

Expect a backlash if the £50bn offer doesn't move negotiations on



*After threatening to pay nothing to the EU, then conceding £20bn, the government has finally indicated it will pay a Brexit 'divorce bill' of £40-50bn. The initial reaction from Eurosceptics has been rather muted, writes **Iain Begg (LSE)**. But if the European Council does not allow exit negotiations to move to the next stage, we can expect a serious backlash – not least as the impact on public finances (including the NHS) becomes clear.*

After the promise, implicit in Theresa May's Florence speech, to offer some €20 billion to meet the UK's obligations towards the EU, it now seems the UK is prepared to pay double or more by way of a 'divorce' settlement. The reason for doing so is to persuade the other 27 Member States to launch negotiations on the future relationship between the two sides in a timely manner. Three obvious questions nevertheless arise: why now after holding out for so long; how much will the final bill be; and can the government deliver on the amounts promised?

One can speculate on why the government took so long to grasp that it had to change its position, although it is worth recalling how recently Boris Johnson sent the message that the EU could 'go whistle'. Now, we hear, he and other prominent Brexit figures in the Cabinet have acquiesced in putting forward the higher amount, so long as it secures a good deal on the new relationship. Even so, to go in the space of just a few months from 'not a cent' to €20 billion and now to something in the region of €40-50 billion testifies either to a failure to appreciate the importance the EU attached to the issue, or to the dysfunctionality of the government.



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If the stories are correct, it would seem ministers heeded the warnings from Michel Barnier and Donald Tusk to put more on the table before the beginning of December – failing which, the next European Council, two weeks later would be unable to say there had been sufficient progress on the three initial dossiers (the other two being the Irish border and citizens' rights). Had that happened, the next deadline, possibly not until March, would greatly have compressed an already tight negotiating timetable.

The amount on the table has been left ambiguous through resort to the formula of agreeing principles, but leaving the precise amount to be calculated at a later date. This was always what Team Barnier sought and there are indeed good reasons why a precise figure cannot be given. There may be agreement, for instance, on the obligation to pay towards the future pensions of Eurocrats, but legitimate doubts about how much of the money has to come from the EU budget – for example, because of changes in the interest rate. Similarly, some of the unfinished projects towards which the UK now seems to be accepting it should pay may be cancelled, reducing the obligation.

But do not be misled: all the finance ministries involved will have someone at hand with a spreadsheet, able to feed the amounts at stake to their minister within a matter of minutes. EU budget negotiations were ever thus. A plausible figure, at least at the level of billions, if not to the third decimal place, will emerge and, certainly in the UK public debate, become as totemic as the infamous £350 million a week for the NHS.

The politics could easily then turn highly toxic, especially if other likely effects on the public finances are taken into account. Initial reactions to the revelation of a much higher divorce bill have been surprisingly muted, with variations on 'unfortunate, but a price worth paying' surfacing as the mainstream response from Eurosceptics. This suggests the Prime Minister will be able to hold the line, at least until the forthcoming European Council. But if the outcome of the Council falls short of British expectations of the immediate launch of the next phase of negotiations, a concerted backlash against the new divorce bill must be expected.

Other Brexit-related influences on the UK's public finances could, in any case, be much more significant. The increase in the forecast government deficit, revealed in the November 2017 UK budget documents, is some £18 billion per annum, more than doubling the new figure for the divorce bill over the three years following Brexit. These projections reflect a down-grading of growth prospects for the economy, largely because of more [pessimistic assumptions about productivity growth](#), but there are good reasons to believe Brexit will aggravate the negative effect. It is easy to argue that forecasts are always wrong and can therefore be dismissed, but they can also be right or even unduly optimistic.

In addition, the UK may seek to remain within certain EU policy programmes, such as for research. If it does there will be a cost. Norway and Switzerland, often cited as possible models for a future relationship between the UK and the EU, make sizeable annual payments into the EU – sometimes, if somewhat misleadingly, referred to as payments for access to the single market.

For anyone ever tempted to believe the promise of £350 million per week, the message could not be more clear: even if it had not been mendacious, any windfall gain for the NHS will be a very long time coming.

This post represents the views of the author and not those of the Brexit blog, nor the LSE.

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