

Post-Brexit Planning, The Establishment RIP

"The Establishment Is Due For An Enormous Shake-Up"

By Alasdair Macleod, via GoldMoney & Zerohedge, 22 December 2019

Brexit will be done by the end of next month, when trade negotiations with the EU will begin. Importantly, Britain's negotiating position has strengthened immeasurably, and the new government is not afraid to use it.

This Conservative government has a greater sense of political and economic direction than Britain has seen in a long time. Unbeknown to the public, not only will the establishment that obstructed Brexit be side-lined, but a slimmed-down post-Brexit cabinet through a network of special advisers lead by Dominic Cummings will revolutionise central government, reducing bureaucracy and refocusing resources on public service objectives instead of wasted on process.

But there is a dichotomy. While both the government and the new intake of MPs lean towards free markets, Cummings and Johnson will increase government intervention to secure their electoral advantage for the future, and to ensure a planned outcome in a world which in following decades will be dominated by new large Asian economies.

There are two wildcards which could trip the new government up. In the coming months there will almost certainly be a global credit and systemic crisis, which will have a profound impact on trade negotiations. And as far as we can tell, while this government is undoubtedly in favour of small government and free trade, there is no evidence it understands a cohesive theory of money and credit.

Post-mortem

Boris and the Conservatives won the General Election with a very good majority. In truth, opposition parties stood little chance of success against the Tory strategists, who controlled the narrative despite a hostile media. At the centre of their slick operation was Dominic Cummings, who masterminded the Brexit leave vote, winning the referendum against all the betting in 2016. It was Cummings who arranged for the Tory Remainers to fall on their swords, which by removing the whip reduced the Tory ranks, making them appear vulnerable enough for the opposition parties to tear up the requirement for a supermajority and vote for a general election.

It was straight out of Sun Tzu's playbook: *"All men can see these tactics whereby I conquer, but what none can see is the strategy out of which victory is evolved."* The way the Remainers were removed was both brutal and public. On 3 September fifteen of them went for a meeting in Downing Street, obviously convinced, with Johnson only having a parliamentary majority of one, that they were in a very strong position to negotiate either for a second referendum or Brexit in name only. Dismissing them, Cummings was blunt to the point of rudeness: "I don't know who any of you are". And they left with nothing.

Observers at the time saw this as suicidal, but Cummings appears to have known what he was doing. The hapless rebels had no coherent plan other than to threaten, and their bluff was called. Better, it seems Cummings concluded, to purge the parliamentary party of serial rebels than to be beholden to them.

Much has been written in the last few days about how the election victory was won. About the focus groups, about listening to Labour voters. About the Get Brexit Done slogan. **But Sun Tzu Cummings also encouraged Labour to hang themselves.** The Tories kicked off

addressing the number one concern of ordinary people, tackling crime. Then came the NHS – more nurses and hospitals. This was a carefully set trap, getting the Marxists in Labour to outbid the Tories on spending to patently ridiculous levels. Having set down that route, they added nationalising water, trains and broadband. Everyone then knew that Labour promises were not only a joke, but downright dangerous. The Conservative's promises were just deliverable, particularly since they were prepared to sacrifice an earlier promise to cut corporation tax.

What now?

Obviously, Britain will leave the EU on or before 31 January next. All of 2020 subsequently is set to be taken up in trade negotiations with the EU, which will not be extended. The first post-Brexit negotiation of note will be over fisheries policies and the right of access to British waters for EU fishing vessels, due to be agreed by 1 July, to be implemented after the transition period.

The hope initially expressed by establishment figures in both Westminster and Brussels was that with a thumping majority the Conservatives will soften their Brexit demands, because it is no longer beholden to the ERG, an alliance of free marketeers in the Conservative parliamentary party. This being the case, it was argued, British demands for a return to total sovereignty over British fishing waters can be compromised in the context of wider negotiations. This is what always happens in Brussels, and the establishment on both sides assume the British will continue to play that game. But the Remainers have not been paying attention: the way in which the Conservative rebels were dealt with is the new negotiating philosophy.

Far from taking the opportunity of a large Conservative majority for the British to soften their stance in negotiations, all the indications (for those that bother to look rather than just assume) are that the British will take a firmer negotiating stance. If the EU tries to blackmail the UK over fisheries – France being an obvious instigator given her powerful fishing lobby, and Spain over Gibraltar which has nothing to do with fisheries - the British will be prepared to walk away from negotiations, because at that point, the Political Declaration will be breached, not by the British, but by the EU.

In truth, the negotiating power has shifted firmly to Britain from the EU. Brussels will be dealing with a new anti-establishment administration, unsympathetic with the Brussels bureaucratic administration and determined to free the UK from as much of it as possible. The Brits are now focused, and Sun Tzu strategically clever with it.

