

# ECONOMIC IMPLICATIONS OF BREXIT

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## 1. BREXIT: AN INTRODUCTION

Brexit is a commonly used term for the United Kingdom's planned withdrawal from the European Union. A referendum was held on Thursday June 23, 2016, to decide whether the UK should leave or remain in the European Union. The Leave group won the referendum by 51.9% to 48.1%. The referendum turnout was 71.8%, in which more than 30 million people voted.<sup>1</sup>

England voted for Brexit, by 53.4% to 46.6%. Wales also voted for Brexit, with Leave getting 52.5%. Scotland and Northern Ireland both backed staying in the EU. Scotland backed Remain by 62% to 38%, whereas 55.8% in Northern Ireland voted to remain in the EU.<sup>2</sup>

The outcome prompted jubilant celebrations among Eurosceptic around the Continent and sent shockwaves throughout the global economy. After the declaration of the result, the pound fell to its lowest level since 1985. Further David Cameron resigned as Prime Minister of UK.<sup>3</sup>

Following the 2016 referendum vote to leave, the UK government started the withdrawal process on 29 March 2017, putting the UK on course to leave by April 2019.<sup>4</sup> In January 2017, British Prime Minister Theresa May, announced a 12-point plan of negotiating objectives and confirmed that the UK government would not seek continued membership in the single market.<sup>5</sup> Theresa May promised of a Great Repeal Bill which would repeal the existing European Communities Act

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<sup>1</sup> Alex Hunt & Brian Wheeler, Brexit: All you need to know about the UK leaving the EU, BBC (Sept. 5, 2017, 11:30 p.m.), <http://www.bbc.com/news/uk-politics-32810887>

<sup>2</sup> Id.

<sup>3</sup> Alice Foster, What is Brexit and what is going to happen now that Britain has voted to LEAVE the EU?, Express (Sept. 6, 2017, 10:30 p.m.), <http://www.express.co.uk/news/politics/645667/Brexit-EU-European-Union-Referendum-David-Cameron-Economic-Impact-UK-EU-exit-leave>

<sup>4</sup> Article 50: Theresa May to trigger Brexit process next week, BBC (Sept. 6, 2017, 11:00 p.m.), <http://www.bbc.com/news/uk-politics-39325561>

<sup>5</sup> Michael Wilkinson, Theresa May confirms Britain will leave Single Market as she sets out 12-point Brexit plan, The Telegraph (Sept. 7, 2017, 9:00 p.m.), <http://www.telegraph.co.uk/news/2017/01/17/theresa-may-brexit-12-point-plan-live/>

and thus would end the primacy of EU laws in UK. The terms of withdrawal have not yet been negotiated and in the meantime, the UK remains a full member of the European Union.<sup>6</sup>

But, there was a twist in the tale as the British Prime Minister called for a snap election on 8<sup>th</sup> of June, 2017 in a bid to form a unified government ahead of advancing Brexit negotiations.<sup>7</sup>

However, after the elections even though Conservative Party has formed the government, but, the future and consequences of BREXIT still remains very much uncertain.

## 2. HISTORY OF BRITISH ECONOMY IN EUROPEAN UNION

Post Second World War, European integration was seen as an antidote to the extreme nationalism which had devastated the continent. The 1948 Hague Congress is considered as a pivotal moment in European federal history. 1952 saw the creation of the European Coal and Steel Community, which was declared to be a first step in the federation of Europe. The supporters of the Community included Alcide De Gasperi, Jean Monnet, Robert Schuman, and Paul-Henri Spaak. However, the offer was declined by Britain.<sup>8</sup>

In 1963 due to economic flagging, Britain made its first attempt to join the Common Market but was vetoed by then French President Charles de Gaulle, who accused Britain of a deep-seated hostility towards the European initiative.<sup>9</sup>

However in 1973 with Charles de Gaulle out of office, Britain was allowed into the European Economic Community. But, within a year there were calls for major reform in Common Agricultural Policy as well as change in the way budget was financed. In 1975, Harold Wilson's Labor government held a referendum over EEC membership, which resulted in the splitting of party but two thirds of voters in UK voted for UK to stay in the EEC.<sup>10</sup>

During the 1983 general elections, Labor leader Michael Foot promised withdrawal from EEC in his election manifesto but was heavily beaten in the poll by Margaret Thatcher's Conservatives. A key victory for Mrs. Thatcher saw her win a "rebate" from Brussels after which she threatened to

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<sup>6</sup> UK nationals in the EU: what you need to know, Gov.Uk (Sept. 7, 2017, 10:00 p.m.), <https://www.gov.uk/guidance/advice-for-british-nationals-travelling-and-living-in-europe>

<sup>7</sup> Karen Gilchrist, 5 key risks for UK leader Theresa May as snap election called, CNBC (April 20, 2017, 10:00 p.m.), <http://www.cnb.com/2017/04/19/5-key-risks-for-uk-leader-theresa-may-as-snap-election-called.html>

<sup>8</sup> A timeline of the EU, BBC (Sept. 8, 2017, 11:30 a.m.), <http://news.bbc.co.uk/2/hi/europe/3583801.stm>

<sup>9</sup> Id.

