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# What is Brexit?

(short for “Britain Exit”) is the June 23, 2016 referendum where British citizens voted whether or not to exit the European Union



# The Roots of Brexit (Jensen & Snaith)

- Contrary to standing theories, it was political party realignments, NOT elite bargaining between vested interests and the government that gave rise to Brexit
- It started with “back benchers” in the Conservative party, scapegoating the EU for UK’s problems, that were challenging David Cameron’s leadership
- To appease these Eurosceptic agitators, Cameron offered to hold referendum on Brexit by 2017
- Conservatives also trying to beat back the xenophobic UKIP dissidents
- “...referendum decision principally driven by the internal politics of the Conservative Party, not elite intergovernmental bargaining

# Racial argument (Virdee & McGeever)

- Nostalgia over the “English Empire” & imperial longing
- Drew on post 9/11 anti-Muslim sentiment
- Retreat from globalization (good luck with that!)
- Cross-class coalition of middle aged and old white men and women favored Brexit most
- Racism implicitly endorsed by mainstream parties across the spectrum
- Eruption of considerable racial strife following the June 2016 vote

# Conservative Party Complaints about EU

- Not enough focus on economic competitiveness. Regulatory burdens, etc.
- Eurozone states unilaterally deciding on policies that influence the European Single Market (ESM)
- UK Brexiters wanted to broker a different arrangement (Norway, Iceland, and Liechtenstein belong to ESM, but not EU or Eurozone; Turkey belongs to EU Customs Union; Switzerland highly integrated with the EU market but belongs to nothing). However, none of these small countries occupy the huge economic space that the UK occupies in the EU
- Wanted a reduction in migrant workers' rights to social benefits

**United Kingdom European Union membership referendum, 2016**

National result

<b>Choice</b>	<b>Votes</b>	<b>%</b>
<b>Leave the European Union</b>	<b>17,410,742</b>	<b>51.89%</b>
Remain a member of the European Union	16,141,241	48.11%
Valid votes	33,551,983	99.92%
Invalid or blank votes	25,359	0.08%
<b>Total votes</b>	<b>33,577,342</b>	<b>100.00%</b>
Registered voters and turnout	46,500,001	72.21%
Voting age population and turnout	51,356,768	65.38%

Source: Electoral Commission

## Differing Priorities

Prospective voters were asked, “Which, if any, issues will be very important to you in helping to decide which way to vote?”

### ‘Remain’ voters

The impact on Britain’s economy

41%

The number of immigrants coming into Britain

14%

### ‘Leave’ voters

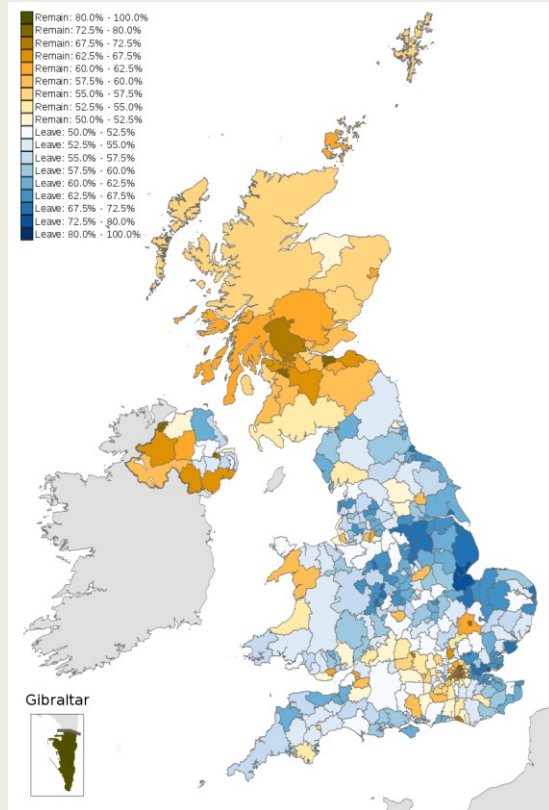
The impact on Britain’s economy

18%

The number of immigrants coming into Britain

52%

# Results (Geographic)



Leave won by 51.9% to 48.1%. The referendum turnout was 71.8%, with more than 30 million people voting” (BBC)



