UK Conservative leadership doubles down on Brexit as pound resumes plunge

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The first round of voting in the Conservative Party leadership contest yesterday was eclipsed by sharp fluctuations in the stock markets that saw a slump in sterling and two major property funds suspend dealing. This was amid fears of a recession and property crash following the June 23 referendum vote in favour of the UK leaving the European Union (EU).

The pound fell to a 31-year low against the dollar following news that economic growth in the UK slowed to less than 0.2 percent in the second quarter, and even further in June, a decline attributed to concerns at a Brexit (British exit from the EU).

This was followed by M&G, fund management arm of insurer Prudential, and Aviva Investors suspending dealing in their respective £4.4 billion and £1.8 billion property funds after an increase in investors trying to redeem their monies. Standard Life had earlier suspended dealing in its £2.9 billion property fund, citing the "exceptional market circumstances" caused by the referendum result.

Building firms, including Barratt, Taylor Wimpey and Berkeley Group, saw shares drop by 6 percent, and there were sharp declines for smaller banks, Virgin Money and Shawbrook, which fell by 12 percent each.

Bank of England (BoE) Chairman Mark Carney said the falls signalled that Brexit risks had begun to "crystallise" as the economy "entered a period of uncertainty and significant economic adjustment."

The BoE would not be able to fully offset such volatility, he said, but it would take whatever action was necessary to ensure monetary stability.

Carney announced that he had cut the capital reserves banks were required to hold, freeing up an additional £150 billion for lending. The BoE stood ready to provide more than £250 billion of additional funds and was in a position to provide "substantial liquidity" in foreign currency if needed.

The Tory leadership contest had been expedited, with a view to unifying the party and providing financial and political stability following the shock referendum result and resignation of Prime Minister David Cameron. But these two goals are increasingly at odds.

All five contenders in the contest—Theresa May, Andrea Leadsom, Michael Gove, Stephen Crabb and Liam Fox—were committed to following through on Brexit and ruled out a second referendum and an early general election. This is in line with the majority of Tory voters, who backed Leave, as well as the demands of the Eurosceptic UK Independence Party (UKIP), which has been challenging the Conservative Party in its heartlands.

On Monday, Home Secretary Theresa May refused to guarantee the rights of EU citizens living and working in the UK, stating this would be subject to negotiations with the EU. As a supporter of the Remain campaign to stay in the EU, her hard line was considered vital in maintaining her position as the favourite candidate.

She was attacked by the other candidates, with UKIP's Nigel Farage pronouncing he was "disgusted" at May's position, stating, "The EU nationals living in the UK came here legally and they have protected rights."

No credibility can be given to such statements by Farage, Leadsom and Gove—who led the Leave camp on a xenophobic campaign against migrants and the demand to "take control" of Britain's borders. Rather, their attack on May is part of a political realignment even further to the right by the Eurosceptics in the Conservative Party and UKIP, who are determined the UK's negotiations with the EU are led by a "Brexiter."

Farage announced his resignation as UKIP leader Monday, which is bound up with these manoeuvres.

On Tuesday evening, Fox was eliminated from the race, which now moves to its second vote on Thursday. May took first place, with 165 backers. Gove fell into third place with 48, with Energy Minister Leadsom coming

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second with 66 votes.

A virtual unknown before the referendum, Leadsom, a former banker and hedge fund manager, is now considered a real contender for Tory leader. She has the support of leading Tory Eurosceptics, as well as Boris Johnson, leader of the official Leave camp, and is likely to pick up Fox and Gove's backers as the contest goes on. This raises the possibility that the final round could be a straight contest between candidates who stood on either side of the referendum divide.

Leadsom also has the backing of Leave.EU, the campaign group founded by UKIP donor Arron Banks. It was Banks who said that Farage's future depends on "who the Conservatives elect." Speaking on the BBC's "Andrew Marr Show" Sunday, Leadsom refused to rule out the possibility of Farage playing a role in exit negotiations with the EU under her leadership.

Banks is also said to be toying with creating a new pro-Brexit party if May is elected leader—incorporating anti-EU Labour, Conservative and UKIP voters. According to the *Spectator*, Farage is considered an obstacle to winning the large number of Leave voters in traditional Labour Party heartlands that such a grouping—which it dubbed Newkip—would hope to achieve.

Leadsom was forced to deny claims that her campaign was a Trojan horse for UKIP, but her leadership speech repeated all of its demands. Claiming that the EU had been "stifling" Britain, she said she would trigger Article 50 of the EU rulebook, formally starting exit negotiations as soon as possible to ensure there could be no retreat from a Brexit. Freedom of movement would end as a result, she reiterated.

The agreement by all Tory contenders that there can be no general election before 2020 has nothing to do with respecting the referendum result, and everything to do with putting in place a massive assault on the working class.

This is made plain by a statement published the day following the referendum by the Centre for Policy Studies, the free-market think-tank co-founded by Margaret Thatcher. "The weakness of the Labour party and the resolution of the EU question have created a unique political opportunity to drive through a wide-ranging… revolution on a scale similar to that of the 1980s … This must include removing unnecessary regulatory burdens on businesses, such as those related to climate directives and investment fund[s]," it stated.

Tory Chancellor George Osborne has already set out plans to slash corporation tax to below 15 percent—the lowest rate in the G7—to reassure major corporations that Britain was "open for business." More fundamentally, this is intended as a warning to the EU that unless Britain gains access to the single market on its terms, it will establish a giant tax-haven on its borders and begin a race to the bottom.

The announcement brought a rebuke from the *Financial Times*, which editorialised that tax-dumping moves would "antagonise European governments, at the outset of negotiations where the UK will need all the goodwill it can muster."

In a separate piece in the *Financial Times*, Gideon Rachman referenced Osborne's plans as potentially contributing to a "cycle of antagonism between the EU and the UK."

Writing on the 100th anniversary of the start of the Battle of the Somme, in the First World War—in which more than one million British, French and German soldiers were killed or wounded—he warned that relations between the UK and the EU could "easily slide into dangerous antagonism."

This was especially the case under a "UK government run by Leavers — and spurred on by the anti-European press." Faced with a "united and unfriendly EU position, the British would start looking to break down European unity—and might even begin to regard the ultimate break-up of the EU as in the UK's interests."

It is a measure of the centrifugal national tensions exposed by the referendum result that Osborne's threats have been welcomed in other quarters. Writing in the *Telegraph*, Juliet Samuel said his "harsh" message was necessary to ensure Britain got a "good deal" from the EU: "if you wilfully lock us out of your market, you leave us only one way to compete. And you won't like it."

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