Brexit, Risks and the Wisdom of Winston Churchill
(5 Risk Management Lessons)

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In their 2018 polemic *Saving Britain*, senior Labour politician Andrew Adonis and the political scientist Will Hutton posed the question concerning Britain's tortuous tactics at leaving the European Union: "is Britain really going to make itself meaner, smaller and poorer?" The risks of the Brexit deadline, now only a month (or perhaps a couple more) away are looming, while commentators argue that there is no Brexit dividend to be harnessed. On the contrary. British business already feels the pinch: companies are delaying or redirecting investment from the country to less uncertain economies, thousands of jobs are indeed moving abroad, or are simply going to be lost for good due to close-downs, as workers at Bombardier, Nissan have been told. The Bank of England anticipates job losses in the financial services industry to be on the scale of tens of thousands.

Meanwhile, for more than a decade, UN Reports have been warning that child poverty in Britain is among the worst in the developed world and the poorest families continue to slip into deeper poverty. All of this cannot be put on the front step of the European Union – but to that of successive UK governments. As UN special rapporteur Philip Alston put it, the UK government has inflicted "great misery" through "mean-spirited, and often callous" policie, and that Brexit is set to make matters much worse. As Adonis and Hutton argue, "our problems are made in Britain; they can only be solved in Britain".

Some, who consider the European Union the source of all ills that befell Britain, see Brexit as an opportunity to regain control over borders, immigration and trade policies. Others, among them the very government that is negotiating Brexit, when viewing Brexit through the lens of cost-benefit analysis acknowledge that it would "make Britain worse off", rendering the UK poorer economically under any form of Brexit. Yet they plod on.

Despite increasingly loud demands to put her negotiated Brexit deal to another referendum (which would also include the "remain" option), Theresa May has narrowed choices for parliamentarians to be between her deal (with amendments) or no deal. In the process, the British public has been increasingly polarized. Leaving the European Union with as little alignment with the EU as possible is now being presented as the only way "to honour the 2016 referendum" – a matter of keeping faith with democracy or its betrayal. Meanwhile, as the economist Paul Collier observed, the voices of pragmatic non-ideologues seem to be notable in the Brexit discourse and the everyday media only by their absence.

As my metier is risk management, a supposedly pragmatic discipline capable of being practiced outside the realm of ideologues, I have been wondering, what advice may this discipline offer to those embroiled in the seemingly never-ending and contorted Brexit saga?

Risk Management Lesson Number 1.
When historic precedent is missing, uncertainty is not necessarily our friend

On 28 November 2018, the UK government published its official economic analysis of the impact of its Brexit deal. It suggested that Theresa May's then version of Brexit could leave the size of the UK economy up to 3.9% smaller after 15 years, compared with staying in the EU. But a no-deal Brexit could deliver a 9.3% hit. A forecast is an attempt to use past events to predict the future and is seen as useful in showing a direction of travel – in this case, worse for the economy - given what we know historically. Yet we are short of a past precedent – as Ivan Rogers, the former British ambassador to the EU points out in his *9 Lessons in Brexit*, no developed country has left a trade bloc before, let alone in a disorderly fashion. Yet uncertainty is not our friend here. Many "no dealers" advocate that leaving the EU "on WTO terms" will cause no disruption as the WTO rules would provide a safety net. However, Rogers points out that the "so-called "WTO rules" deliver no continuity in multiple key sectors of the economy, so instead of engaging in wishful thinking, we ought to expect disruption on a scale and of length that no one has experienced in the developed world in the last couple of generations."

Risk Management Lesson Number 2.
When calamity looms, there is a natural human bias to discount it.

Psychologists have long been telling us of our built-in "optimism bias" – our natural tendency to discount the likelihood and the impact of disastrous outcomes occurring from uncertain situations. That is, we do not necessarily react to forecasts of bad news by taking preventative action or changing tack to avoid bad outcomes. Instead, it is easier (and more natural) for us to assume it "cannot get that bad" and our inclination is to ride out the uncertainty. Such biases lead more often to inaction than (preventative) action or a U-turn, especially as commitments to a chosen course of action build up and are perceived to be hard to break. The result? Escalation of commitment and a lont-term incubation of risk that go unattended until a perfect storm of events triggers the inevitable consequences, usually in the form of a negative surprise. We have seen many a man-made disaster, resulting from this dynamics that in hindsight seems evidently preventable, yet, as we end up lamenting incredulously, no action had been taken while there was an opportunity to do so. We are in that "recovery window" now – having identified the potential disastrous downside of Brexit scenarios, while a convincing case for the upside has not been presented. Only time will tell if UK leaders will act preventatively, or end up inflicting disastrous outcomes on the country they govern.

Risk Management Lesson Number 3.
The Precautionary Principle: If the downside outcome looks difficult to bear, you need to consider preventative action – and tack.

