Wetherspoons' business in 2018, including VAT, national insurance and alcohol duty, but relocating the pubs is impossible and it is difficult to imagine him happy anywhere else but in one of them. He took a sabbatical in 2003 but returned as chairman after only six months. Nearing The Elephant, I had asked whether, at his age and with his fortune, he thought of retiring.

"There's not actually much else I can do," he replied, mulling over the question as we walked. "I've got a bad back, so I can't do many sports. If I work eight hours a day, I can still go for a walk for an hour or two, and have a couple of pints. What else is there, sort of thing?"

FT Magazine Life & Arts - March 2019



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PROFESSOR ROBERT TOMBS

Historian and author

Tim says: "Robert Tombs, the brilliant Cambridge University professor, gives some historical perspective on the disastrous effects of rule by political elites. He refers to an article by Oxford University-educated Matthew Parris, a former MP. Parris says what a lot of his Oxbridge peers think – he mistrusts the public... and therefore democracy... and prefers to transfer power to the unelected oligarchs of Brussels. (The article by Parris which featured in The Spectator (2018) was headlined: 'Why I don't, never have, and never will trust the people.')

HARD-LINE REMAINERS REJECT DEMOCRACY ITSELF IN ELITIST ATTEMPT TO SUBVERT BREXIT

The most disturbing aspect of the Brexit debate is not the risk of traffic jams at Dover or possibly having to pay £7 every two years to visit our beloved Continent, but the anger, contempt and loathing that has erupted on both sides. Each blames the other. Yet the two are not equivalent. Brexiteers have insisted – sometimes, no doubt, in outspoken terms – that our political institutions and practices should be respected, and that national sovereignty as understood for centuries should be upheld. As Burke said of the Glorious Revolution, it was done not to overthrow but to defend "laws and liberties".

Hard-line Remainers, in contrast, have been and are willing to push their campaign beyond legitimate politics as previously understood. First, they have encouraged foreign authorities to resist the policy of the UK, and have thereby done much to sabotage that policy. Second, they have attempted to delegitimise legal votes, using arguments that would take us back 150 years and more – essentially, that ordinary people are incapable of taking a major national decision and that they must therefore be overruled.

I am a member of a group of academics called Briefings for Brexit, and we have been reflecting on this "Remainer Revolt". We have noted that civil servants detest disruption. We have suggested that the issue has become one of "identity politics", with vehement Remainers motivated less by affection for the EU than by contempt for those they think support Brexit – above all the white working class. We have identified Tory Remainers with those who think that all that really matters in politics is delivering material benefits to the masses.

Yet I felt something was still missing. The penny dropped when I read the vocal Remainer and former MP Matthew Parris in the latest Spectator. For him, Brexit means "trusting the people": "I don't," he writes. "Never have and never will." Rejecting the idea of "an unseen bond between parliament and people", he sees its job as curbing "the instincts of the mob".

The enlightened elite must govern by subterfuge if necessary.

How far backwards elitist rejection – principled rejection, if you like – of democracy takes us. Even in the 1830s the prescient political thinker Alexis de Tocqueville, aristocrat though he was, acknowledged that ordinary people had a shrewd grasp of things within their experience. Gladstone, our greatest liberal, considered the popular electorate more moral than the elite.

Nearly 200 years after Tocqueville, how much wider is popular experience of the world than he could have imagined. Yet a lady in Newnham (Cambridge's miniature Islington) told me recently that she had only understood Brexit because her Leave-voting gardener and cleaning lady had explained it: it did not occur to her that their views had any value – though her own were, to use an apt term, nebulous. She could not conceive that their experience of working and bringing up families could have given them a knowledge of the world as valid as her view from the ivory tower.

If such arrogance had any justification, it would be the surpassing excellence of elitist rule. All those Old Regime states were run by experienced and sophisticated professionals, and all are on the scrapheap of history. What of their present-day successor, the European Union itself, that magnet for Europe's new post-national aristocracy? Its boldest creation, the euro, condemns millions of Europe's young to unemployment or forced migration. Its trading policies impoverish poor countries and add to the tide of migrants. Its supra-national power is undermining Europe's fragile and painfully achieved democracies – the real danger to peace and order.

And our own political elite: do they consider themselves so infallible and trusted that they can override a referendum and a general election? By what power could they legitimately do so? The phrase "the sovereignty of parliament" is freely bandied about, but that sovereignty is limited. Moreover, it is the institution of parliament that holds sovereignty, not its confused and

disunited members. If they cannot in conscience carry out a programme on which they were elected, their honourable course is to resign, not to break their promises and certainly not to intrigue to undermine them.

