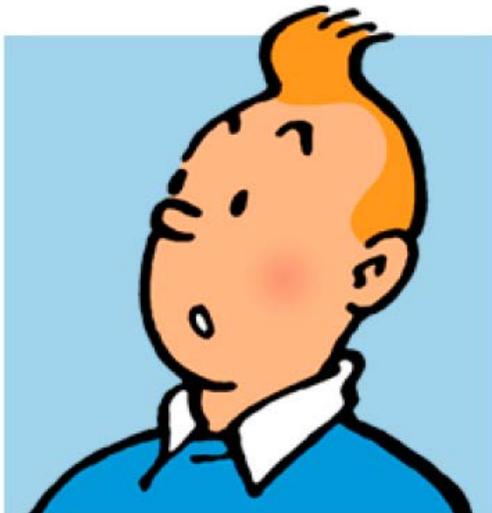


## Unknown in Brussels

“..But that was 20 years ago, and Mr Davis’ contacts in Europe today are patchy. “He is unknown in Brussels,” insists one senior EU official.”

- George Parker and Jim Pickard write about UK Secretary of State for Brexit, David Davis, in the Financial Times, 1<sup>st</sup> April 2017.

**In any final** reckoning, being “unknown in Brussels” might be the finest accolade a British politician could ever earn. Could there be a more magnificent testimony to a Brexit Secretary’s credentials and fitness for purpose than being unacknowledged in the most over-rated, pretentious yet tediously anonymous non-place in the most humdrum country in the EU, with positively messianic delusions of relevance ? Not for nothing do people play the ‘Name a famous Belgian’ quiz without resorting, in desperation, to entirely fictional creations like Hercule Poirot and Tintin (who, if truth be told, bears more than a passing resemblance to the comparably fictional though similarly amusing Liberal Democrat “Leader” Tim Farron).



Tim Farron



Tintin

So Article 50 has finally been triggered, and the sky has yet to fall in. Merryn Somerset Webb for the weekend FT is surely right when she suggests that “the grandstanding and posturing will continue relentlessly [but very little of significance will actually change].. two years hence

we will still have a “deep and special” relationship with the EU – just one that isn’t quite as deep and special as it is now”.

What follows is what we wrote in the immediate aftermath of the Brexit referendum back in June 2016..

So the British people have finally spoken. The Establishment, however, chose not to hear them, turning its perpetual tin ear to criticism from below. As the flag-bearer for an unaccountable, hypocritical and increasingly bewildered technocratic elite, Martin Wolf for the Financial Times inadvertently showed precisely why Remain lost:

“The fearmongering and outright lies of Boris Johnson, Michael Gove, Nigel Farage, The Sun and the Daily Mail have won.. This is probably the most disastrous single event in British history since the second world war.”

The BBC - like the Financial Times, another media institution that persists despite itself - also struggled to make sense of the UK’s extraordinary decision to enter divorce proceedings with the EU. Extraordinary not because it was irrational, or xenophobic, or economically illiterate, or sado-masochistic, though that is what the Establishment evidently believed. But extraordinary because of the massed domestic and international forces that it managed to overcome: all of the main political parties, the IMF, the OECD, the CBI, the TUC, Goldman Sachs, JP Morgan, Morgan Stanley, most chief executives of FTSE 100 companies, and David Beckham. The majority of voters could tell when they were being patronised. As Johnny Rotten yelled at the crowd after the abbreviated last Sex Pistols concert at the Winterland Theatre in San Francisco,

“Ever get the feeling you’ve been cheated ?”

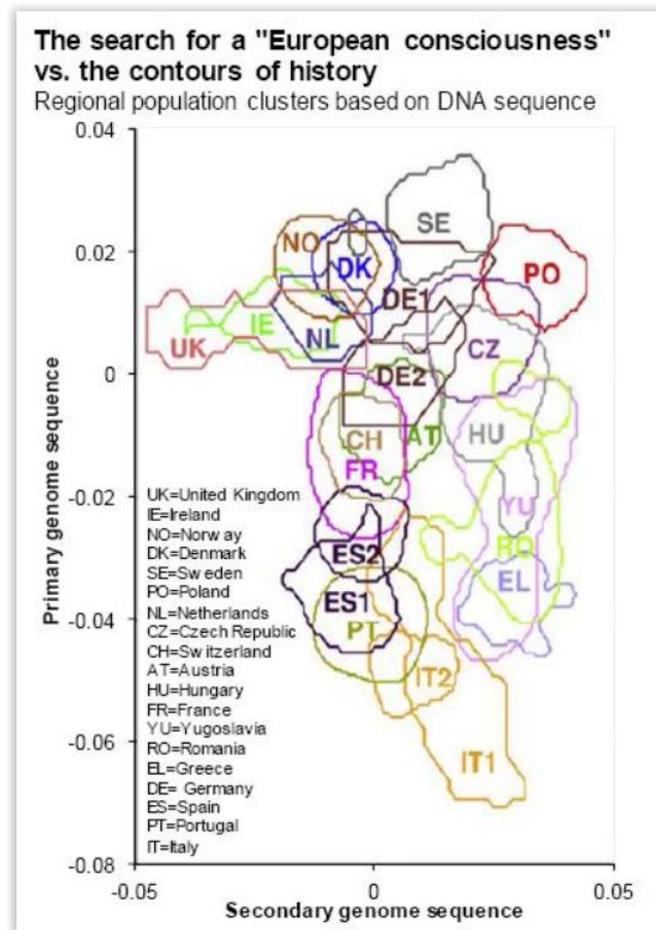
What did 17.4 million British people vote for ? One can only speak for oneself. We voted for economic independence from a failing totalitarian socialist economic bloc. The euro zone isn’t working – a literal truth for the unemployed young across Greece, Spain, Italy and Portugal.

