

Brexit: Causes and Effects

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Key Questions

- What is Brexit?
- Why is this occurring?
- What are the key questions surrounding Brexit?
- How will Brexit affect the United Kingdom, the United States, Europe and the world?

What is Brexit?

- Brexit is the process of the United Kingdom leaving the European Union
- The United Kingdom joined the EU in 1973
- It has the second largest economy in the EU (out of 28 states)
- It is 10th largest in GDP/Capita
- SOURCE: European Commission, Eurostat



European Union



Background on EU

- The European Union (EU) is a family of democratic European countries, committed to working together for peace and prosperity. It is not a State intended to replace existing States, nor is it just an organisation for International cooperation. The EU is, in fact, unique. Its member states have set up common institutions to which they delegate some of their sovereignty so that decisions on specific matters of joint interest can be made democratically at European level.—EU website
- The historical roots of the European Union lie in the Second World War. The idea was born because Europeans were determined to prevent such killing and destruction ever happening again---EU website

Why Unify?

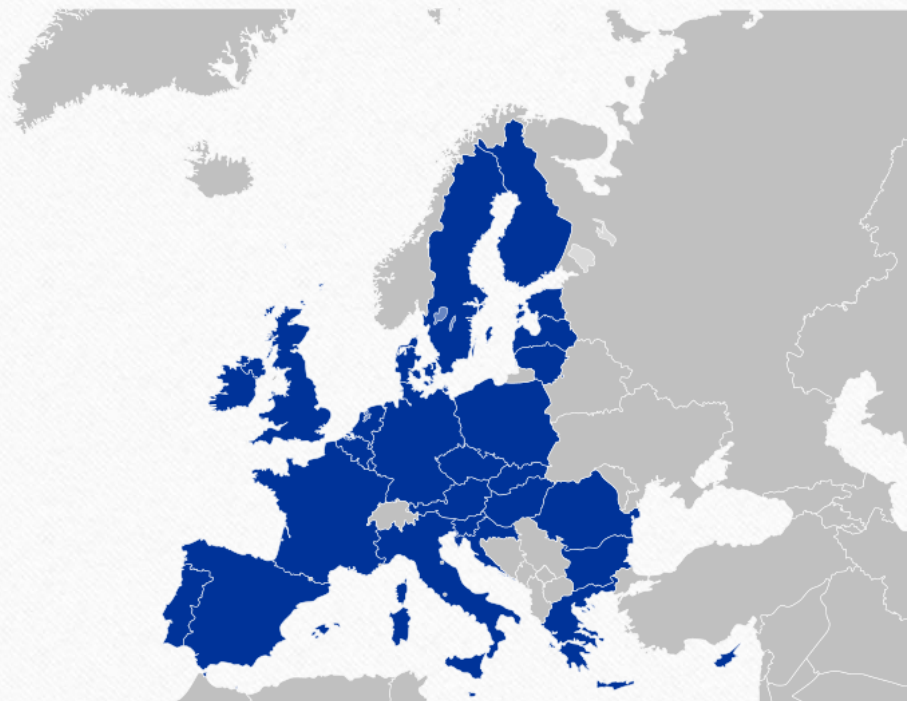
- 1. Rebuild European Economies after World War Two
- 2. Integrate Germany into Europe Better
- 3. Confront Cold War threat from USSR
- 4. Expand Europe's political and economic influence in the world

Evolution of EU

- 1957: Original Six: France, Germany, Italy, Netherlands, Belgium, Luxembourg
- 1973: United Kingdom, Denmark, Ireland
- 1981: Greece
- 1986: Spain, Portugal
- 1995: Austria, Finland, Sweden
- 2004: Poland, Czech Republic, Hungary, Slovakia, Slovenia, Lithuania, Latvia, Estonia, Cyprus, Malta
- 2007: Bulgaria, Romania

Benefits of Membership

- Access to free trade with the world's second largest economic entity (behind China)
- Access to free trade with a population of over 500 million (3rd largest, behind China and India)
- European Regional Development Fund: The ERDF aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions (European Commission)
- Access to the Common Agricultural Policy (provides generous subsidies to farmers throughout the EU)
- Free movement of goods, labor services
- Common Currency