On 26 February, 2019, the UK government published its preparedness report on a "no-deal" Brexit, including an impact assessment. It repeated analysis that a no-deal scenario could leave the UK economy 6.3% to 9% smaller after 15 years (compared to what it would have been under the business as usual scenario), and that the worst-hit areas would be Wales (-8.1%), Scotland (-8%), Northern Ireland (-9.1%) and the north east (-10.5%). The prosperous metropolitan south is notable by its absence from the list. This analysis confirms one of the paradoxes of the Brexit predicament: the very people who voted for Brexit in the greatest numbers (i.e. the north east) would be worst affected by it. The geographical divide that plagues the UK is likely to widen further. As such, the political consequences of an economically "calamitous" Brexit could seriously undermine the stability of British society. Thus, we have to contemplate the Precautionary Principle. If the possibility exists that downside consequences inflict potential harm beyond our collective risk appetite (on a scale of the "calamitous"), we should not proceed in our given course of action. At the very minimum, we need to take a rain check – and come up with alternatives.

Risk Management Lesson Number 4. Generate more options than you think you have

Stephen Johnson, author of *Farsighted*, makes the case against "going with your gut" when it comes to consequential, life-altering – in this case, history-changing – decisions, and argues that one crucial tactic is to generate more options than we have on the table. Current discussion of a temporary Brexit delay would buy us some time, but – due to a definite deadline that would be involved – would do not substantially change the UK's bargaining power, nor the number of available alternatives in what Brexit could mean as a "landing place".
Paul Collier's recent article in the *Spectator* suggests how the UK might gain more time and strengthen its bargaining power *vis a vis* the EU 27, which is the prerequisite of generating more options: by revoking Article 50. Collier quotes Winston Churchill in the *Darkest Hour*, regarding Britain's current weakness in Brexit negotiations, "you cannot reason with a tiger while your head is in its mouth." Getting us out of the corner that the Brexit deadline has painted us into could yet again shift power currents in Britain's favour, as would looming European elections and political changes in key European players. Britain may regain influence in European politics. More options will present themselves. As Collier argues, "We can use this influence either to modify the EU into an enterprise that is more compatible with what our citizens want, or to quietly negotiate an agreed exit", presumably on more favourable terms to Britain than currently available.

Risk Management Lesson Number 5. When several values are at risk, trade-offs are inevitable

Every consequential historic decision has a moral component. When Theresa May became prime minister, her government promised to "honour the 2016 referendum and deliver Brexit", while at the same time also appealed to a number of social values, most notably to compassion and fairness, to be mobilized in order to create a "society that works for all". By now, academics and most commentators agree that the Brexit vote was a "protest vote", a "mutiny" by those who feel they are "left behind" and worse, "abandoned", by a more fortunate half of the population. Several academics (among them the economists Paul Collier and Colin Mayer) make the argument that the current form of capitalism in Britain is socially toxic. So much so, that the *Future of Capitalism* hangs in the balance. In a book by the same title, Paul Collier argues that we need to reform, rather than abandon capitalism, which is still our only hope to sustainable prosperity. But restoring the legitimacy of capitalism would require practicing it in a way that is not predatory to social capital, but on the contrary: compassionate, fair in that it addresses the needs of those whose life prospects are worsened by the dynamics of innovation and creative destruction. Collier further makes the point that "regardless of whether we end up leaving or remaining" in the European Union, we need to address the root causes of the Brexit mutiny by restructuring our benefits system, investing massively in training, and beginning the task of rejuvenating our provincial economies. An economically damaging Brexit would just make this task an even bigger challenge.

As Adonis and Sutton echo this in *Saving Britain*, Brexit in itself will not be a solution – we need to reform capitalism in Britain, exactly as Theresa May initially advocated, to create a society that works for all.

This begs us to rethink the moral dimension of Brexit. What is the core value at risk here? Brexiters position "Brexit" itself (the very act of leaving the European Union and regaining control over borders and policies) as the primary value at risk. They consider any "softening" of Britain's stance in negotiations - any alignment with the EU - a threat to this value, even if that comes with the sacrifice of economic prosperity.

But the analysis presented here suggests otherwise. “Getting back control”, in the light of the realities of a globalized world, can only be illusionary. What is primarily at risk is the very prosperity of the British people and the much-needed reforms that could reduce the gaps, inequalities, and injustices the nation suffers from. Should we re-center the discussion on this value at risk, the primary threat will appear to become a "bad Brexit deal", or a shambolic crash-out of the EU.

Perhaps he current crisis in British politics should not be perceived as Brexit per se - but as the social crisis of rising poverty, homelessness, and the widespread degradation of trust and other forms of social capital. Such a crisis is deep enough to call for a unified coalition government to fight it - with the recognition that revoking Article 50 is indeed the first act of damage control.

In sum, a risk management approach suggests that a potentially more fruitful and congenial take on the Brexit conundrum would reposition the discourse along what we all perceive as its root-cause – the crisis of capitalism in Britain. Drawing on the analysis of prominent economic and political commentators, the primary Value at Risk is the much-needed economic reform, one conceived with compassion, and aiming at fairer life prospects for all. In her first prime ministerial address, Theresa May appealed to those values – but under intense political pressure, she changed her focus on something best described as Brexit for Brexit’s sake. Perhaps it is not too late to return to the pro-social core values. Another Churchill quote that seems relevant here praises the pragmatism that would be required to be able to do just that: "Those who never change their mind never change anything".