The Remain-Leave debate is no longer primarily about the EU, if it ever was. It has become, as Parris disarmingly admits, about who governs, and by what right. Not for the first time in our history, we have a relatively small but influential faction, utterly confident of its own intellectual and moral entitlement, which often appears to despise its own country and prefers to pledge its loyalty elsewhere. We saw it with the Puritans and their successors. We saw it with those who acclaimed Stalin's Russia as a higher civilization. In each case, intellectual stubbornness blocked out reality.

Shall we recover from our present political, social and cultural tussles? I believe so. But not through the usual British fudge, in this case presenting a surrender as a compromise. The readiness of the Government to let the EU pick our pocket – who can blame Michel Barnier for obliging? – has produced a "deal" that risks condemning us to years of internal recrimination and wrangling with our neighbours. A second referendum is so patently a ruse, and its leaders so politically discredited, that only the most blinkered or cynical could propose it as a means of reconciliation.

The only way left to restore calm now is a "managed no deal", for which all sides are preparing. Most Remainers are not hard-liners but understandably worry about economic apocalypse. If and when that does not materialise – and with sensible preparations it will not – then our politics will go off the boil, and ex-prime ministers will resume what Dr Johnson called the innocent employment of making money. We are not, after all, in as febrile a state as the United States, France, Italy, Spain or even Germany. The Brexit vote calmed down our politics, eliminating Ukip and strengthening the two main parties. Once carried out it can do so again.

By Robert Tombs
The Daily Telegraph / 22 December 2018

Tim says: "The Oxford University-educated editor of The Guardian, Katharine Viner, clearly doesn't understand World Trade Organization rules – having stated in the past (see extract from The Guardian, 7/7/17, below) that they would result in the automatic imposition of tariffs... which is completely untrue. In this article, Viner seems to be saying that you need 'trade deals' to trade. Just not correct, Katharine. The UK and EU trade with most of the world on WTO rules... without deals."

THE GUARDIAN VIEW ON HARD BREXIT TRADE: MAKING BRITAIN VULNERABLE

Tensions between Washington and Beijing show the value for the UK of membership of a continental bloc

Some leave voters hoped for control over immigration. Others expected a budget dividend for the NHS. But for many Tory MPs, Brexit's most cherished prize was a rather more obscure benefit: restoration of an independent seat at the World Trade Organization, representing freedom to strike bilateral trade deals. No one is more excited about that prospect than Liam Fox, the international trade secretary. He could hardly conceal his impatience in a speech on Wednesday extolling the virtues of the WTO. He urged an audience of business leaders to pay more attention to the organisation. Implicit in that message is a complaint that the UK's role in EU institutions has monopolised economic debate.

But access to European markets, integration in European supply chains and influence over EU rules cannot be dismissed as second-tier concerns. Most serious efforts to model Brexit show a substantial cost from quitting the single market and customs union. The idea that Britain can simply drop its existing arrangements and trade according to "WTO rules" is a fantasy advanced by hard Brexiteers who either deny the damage that shock would inflict or relish it as purgative exposure to uncompromising global market forces.

There are reasons that no developed country in the world relies on the WTO as a framework for its global trade. The organisation sets common denominator terms of fair practice but that system is not sophisticated enough to obviate the need for deals between members. Negotiating those deals is never easy or quick. The current trade row between Beijing and Washington is a case in point. The world's two largest economies are supposed to be

finalising a bilateral accord, with China's vice premier Liu He due to visit the US on Friday. But last week Donald Trump complained on Twitter that progress was too slow and threatened to increase tariffs from 10% to 25% on goods worth \$200bn. The order to enact that hike has been filed. The White House accuses Beijing of reneging on commitments already made.

There is more to the clash than just trade; the US and China are engaged in a long-term rivalry for global leadership. Ramping up tough rhetoric is also a routine part of Mr Trump's domestic political showmanship. However, one feature of the Sino-US deal that Brexiteers like Dr Fox should note with alarm is a bespoke dispute resolution procedure. If completed, that feature would bypass the WTO – an outcome consistent with the US president's loathing of multilateral institutions that might constrain his actions. Theresa May could try asking Mr Trump to be more respectful of international rules when he visits London next month, but she wouldn't get far. Besides, she fears alienating the man who can bestow promises of a "special" post-Brexit deal with the UK. But the idea that Washington, under any administration, would do favours for Britain in international trade talks is one of Brexit's wilder delusions. It is an arena where cold realpolitik is paramount and size matters. China is currently testing the limits of its leverage as an emerging superpower.