<sup>10</sup> Id.

halt contributions because Britain was receiving far less in agricultural subsidies than some other members, notably France. “We are simply asking to have our own money back,” she said in 1984.<sup>11</sup>

In 1990 Britain joined the Exchange Rate Mechanism, 11 years after which it was set up to harmonize European countries’ financial systems before creation of single currency. However in February 1992 Maastricht Treaty on European Union was signed but Britain negotiated to opt-out on monetary union and social policy. The following year, John Major had to force down a back-bench rebellion over the Treaty as critics warned that it undermined the sovereignty of the parliament. September 1992 in what became known as Black Wednesday, Britain was forced to withdraw from the ERM after failing to stem intense currency speculation.<sup>12</sup>

Tensions arose in 1999 over France’s ban on British beef during “mad cow” disease outbreak. France was given an ultimatum from Brussels but the ban was not lifted until years later. In the year 2000 British chocolate was finally allowed to be sold in Europe after 27-years dispute over the ingredients. Chocolate purists, such as Belgium and France, campaigned for only cocoa butter and not vegetable oil to be used.<sup>13</sup>

However in 2004, then British Prime Minister Tony Blair and French President Jacques Chirac clashed during the negotiations for the European constitution, with France concerned that concessions were created to “two-speed Europe”. Eventually the plans collapsed after France and Holland vote against in the referendums.<sup>14</sup>

In the year 2007 then British Prime Minister Gordon Brown missed the televised ceremony of leaders signing Lisbon Treaty, which handed greater powers to Brussels. The controversial treaty took two years to negotiate, after which the plans for an official constitution was abandoned.<sup>15</sup>

Again in the year 2011 British Prime Minister David Cameron clashed with Europe over plans to introduce a levy on banks and restrict London’s financial sector.<sup>16</sup> The Prime Minister promised to bring back powers from Brussels. In 2013 David Cameron promised an “In-Out” referendum if he won the 2015 general election, which he did and reiterated manifesto commitment to hold

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<sup>11</sup> Sam Wilson, Britain and the EU, A long and rocky relationship, BBC (Sept. 8, 2017, 10:00 p.m.), <http://www.bbc.com/news/uk-politics-26515129>

<sup>12</sup> Supra note 8.

<sup>13</sup> Wilson, supra note 11.

<sup>14</sup> Id.

<sup>15</sup> Id.

<sup>16</sup> Id.

one before the end of 2017. However in February 2016 David Cameron negotiated “new EU deal” for UK after 30 hours of talks, but, had to make a series of concessions. The Prime Minister then announced the referendum on June 23 which ultimately resulted in UK leaving the EU.

### 3. ECONOMIC FACTORS BEHIND BREXIT

#### FAILURE OF EUROPEAN UNION

The EU failed to address the economic problems that had been developing since 2008. 20% unemployment in southern Europe is the best example. The difference between the lives of southern Europeans and Germans—who enjoy 4.2% unemployment—is profound. Europe as a whole stagnated economically.<sup>17</sup>

The argument for remaining in the EU was that the alternative would be an economic disaster. However, staying in a stagnated organization to solve British problems seemed shortsightedness and made little sense.<sup>18</sup>

Further UK was not a part of any of the EU’s important projects, such as the euro and the Schengen area. As a result its influence upon the union was less. Having little to no influence over single market rule setting could have cost UK up to 1 per cent of GDP by 2030. Outside they would bear no such cost.<sup>19</sup>

On the other hand, outside they would bear additional costs of dealing with the EU. Trade with EU countries might be worth about 10 per cent of GDP by 2030.<sup>20</sup>

#### STAGNANT EARNINGS

While the recovery in employment was strong, average earnings among those in work remained almost stagnant after adjusting for the rise in prices. According to data from ONS, that measures the average weekly earnings of employees, real salaries fell until mid-2014. Since then earnings has

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<sup>17</sup> John Mauldin, *3 Reasons Brits Voted For Brexit*, Forbes (Sept. 8, 2017, 11:30 p.m.), <https://www.forbes.com/sites/johnmauldin/2016/07/05/3-reasons-brits-voted-for-brexit/#46d00a251f9d>