Concerns about Membership

- Immigration Issues
- Loss of economic sovereignty
- Common social, economic and environmental policies
- Democratic deficit
- Perceived inequality in terms of contributions and benefits

United Kingdom and the EU

- The United Kingdom first applied for EU in 1963, but their application was vetoed by French president Charles DeGaulle
- The UK was finally admitted in 1973 and in a 1975 referendum, 67% voted in favor of staying in the body
- In the 1980s, members of the Conservative Party, led by PM Margaret Thatcher, began to question the benefits of British membership---this led to rise of the Euro-Skeptic wing of the Conservative Party
- Source: History Behind Brexit, history.com



British Complaints

- Farm Subsidies: the UK is not an agricultural nation, so the Common Agricultural Policy does not benefit them
- Paying too much of the budget: Britain is one of the biggest contributors, but the gap between its contributions and benefits is not unusually large
- Loss of economic sovereignty: UK opted out of the Euro and other policies, but some still feel it has lost control of its economic destiny
- Free movement of labor: Immigration has increasingly become an issue, both from within and outside the EU

Brexit Referendum: June 23, 2016

LEAVE: 51.9% 17.4 million

STAY: 48.1% 16.1 million



Implementing Brexit: Key Challenges

- 1. As an EU member, the UK has trade agreements with other countries; with Brexit, all these would have to be re-negotiated
- 2. Irish Backstop: There would now be a border between Northern Ireland and Ireland and that could not only create economic issues, it could reignite “the Troubles”
- 3. Because many items that used to be imported from Europe without a tax will now be taxed, prices of these goods in the UK are likely to increase

Implementing Brexit: Key Challenges Continued

- 4. There are many people from EU countries living in the UK under the “Common Citizenship” provisions of the EU; likewise, these are British citizens living in EU countries; What happens to these people?
- 5. Scotland and some of the poorer areas of the UK received substantial economic aid from the EU; will the British government replace that?

Implementing Brexit: The Failures



- Theresa May's government ultimately fell due to her inability to get Parliamentary approval of Brexit
- The original exit date of March 29, 2019 had to be revised three times

Why the Problems?

- Some in the Conservative Party want a very “hard” Brexit; almost no ties left with the European Union
- May’s plans were generally versions of a “soft” Brexit, with some relationships (such as in Ireland) still in place
- The Labor Party has generally hemmed and hawed on the issue, but offered little support to May
- Other parties like the Liberal Democrats are completely opposed to Brexit

ENTER BORIS JOHNSON



- Became Prime Minister on July 24, 2019
- Initially, had similar problems to May; Brexit plans failed in Parliament; had to ask EU for another extension
- Conservatives lost their working majority in the House of Commons

December 2019 General Election

Conservative Party 43.6% 365
seats

Labour Party 32.1% 203 seats



Consequences of Election

- Conservatives have their mandate
- On January 9, Johnson's Brexit plan easily cleared the House of Commons
- Similar to May's, but with some clarification on Ireland
- Unless something unusual happens, the UK will leave on January 31
- IRONY???
- Most polls in the UK today show that if a second referendum was held, remain would win
- Source: What UK Thinks

Effects on the United Kingdom

- Brexit is likely to have cost the UK more than £200 billion in lost economic growth by the end of this year — a figure that almost eclipses the total amount the UK has paid toward the European Union budget over the past 47 years (Bloomberg Economics)
- UK economy has shown weak growth in last 3 years, contracting in the 2nd Quarter of 2019 (Trading Economics)

What about Scotland?

- Scotland voted 62-38 to Remain
- In 2014, Scotland voted 55.3-44.7 to stay in the UK
- How would Scotland vote if asked again?



Other Effects

UNITED STATES

- The US has generally supported the EU as a way to strengthen European economies and as a way to provide an economic foundation for NATO
- Division within Europe will undermine these goals

WORLD ECONOMY

- Free trade is a fundamental aspect of the global economy
- Many economists believe that protectionism was a significant contributor to the Great Depression in the 1930s
- General consensus of economists is that things like Brexit will have a negative impact

Final Thoughts

- Brexit is likely to happen
- Many unknowns in terms of its effects
- Many economists believe that the overall economic effects will be negative, not only in the UK, but around the world
- The European Union will certainly survive this, but if others follow the UK's path, the organization will not survive