It is a simple fact of geography and scale that the UK cannot compete in that league. In equivalent talks it would have terms dictated in much the way that Brussels, representing the collective mass of 27 countries, has been able to dictate terms of withdrawal from the EU. The same would be true if the UK sought to negotiate its way back to single market access from a base of WTO rules. A painful

lesson from Brexit is that UK has more influence as a big player in a European bloc than as medium-sized player alone in the world. The idea that it is worth swapping a seat at the EU's top table in exchange for a seat at the WTO is one of the Brexiteers' most fraudulent claims. It is a bad deal that promises worse deals to come.

Editorial
The Guardian / 8 May 2019

Tim says: "Ms Viner is wrong to imply below that WTO rules would mean the automatic imposition of tariffs on imports. Without a deal, the government can end tariffs on imports and reduce prices in the shops..."

Katharine Viner, editor of The Guardian, said: A deal is better than no deal. No deal would mean a reversion to WTO rules on trade between the EU and the UK. Among other things, it would mean, as Mr Barnier points out, that there would be customs duties of almost 10% on vehicle imports, of 19% on drinks, and an average of 12% on meat and fish.

The Guardian, Editorial,
Friday 7 July 2017

Tim says: “Not all economists get it wrong. Roger Bootle is one of a small band called ‘Economists for Free Trade’ who heavily criticised the Treasury, the OECD, the IMF, David Cameron, George Osborne and almost the entire British establishment, who had forecast an immediate recession if the UK voted to leave in the referendum in 2016. Track records matter. Economists for Free Trade got it right – and 90% of their fellow economists got it wrong. Here, Bootle comprehensively demolishes Project Fear.”

“DON'T BELIEVE THE DOOM MERCHANTS - THEY'VE BEEN WILDLY WRONG BEFORE

So now we know the shape of the choice facing us: either what Mrs May revealingly called “her” deal; no deal; or no Brexit. No Brexit would amount to a betrayal of 17.4m voters. Yet hardly anybody would conceive of Mrs May’s deal as remotely desirable. She has positioned herself as a remarkable combination of Neville Chamberlain and Ethelred the Unready. You could surely support her deal only as the lesser of evils. But is it? This issue really comes down to how you would evaluate the no-deal scenario, or rather the proposal of trading with the EU on World Trade Organisation (WTO) terms.

Over coming days we will doubtless be subjected to a barrage of propaganda, telling us that if we leave without a deal this would amount to economic Armageddon.

Planes will fall out of the sky – that is, of course, assuming that they are allowed to take off in the first place – while medicines will run out and production will collapse. I wouldn’t be surprised to see forecasts of rising sea levels and virulent hurricanes as the gods of the EU vent their fury.

The Treasury will tell us that in the event of leaving without a deal, GDP will plummet. This is, after all, what they have told us before. It is particularly unfortunate that, despite calls for it to do so, the Treasury has refused to publish details of the model that it has used to make its bloodcurdling forecasts, nor to make clear the assumptions that it has fed into the model. Why do you think this might be?

Over and above this secrecy, there are several reasons why we should discount these alarmist forecasts. First of all, we have been here before.

In 2016, at the behest of the then chancellor, George Osborne, the Treasury forecast that, in the event of a vote to leave the EU, the economy would experience either a “shock” or a “severe shock”, amounting to a recession.

In the former case, GDP would fall slightly and in the latter case sharply. This would be accompanied by falls in house prices of up

to 18pc and a rise in unemployment of more than 800,000.

In reality, the economy has kept growing pretty strongly. Meanwhile, house prices have carried on rising and, far from unemployment increasing, it has fallen by 260,000.

This example of gross forecasting-error with regard to a major national decision is not an isolated example. In 1931, just about the whole of the UK establishment favoured staying on the Gold Standard, which was exerting severe deflationary pressure on the UK economy.

The great and the good told us that if we left all hell would break loose. Well, we did leave and all heaven broke loose, with the fastest sustained growth of output in our industrial history.

Fast forward to 1992. The UK was again trapped in an exchange rate regime, this time the European Exchange Rate Mechanism (ERM), which was again exerting extreme deflationary pressure on the economy. The Treasury, aided and abetted by all the usual suspects, said that if we left the ERM we would face a catastrophe. Supposedly, inflation would rocket, interest rates would soar and the economy would tank. On Sept 16, we were forced out of the ERM – despite the Government’s best efforts to stay in. The result was lower inflation, lower interest rates and a burst of growth that brought unemployment and the budget deficit sharply lower.

Not many years later, the establishment was at it again, trying to get the UK to join the euro. This time, the Treasury was on the side of the angels. But the overwhelming majority of the establishment, including the BBC, business bigwigs and establishment newspapers, was in favour of joining the euro. Indeed, it foresaw dire consequences if we failed to join. In view of these forebodings, the outcome is particularly interesting. Since the euro was formed in 1999, the German and French economies have grown by 32pc, the Italian economy by 9pc – and the poor old UK, self-excluded from the enormous benefits of the euro, has

grown by 44pc. Funny, that.