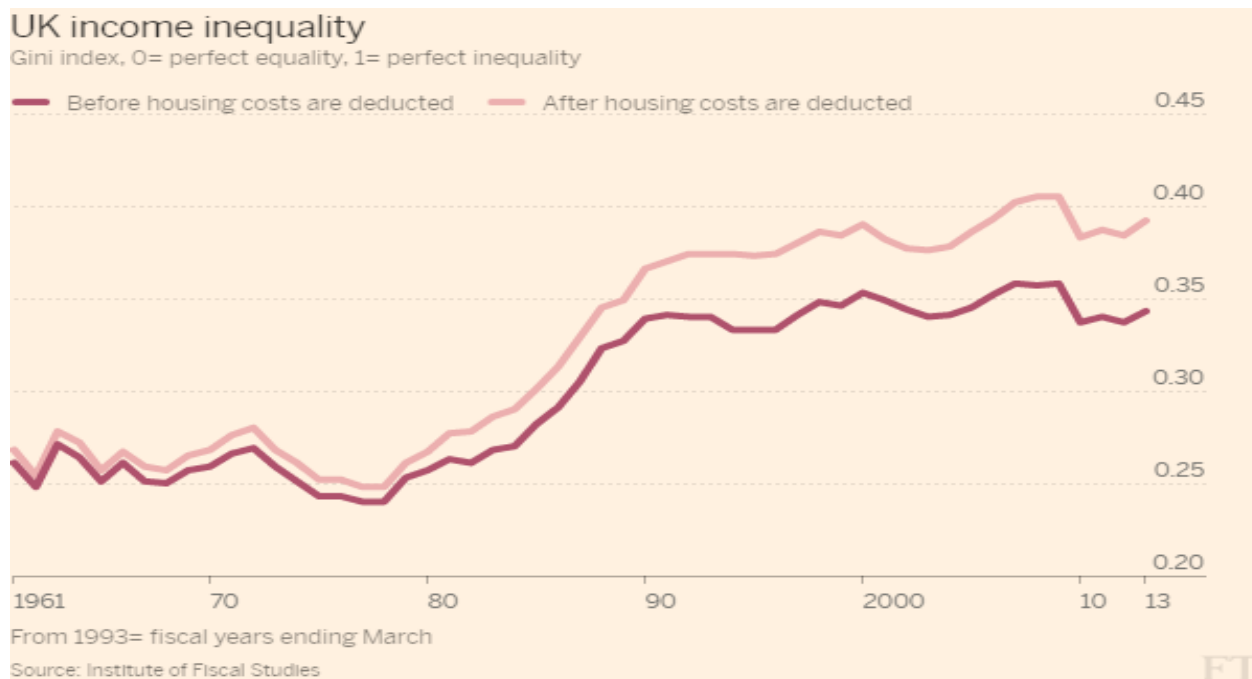
<sup>18</sup> Id.

<sup>19</sup> Andrew Lilico, *Why leaving the EU could actually be to our economic advantage*, The Telegraph (Sept. 7, 2017, 10:00 p.m.), <http://www.telegraph.co.uk/news/2016/05/25/why-leaving-the-eu-could-actually-be-to-our-economic-advantage/>

<sup>20</sup> Id.

risen faster than consumer prices, but has not yet regained pre-crisis levels. Thus UK workers had not seen any improvement in real earnings for nearly nine years.<sup>21</sup>

## UK INCOME INEQUALITY



Inequality, measured by the Gini index, jumped up during the 1980s then remained largely flat throughout the 1990s. The years after economic crisis saw a declining trend, but despite that the UK remained one of the most unequal economies among advanced countries. This meant that even if the economy was doing well, the benefits were not evenly felt across the population.<sup>22</sup>

## 4. IMPACT OF BREXIT UPON UK AND EU – CHALLENGES AHEAD

The European Union's chief concerns over Britain's vote to leave the group are political. However losing its second-largest economy would have a huge economic impact as well.

<sup>21</sup> Valentina Romei, *The Economic factors behind the vote for Brexit*, The Financial Times (Sept. 8, 2017, 11:50 p.m.), [http://blogs.ft.com/ftdata/2016/06/30/the-economic-factors-behind-the-vote-for-brexit/?Authorised=false& i\\_location=http%3A%2F%2Fblogs.ft.com%2Fftdata%2F2016%2F06%2F30%2Fthe-economic-factors-behind-the-vote-for-brexit%2F& i\\_referer=https%3A%2F%2Fwww.google.co.in%2F6666cd76f96956469e7be39d750cc7d9&classification=conditional\\_standard&iab=barrier-app](http://blogs.ft.com/ftdata/2016/06/30/the-economic-factors-behind-the-vote-for-brexit/?Authorised=false& i_location=http%3A%2F%2Fblogs.ft.com%2Fftdata%2F2016%2F06%2F30%2Fthe-economic-factors-behind-the-vote-for-brexit%2F& i_referer=https%3A%2F%2Fwww.google.co.in%2F6666cd76f96956469e7be39d750cc7d9&classification=conditional_standard&iab=barrier-app)

<sup>22</sup> Id.