Dominic Cummings possesses an exceptional intellect. His tutor in ancient history at Oxford, Robin Lane-Fox, reckoned him to be altogether in a different league to Boris Johnson. But Johnson is no slouch either and with backgrounds in the classics the two work well together. Other notable brains are Jacob Rees-Mogg, Sajid Javid, Michael Gove, Dominic Raab and Priti Patel. Collectively, the leading lights in the Johnson cabinet stand head and shoulders intellectually above any other cabinet seen for a long time.

The ERG, whose members are drawn from the pool of Conservative MPs which shares a free market approach over statist intervention, has enjoyed a substantial influx of members from the new parliamentary intake. A definite shift towards free market one nation conservatism has taken place. This is not what an arrogant establishment readily understands, nor wants. In the corridors of Westminster, establishment figures will now have an added concern: the threat to their bureaucratic power and even their jobs. They are used to a Downing Street whose time horizon is never more than a few days. It will now actively plan for the future.

The new political and economic philosophies

Leading members of the new cabinet are philosophically free traders, whose politics favour lower government intervention and lower taxes, fostering entrepreneurial ambition and encouraging wealth creation. A smaller government focused on outcomes will be a lesser burden on productive society and also provide the means of affording the best public services on a cost-effective basis. We have heard similar intentions before from incoming Conservatives, but this time there is a greater determination for it to be delivered, and with Cummings in charge of the Spads, it is perhaps more likely to succeed.

While we can only guess at his true understanding of the benefits of free markets over socialism, Boris has dropped a few clues that he has some knowledge of the economic issues involved. He quoted Bastiat's broken window fallacy in an article for the Daily Telegraph on 15 September 2017, which only a genuine free trader who has discarded Keynesian intervention will understand. Equally encouraging was his remark at a private function in June 2018, when he said "F... business", which was aimed at business lobbyists, otherwise known as crony capitalists seeking preference over everyone else.

These hopes are usually buried by the reality of government. But there is some hope that over the course of this parliament and next the UK will gradually free the economy from overbearing government intervention. While also being an advocate for the private sector, Cummings has a managerial approach. From his writings, we know he is a believer in the use of soft power to enhance a nation's prospects. He quotes Thucydides, who described Athens as the school for Greece, with respect to his ambition that Britain should be the school for the world. In other words, Britain will need to foster and develop the highest levels of education, technological knowhow and entrepreneurial opportunity if it is to progress as a nation, relative to the powers of tomorrow such as China and India.

Having grabbed the reins of government, Cummings intends to finance his objectives by slashing bureaucracy and centralising political power in the hands of a few key players. Hence his intention that the cabinet be substantially reduced from the current thirty-three members.

What appears to be absent, if only because the subject has not yet arisen, is an understanding of money, the relationship between budgets, trade balances, savers, and the credit cycle. Generally, politicians delegate monetary matters to the central bank. This government will be no different. But the current governor of the Bank of England is due to retire at the end of January, a date that may be shifted because it now coincides with Brexit. We can be sure the necessary qualification will a candidate who is acceptable to the world of central banking; in other words, another inflationist.

Sajid Javid, Chancellor of the Exchequer, says he intends to borrow to finance infrastructure spending, while keeping a tight rein on current spending. Every incoming finance minister says something similar, betraying a Keynesian approach to the relationship between government and the wider economy. Besides ignoring Bastiat's parable on broken windows, any increase in government borrowing not met by an increase in savers' savings is inflationary. **If Javid truly believes he can separate current from investment spending and therefore follow sound money policies, he fails to understand economics at its most basic level.** Doubtless Cummings would sweep this concern to one side, on the basis that investment in infrastructure, particularly in northern constituencies, is necessary to convert regional voters fully from Labour to Conservative and secure office for the whole decade. And in time, it would be covered by funds released through more effective administration. **The establishment is due for an enormous shake-up**

To understand in a little more detail what the Johnson administration plans to do, we need to take a step back. Over much of 2019, Boris Johnson, Jacob Rees-Mogg and a few others were

actively planning to oust Mrs May and replace her with Boris. In its early stages, the plans had little support in the parliamentary party, though Boris was wildly popular with grass-roots Conservatives. But when Mrs May was forced to defer Brexit until after the EU elections in May, Nigel Farage swept the board in those elections with his Brexit Party, and it was clear that the Conservatives, without a firm Brexit commitment, would be wiped out in Westminster. Mrs May was forced to resign, Johnson's campaign gathered momentum, and he became Prime Minister in July.

