

I know I said I would not be blogging over the last few days, but that gave me time to think. I thought about the economic consequences of no deal on Brexit, which I am beginning to believe by far the most likely outcome, simply due to the sheer incompetence of the government and the inability of anyone to force a change upon them due to the disabling of parliamentary democracy by Cameron and Clegg.

No one, of course, has a crystal ball, but the consequences of no deal are not hard to imagine.

If we resort to WTO rules and the EU does impose tariffs, as they inevitably will, the price of goods exported from the UK will rise. The only way that they will remain competitive is by the value of the pound falling. We know that the pound has already fallen in anticipation of Brexit. No deal will, I suggest, mean it will fall somewhat further, where 'somewhat' means by a significant amount. I would expect at least another 10%, and maybe more.

It will not matter what the UK does on tariffs in that case: the price of imports will rise. That is inevitable. That does not mean that all prices will rise by the same amount: we do not, of course, import all we consume. But there will be a knock on effect. And it will be significant. But remember, we will not get an export boost; the tariff will absorb that.

Of course, it can be argued that in the long term this might be good for us. As Nick Shaxson argues in his book 'The Finance Curse', we have long suffered from overvaluation of the pound as a result of the harmful activities of the City of London and this has had cost to us all. Adjustment to be more appropriate exchange rate levels may be overdue. But that does not mean it will be easy, especially if as unmanaged and chaotic, as this adjustment is going to be.

Chaos has a considerable price. I suggested some time ago that it will not be cost that will push businesses under in the case of no deal. A lack of liquidity will do that instead as supply chains lengthen, goods get stuck in transit and critical processes fail, including cash flow. I imagine substantial fall out from this. Given that 'no deal' will be punished by the EU this is inevitable. I simply cannot imagine them making life easy on

a border. Why should they? In that case, expect a substantial number of businesses - including many in the transport sector, who will be hit especially hard as all their capital assets will simply sit still for long periods on behalf of customers who will not be able to pay for them to do so - to fail during the early summer of 2019. That is pretty much inevitable.

But that is only the direct impact of no-deal. There is, for example, the Bank of England reaction to consider as well. Falling exchange rates will give rise to a knee-jerk increase in the interest rate on their part in a hopeless and entirely misplaced attempt to support the value of the pound. Whatever Carney has said to date can be ignored: central bankers raise rates when currency values fall unless ordered to do otherwise. Philip Hammond has the power to over-rule such rises (there is no independence for the Bank of England in reality; it is all a sham, as I have previously explained) but will he? Given Tory loyalty to the City and Hammond's deep and innate desire to see 'normal' interest rates restored, which is a sentiment that runs deep through his party, I cannot see that happening.

The impact of these rate rises will be dramatic and quite rapid. Many households will be immune from the shock at first because of fixed-rate mortgages, but not all will enjoy that advantage. And most businesses will not. Rapidly rising interest costs at a time of inflation, resulting from rising import costs, with the resulting likelihood of real incomes being in free-fall when personal debt levels are already very high and net saving has disappeared will be catastrophic. If border chaos does not create an insolvency crisis then increasing interest rates will.

Insolvency crises are personal, traumatic and always costly for society at large. But they also have systemic consequences, and that risk is transmitted through and to the banking system. The Bank of England says the UK banking system is now more robust than it was. I think there is some truth to that: it would be churlish not to agree. But banking faces its own shocks in the event of no deal. No one can be sure what the end of financial services passporting really means. And no one can be sure whether or not all derivatives will be legally enforceable when EU regulation ceases to apply. The scale of the shock to banking is already hard to assess in the case of no deal. We can be fairly sure that given the scale of the City's enthusiasm for staying in the EU they think that the risk without the spillover from liquidity and interest rate induced crises is significant. Add an insolvency crisis into that mix and who knows what will happen? All that can be safely said is that the scale of the risk is real and significant.

And all this is before three other factors are taken into account. The first is the disruption to supply chains. The second is, then, contractual failure with consequent loss of profit claims. And the third is skill shortages as people, quite reasonably, refuse to come to the UK any more to take work. This also has a fourth, knock-on effect, which may be rising wage costs, although if businesses fail to the extent that I imagine it is actually possible that the exact reverse may happen, and there may be a spike in unemployment and no net wage increases.

Out all this together and there is only one possible consequence of no-deal and that is economic mayhem. I wish it were otherwise but unless the EU decided to impose no sanctions on the UK for leaving without a deal (and I cannot see a legal way that they could do that) then nothing else is at all likely, especially as they will seek to maintain a border even if the UK is likely to [be almost wholly unable to do so](#).

What to do in this situation? That's the subject for another blog. But nothing will really save the day.