## INVESTMENT

The United Kingdom was consistently the largest recipient of foreign direct investment in the European Union, according to UNCTAD data, with an average of some \$56 billion per year in the 2010-2014 period.

Some 72 percent of investors in an EY study in 2015 cited access to the European single market as important to the UK's attractiveness to FDI. There would be a loss in FDI as some FDI would be diverted to other EU countries since Britain will lose the access to the EU single market.<sup>23</sup>

## BUDGET/ECONOMY

The UK has left the European Union. Hence other members of the union will have to fill in at least some of the shortfall which would occur.

Britain's total contribution to the EU budget for 2016 was 19.4 billion euros (16 billion pounds), including its rebate and customs duties. It received about 7 billion euros, mainly agricultural and regional subsidies, leaving a gap to fill of just over 5 percent of the total EU budget.

In present case, Germany, the EU's largest member, would inevitably have to provide the most extra cash.<sup>24</sup>

## MIGRATION

One of the main arguments for Brexit campaigners was to limit migration of workers from other EU countries, even though both Norway and Switzerland eventually had to accept free movement of people in return for access to EU internal markets.<sup>25</sup>

If Britain did cap immigration, it could have a negative impact on eastern European countries, from which some 1.2 million workers were in Britain in late 2015. However, this would create more jobs for the British nationals who were unemployed because of excess immigration. Immigration was also one of the most important reasons behind Brexit.

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<sup>23</sup> Philip Blenkinsop, [From trade to migration - how Brexit may hit the EU economy](http://uk.reuters.com/article/uk-britain-eu-economy-europe-idUKKCN0ZA0KE), Reuters (Sept. 10, 2017, 10:00 p.m.), <http://uk.reuters.com/article/uk-britain-eu-economy-europe-idUKKCN0ZA0KE>

<sup>24</sup> Id.

<sup>25</sup> Id.

## 5. CONCLUSION AND SUGGESTIONS

BREXIT will have a positive impact upon Britain in long run. First, by removing the tariff and non-tariff barriers erected by the EU on its behalf, the UK would at once benefit from a large fall in import prices, a direct and obvious benefit to consumer living standards. Removing tariffs, either unilaterally or through free trade negotiations would reduce the cost of food by up to 40% and the cost of clothing and footwear by up to 20%. With a reduction in other input tariffs, this would be an enormous boost for those just about managing. It will free up consumer spending, helping inflation and the economy at large.<sup>26</sup>

Limits on immigration—giving priority for scarce, skilled workers and families of UK citizens—would be sensibly implemented when there would be no control over immigration from 27 close neighbors, let alone over the refugees which the EU was trying to allocate to its member states. UK citizens know the economic benefits of sensibly managed immigration. They have always welcomed foreigners and have been generous to refugees.<sup>27</sup> Immigration would be cut, but not at the expense of talent and jobs. Even the UK wants the brightest and the best in their country, alongside investment in the development and training of their youth to ensure that they are as employable as possible. It is shameful that UK had nearly 600,000 unemployed under-25s.<sup>28</sup>

Restoring self-governance could inspire British society with a renewed sense of identity, vigor and pride. It means the construction of a new nation and a reversal of the degradation of their political culture. None of this can happen automatically and Brexit is not a silver bullet. But it would unlock the potential for change, and Britain should rise to the occasion.<sup>29</sup>

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<sup>26</sup> John Longworth, *Stop complaining about Brexit – the economic benefits will be huge*, The Guardian (Sept. 9, 2017, 11:49 p.m.), <https://www.theguardian.com/commentisfree/2017/jan/23/complaining-brexiteconomic-benefits-government-cost-of-living-multinationals>

<sup>27</sup> Patrick Minford, *The Economic Case For A Brexit*, Forbes (Sept. 2, 2017, 6:30 a.m.), <https://www.forbes.com/sites/realspin/2016/06/22/brexit-economic-case/2/#46e6465d51aa>

<sup>28</sup> Longworth, *supra* note 26.

<sup>29</sup> Ben Kelly, *A Brexit Would Reinvigorate British Democracy*, The New York Times (Sept. 1, 2017, 11:30 p.m.), <https://www.nytimes.com/roomfordebate/2016/06/20/the-consequences-of-a-brexit/a-brexit-would-reinvigorate-british-democracy>