Three days before becoming Prime Minister, Johnson invited Dominic Cummings and his original Vote Leave team to work again with him to deliver Brexit. Cummings was appointed a Special Adviser (Spad) to the Prime Minister and is now the chief Spad, controlling all ministerial Spads across government. As a former senior civil servant put it, "Mr Cummings told all Whitehall's Spads that he was now effectively their line manager, rather than their Secretaries of State." **It is no exaggeration to say that Cummings now exercises more control over the permanent civil service than any permanent secretary, as well as a high degree of control over elected politicians appointed as ministers.**

With Johnson's support, Cummings has plans for radically reforming the establishment. In a lecture given at the Institute for Public Policy Research in 2014, he said his wish list would include rule changes to enable ministers based in the House of Lords to be questioned in the House of Commons. He believed the Cabinet should be shrunk from some thirty ministers to six or seven. When he was Michael Gove's Spad at Education, he wanted to push through reforms to ensure that less money was spent on process and more on objectives, but he lacked the power for wholesale reform. He ensured so far as he was able that spending was on improvements to the education system instead of ministerial flights of fancy, from which Gove, to his credit, was generally free. **Cumming's strategic success at Education is now planned to be extended throughout all ministerial departments, and the money saved should be considerable, enough to meet spending objectives and provide tax cuts in due course.**

The problem with the civil service is that during the Blair years it became overly bureaucratic. Tony Blair's government paid enormous sums to management consultants to advise and implement improvements. Unfortunately, payments to consultants became linked to the length of time they spent on contracts, time which was extended by introducing detailed and procedure-heavy checks and balances on every aspect of government spending. It extended to contracts given to the private sector, forcing enormous bureaucracy onto projects such as HS2 (the high-speed rail link from London to the North) which before any track has been laid is already due to run substantially over budget. A simple task which should cost in the low hundreds becomes thousands.

As Cummings put it in his speech to the Progressive Policy Think Tank in November 2014, **employment policy in the civil service encourages failure.** There is very little incentive to reduce regulation, and no incentive to save money because the Treasury is primarily interested in power over the system. Cummings says that civil servants are overpaid for what they are meant to do, are interested in process and empire building, and never take the blame for things that go wrong, which they do more often than not.

If Cummings gets his way (and he is the most powerful operator in the new administration) the civil service will see substantial change, leading to less bureaucratic waste and better decision making. The all-encompassing power of the Treasury will be broken. After Brexit, we can also expect a radically slimmed down cabinet, giving greater control at the centre of government, but at the same time power is likely to be devolved from the Westminster establishment to the regions. Electoral reform will follow, with a planned reduction in Westminster seats from 650 to 600, favouring the Conservatives, and the Fixed

Term Parliament Act rescinded. Reform of the House of Lords, particularly given their Brexit blocking tactics, seems likely to be on the agenda as well.

The establishment has lost and will be heavily punished. The influence and cost of bureaucracy will be curtailed, and the costs released will be apportioned between final objectives (police, nurses, hospitals etc.) and cuts in taxation. The objective is to reverse the Pareto 80% spent on process and 20% on final objectives. If it can be achieved, the prospects for Britain relative to other nations in the EU, who are bound by their bureaucracy, will improve greatly.

Public investment policy

Despite senior ministers being free traders at heart, government plans for intervention will increase its role in the economy. The closest parallel is probably China, where its government gives private individuals and their businesses a framework of five-year plans within which to develop. Instead of five-year plans, the government works to an electoral cycle of five years with no certainty of continuation. The first priority will be to deliver infrastructure and regional government hubs to the North, with particular emphasis on newly converted constituencies to ensure future loyalty.

Transport, better broadband and mobile signals are on the agenda. State support for research will allow technology hubs to be devolved outside the London-Oxford-Cambridge triangle, beefing up the northern universities. Cummings is known to favour copying the US's Advanced Projects Research Agency, designed to develop military technology, with a British equivalent pursuing a wider commercial objective.

Johnson is also a keen proponent of freeports, where goods can be moved in and out without paying customs duties. Alternatively, businesses working within a freeport designated area benefit from duty free imports and a cluster effect, through the attraction of other businesses. Freeports, which include airports, are a simple way to target local development.

A credit crisis is due during trade negotiations

While the Johnson/Cummings plans hold much promise, **there is another exogenous factor likely to threaten them.** The global credit cycle appears to be on the turn, **and with it will come a systemic crisis.**

There are signs, for example the repo crisis in New York and mounting problems in Eurozone banks, that the periodic credit crisis that always follows a period of credit expansion is imminent. If it breaks before 31 January, the government will undoubtedly face pressure to put Brexit on hold. The Bank of England in particular, and the civil servants in the Treasury will almost certainly try to persuade the government to extend the implementation period and even reverse Brexit, but with Johnson and Cummings in charge Brexit is unlikely to be delayed. However, Britain may still be faced with contractual obligations to the EU in the event of an EU banking crisis during the negotiating period following Brexit. **There can be little doubt it would be an enormous mess, likely to undermine the course of planned government spending.**

The blame-game will then commence. With Britain having established that you can after all leave Hotel California, the political adhesion that binds EU member states together will almost certainly become unglued by economic reality. A rational expectation would be that mounting problems would encourage a more realistic EU policy regarding Brexit and trade negotiations. But the relationship between the EU's panjandrums and reality is barely tangential, so it would be sensible to expect talks to break down in these circumstances.

Therefore, in the event of a global or European credit and systemic crisis taking place a so-called no-deal Brexit becomes an increased possibility. It is unlikely to worry the new

Conservative government, which is inclined towards free trade anyway. It's just good politics to have someone else to blame.