A large part of the Treasury’s current gloomy view of our no-deal future rests upon the assumption that after Brexit the frictional costs of trading with the EU will be large. Yet not only do umpteen countries around the world export large amounts of goods into the EU, but also the rate of increase of these exports has been higher than the rate of increase of exports from most member countries to other members. If border frictions were such an appalling barrier, what explains these non-EU countries’ evident export success?

Supposedly, leaving the EU is going to disrupt our supply chains. You would think that the EU was the only economic area in the world that benefited from integrated supply chains. Yet they are in place in east Asia, in North and South America and globally, crossing currency, legal and customs barriers.

Moreover, if the single market is such an outstanding success, why haven’t other countries sought to form the equivalent? There is no east Asian or North American single market. I wonder why.

If we leave the EU without a deal and trade on WTO terms, there will surely be a period of some disruption and uncertainty. This is unlikely to be either protracted or very serious. But the most important thing is not to confuse this short-term transitional period with the many decades afterwards. And it is surely on the basis of what that extended period will be like that we should make this momentous decision.

There are sound reasons for believing that not only will we be fine but we will have the opportunity to shine and prosper. This is precisely why M. Barnier and his merry men are so keen that we shouldn’t have the chance.

By Roger Bootle
The Daily Telegraph / 18 November 2018

Tim says: “Grant Lewis, head of research at Daiwa Capital Markets Europe and a former Treasury employee, is typical of those economists who promoted Project Fear. He got it embarrassingly wrong in 2016, before the referendum, when he forecast (Evening Standard, 25/4/16) ‘rising unemployment’, ‘foreign banks leaving’ and a ‘crumbling economy’, in the IMMEDIATE aftermath of a Leave vote. Mr Lewis couldn’t have been more wrong then – around a MILLION new jobs have been created since the referendum, with exports, household incomes and government tax revenues at, or near, record levels! Mr Lewis’s forecasts tell you a lot about the forecaster, but nothing about the future...”

“ECONOMIC ANALYSIS

Theresa May’s Damascene conversion to cross-party consensus is stretching into a fourth week as seemingly doomed talks between Labour and Tories on Brexit limp on.

But there was nothing inevitable about this mess. As this painful crisis lingers, it’s easy to forget that in the aftermath of the referendum, Sir Oliver Letwin — dubbed an alternative PM in recent weeks for his initiative on “indicative votes” — was asked by David Cameron to develop a policy to leave the EU. Sensibly, he looked to build the cross-party consensus May is now seeking. Sadly, she decided to throw red meat to the Conservative faithful: the country has been paying the price ever since.

May’s red lines inevitably meant that the best future trading relationship the UK could hope to achieve with the EU was a Canada-style free trade agreement. Aside from no-deal this is the most damaging of Brexits. The greater the impediments to trade, the greater the long-term economic damage.

From the outset May’s plans sacrificed the UK’s long-term economic prospects. But then she doubled down on the damage by maximising the uncertainty for businesses and consumers through a chaotic approach to EU negotiations. From the moment she triggered Article 50 with no clear plan, it has been disaster upon catastrophe.

Even now, a month beyond our original leaving date, firms still have no certainty about when or if the UK is leaving, its future relationship with the EU or if the UK will leave without a deal.

If a government was actively pursuing a policy designed to maximise economic damage, it would look like this.

John Springford, at the Centre for European Reform, has calculated that the UK economy is already 2.5% smaller than it would have been had the referendum result gone the other way. Ironically this equates to a hit to the public finances of just over £350 million a week. That’s just the start.

The approach most firms took to Brexit was to prepare for the worst, but hope a transition period would provide a couple of years to prepare properly.

But May’s failure to get her Withdrawal Agreement through Parliament in December and, more damagingly, her refusal to rule out no-deal meant firms went into what they believed were the UK’s final three months of membership staring down the barrel.

Boardrooms have had no choice but to prepare for the worst at great cost to both the firms themselves and the economy. This has prompted decisions on relocations, stockpiling and the like they wouldn’t have made if greater certainty had been there.

This will have profound consequences. Having moved activities to other parts of the EU, firms will not move them back. Even if May’s offer to compromise results in the UK staying in the Single Market and Customs Union, its reputation as a business-friendly, politically stable place to invest in is irreparably damaged.

Indeed, for many of those who have moved, this is just the first phase: work on optimising their European business will now begin. The UK will not be at the centre of the process. After more than a thousand days of chaos, in the inimitable words of Tony Soprano, you can’t put the sh*t back in the donkey.

By Grant Lewis
Evening Standard / 25 April 2019