The euro zone is a latter-day gold standard. Because its member countries have no control over their own monetary policy, they must accept a one-size-fits-all model. But what is appropriate today for an economy like Germany’s is unlikely to be appropriate for an economy like that of Greece. (Which should never have been allowed to join in the first place – but then institutionalised corruption is another of the euro zone’s fatal flaws. Are the EU’s accounts and payments “free from material error” ? On this basis they haven’t been signed off by the EU’s own Court of Auditors for over 20 years.)

The euro zone is simply too big to function properly. Given the widely various cultures of the euro zone, it was always going to be a big ask for such a diverse patchwork of countries to try and move lock-step together.

As JP Morgan’s Michael Cembalest points out, there is disturbingly little commonality amongst those disparate cultures. The graphic below shows DNA mappings of European citizens (courtesy of Current Biology Magazine, August 2008). While genetic variations are relatively small, those variations are tied very closely to geography. As Cembalest observes, by grouping similar DNA results together, we get something that looks very much like a map of Europe – a map that reflects “hundreds of years of migration, weddings, funerals, births, language, values

passed to children, circumstances that call for charity, sacrifice, revenge and everything else that defines 'culture'.”



Source: JP Morgan Chase & Co.

As Cembalest puts it,

“The map shows clear patterns of ancestry tied to geography, which is perhaps why the EMU was designed to retain the region’s fiscal, economic and cultural identities. Perhaps we should not be surprised that Northern Europe is struggling with whether it will mortgage its future to save the South.”

And perhaps the ultimate will to save Europe simply does not exist. “In terms of shared experiences and values measured by anthropologists, and the contours of history implied by genetic research, they may not have enough in common. It took almost 150 years for the US to reach the same point in its history, when it began to cede more control to a Federal, centralised government.”

Whenever sceptics expressed concern at the EU’s uncertain direction of travel and its acceleration regardless, it was met with a standard response: the answer is more Europe. Well, not any more.

As Donald Tusk drolly tweeted last week, after nine months the UK has finally delivered Brexit. Or, more accurately, it has delivered the opening salvo in what is likely, as Merryn points out, to be a “nitty gritty, pernickety.. insanely boring” war of attrition.

What has had next to no coverage in the financial press, as she rightly observes, is the lack of progress on resolving the manifold threats to the integrity and stability of the financial system. UK credit card debt is rising at its fastest rate in a decade, just as the UK household savings rate has hit a record low of 3.3 percent. It turns out that if you drop interest rates to zero, people elect not to save – and why should they, given the inflationary outlook? In the US, the Trump administration has hit its first major speed-bump in its inability to overturn Obamacare. It will not be the last. Overly frothy US stock markets, pumped higher not least by hopes of political achievement that now look overbaked, and near-record market valuations are ripe for a dose of reality.

The common denominator to all of these problems is that of size, and more specifically of unsustainable growth in precisely the wrong things, namely credit and debt. The late Dr. Albert Bartlett was one of the first to warn of these problems, and his outstanding presentation on this topic can be seen [here](#). For once a YouTube video lives up to the hype – Dr Bartlett’s presentation really *is* one of the most important videos you will ever see.

As Albert Bartlett once observed, for any entity beyond maturity, further growth equates to either obesity or cancer. The metastasised EU has managed to embody both. Brussels is the epicentre, the *fons et origo* of a misplaced faith in growth for growth’s sake. As the analyst David Fuller puts it,

“Yesterday, I described the EU as the biggest bureaucracy ever created. Bureaucracies do not evolve beyond absorbing others. They are obsessed with protecting what they have. For the EU this meant creating an economic closed shop, within a club which countries could join but never leave, at least until Brexit.

“Bureaucracies dumb down creativity. They fall into groupthink which is often negative and ultimately unproductive.

“Bureaucracies are [also] often corrupt. The EU buys loyalty by inviting failed politicians of note within its member states to join its cushy Members of the European Parliament.”

Having started, finally, to construct its escape tunnel from the Hotel California that is the EU, the economic future for the UK now looks a little brighter, notwithstanding the earnest efforts of Bremonoaners to talk down our prospects at every turn. But it is not too late for the other major economies of the EU to start thinking about an exit plan. The time to leave a burning building is **before** the roof caves in.

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