

Brexit will deliver a liquidity crisis that will make 2...

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I promise; I tried. I went for a drink with a long time friend who is dedicated to Brexit yesterday. He had read my blog on what I think to be the gargantuan risks arising from Brexit, and I think it fair to say he believes I have massively overstated my case. To cut to the chase, we tried to find common ground, and failed.

He thinks I am blinded by expertise (which he does not trust, because he thinks it destroys the entrepreneurial spirit that he believes underpins Brexit) plus a devotion to the EU, which he cannot understand since he believes anyone left of centre must mistrust it. And in that sense he is right: of course I have massive reservations about the EU, which needs reform, but just not in the way he proposes. which is through a shock delivered by hard Brexit.

In turn I think he, like many Brexiteers, is blinded; in his case by a belief in three things. The first is that the economy largely functions apart from politics and regulation and that the changes arising from Brexit will have little real impact on day-to-day life or well being.

Secondly, he believes that markets will clear any disruption arising from Brexit almost instantly. So, for example, he is quite sure that the supposed labour shortages in East Anglian agriculture, where hundreds of thousands East Europeans work at present, will be solved overnight by an increase in wages that will send replacement local employees into the fields in their droves, which wage rises will however have little impact on inflation whilst reflating long suffering rural communities.

And third, he thinks that even if this does not happen there is no risk because a flood of new Russian, Chinese and other capital will pour into the UK after Brexit to replace lost capital.

We played out these scenarios. Looking at the agricultural sector that dominates my home region I suggested that many local businesses are intensely fragile, and operate (like a great many households) on the basis of tiny capital bases. What this means is that even a few weeks of disruption created by labour shortages and so a lack of goods

to pack, ship and process, will be enough to tip many of those local enterprises into failure. And I cannot see how that disruption will not happen if a rapid ban on migration (or a marked reluctance on the part of EU citizens to travel here) as a consequence of hard Brexit results in labour shortages.

He did not dispute the fragility of these enterprises, where a lack of cash flow will be crippling. But he simply believes that markets will adapt. He says labour rates are already rising. I pointed out that this is because of a change in the minimum wage. He says new labour is being attracted in. I pointed to new data showing that at present inward EU migration is growing. And as a result I argued that the market is not, then, adapting as he suggests. Its current behaviour is instead being reinforced. And in that case I simply cannot see how the hard Brexit he openly desires, without transition of any sort, cannot but be disastrous.

To offer an analogy, I think such a Brexit will be like the banking crisis in October 2008. Just as there was then, hard Brexit will deliver the most massive liquidity crisis in the UK. Goods will not move. Crops will not be picked. Planes may quite genuinely not fly (a scenario dismissed as impossible by my friend, and yet wholly anticipatable). Regulatory agencies may collapse under the weight of incremental work growth of a staggering scale. And as a result cash flows will fail for businesses, and so for households.

I stress, that in saying this I am not saying that it is impossible to leave the EU. I doubt its wisdom. But I do not doubt the possibility. But as I explicitly explained over a beer, the crisis we will face is in the rate of change Brexit will create. In mathematical terms (my friend has a maths degree), the first differential here is leaving the EU. The second is the rate at which we do so. So long as the rate of change is manageable we can leave. If it is too fast the result is catastrophic (I use the word with care).

Our problem is that a great many people in the UK think we can leave the EU without consequence: they share my friend's desire for hard Brexit now. They cannot see the problem. They think, as did the market fundamentalists on finance prior to October 2008, that if there is an issue to solve markets will resolve it. Or to put this in a local context: there will be a suitable supply of British labour waiting to work in East Anglian farms on the day the Bulgarians leave at pay rates that can be set instantly and appropriately which can be fully recovered from supermarkets who will instantly pass the consequential price rises on without concern or delay to consumers, whose demand will not alter as a result, and everything will continue to function without delay or cost as a result of the change that hard Brexit and the expulsion of a pile of people from the UK, which is what is expected and demanded, creates.

This, in my opinion, naive belief did not deliver in financial markets. And I am certain it will not do so in post-Brexit markets either. The reality is that there aren't people lined up to work. Pay rates for post-Brexit labour are not agreed. Supermarkets will resist all price increases at a time of uncertainty. And in the middle farmers and all the related

activities that feed the agricultural economy with work will be squeezed of their working capital and many will go bust. In my opinion Brexit could induce the biggest liquidity crisis in this country's history, and not just in agriculture. The delays in the flow of goods in other sectors will have the same impact: working capital will disappear overnight in longer supply chains.

And of course this will have knock on effects until we get to a banking crisis. It would not take long. That's because, as we now know, once liquidity begins to evaporate it disappears remarkably quickly.

My friend thought my analysis was wrong. But in case it was not, and he conceded the possibility, he was sanguine. As he had noted me saying in this blog, there is a mountain of money in the world at present looking for a home and accepting negative interest rates whilst seeking to find one. He thought the moment after Brexit and at the first hint of economic collapse Chinese, and most especially Russian money would pour into the UK to buy up distressed assets, bolster the pound, and revive the economy.

I expressed my distaste at the idea of a Putin-controlled Britain. I was firmly put in my place about all the merits Putin has and his enormous achievements in Russia.

Our evening did not last as long as I had expected. My friend doubted we would be seeing each other again socially. He would be sticking to his many other friends who share his views. They were right, and were clearly going to win.

I was saddened. My friend seems to think his friends must all share his views and none must be Remainers. But I was also troubled. My ex-friend and I met half a mile from Oliver Cromwell's house last night. He was an Ely resident from another era when people of differing opinions could not meet socially. It felt disturbingly close.