## Referendum results also driven by....

Demographics: largely British Anglo voters

Level of education: less schooling

Age: older voters who felt left behind

Poor economic conditions: relative deprivation---looking at all the prosperity around them but not included

Immigration pressures (even by those not exposed to immigration): notion the “others” coming in and taking their jobs

# World markets respond drastically

Financial Markets across the world decline sharply

DJIA loses 610 points

British Pound declines 10% against the US Dollar

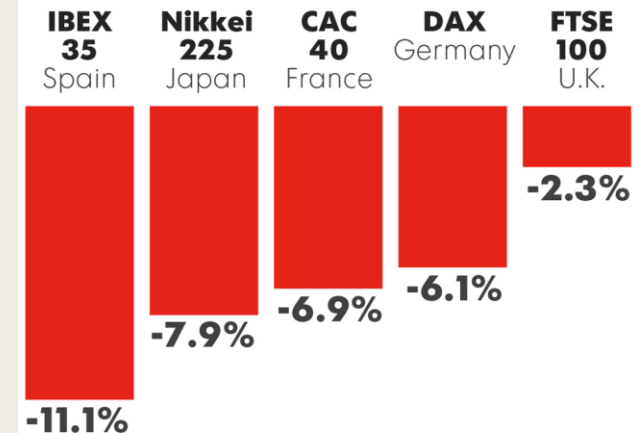
Many other currencies lose significant value

Stock prices of European banks such as



## STOCKS PLUNGE ON BREXIT VOTE

World markets fell after the U.K. voted on Thursday to leave the European Union.



SOURCE: MarketWatch  
George Petras, USA TODAY



# The British pound crashes...



# Other Economic implications

UK inflation up 1.7% since vote

Economic costs have been realized at 2.1% of GDP as of June 2018

Reduced income by 1.3% (350 million pounds/week)

## **Short term**

Uncertainty in financial markets, although banks remain optimistic

Reduction in consumer confidence

## **Long term**

Uncertainty among economists without definite separation agreement

New barriers to trade are imminent

# Article 50 of Lisbon Treaty (2007)

Lays forth process of seceding

Consists of 5 parts

Article 50(1) - Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.

On 29 March, 2017 Theresa May officially wrote a letter to Donald Tusk initiating Article 50(2) and, subsequently, the two year grace-period to iron out the exit details

# Arguments FOR Brexit

Reduces Britain's fiscal pressures

Controls immigration

More jobs available

Diversifies trade










# Arguments AGAINST Brexit

- Bad for the economy
- Less secure nation
- Lower household income
- Higher uncertainty



# Leave vs Remain: 5 Main Conflicts

IN	 	OUT
<b>TRADE</b>		
<p>Britain avoids exporter tariffs and red tape, important as 45% of British exports go to the EU. As a member, Britain can obtain better trade terms because of the EU's size.</p>		<p>Britain will negotiate a new EU relationship without being bound by EU law. It can secure trade deals with other important countries such as China, India and America.</p>
<b>EU BUDGET</b>		
<p>Britain pays the EU £340 a year per household, compared with an estimated £3,000 yearly benefit of membership. In or out, payment is needed to access the single market.</p>		<p>Britain can stop sending £350m, equivalent to half England's schools budget, to Brussels every week. This money could be spent on scientific research and new industries.</p>
<b>REGULATION</b>		
<p>Most EU regulation collapses 28 national standards into one European standard, reducing red tape and benefiting business. In, Britain can fight for better regulation.</p>		<p>Leaving will return control over areas like employment law and health and safety, measures that a recent Business for Britain poll found businesses favoured.</p>
<b>IMMIGRATION</b>		
<p>Leaving doesn't mean reduced immigration. Countries that trade with the EU from outside have higher rates of immigration, including from EU countries, than Britain.</p>		<p>Britain can change the "expensive and out-of-control" system that offers an open door to the EU and blocks non-EU immigrants who could contribute to the UK.</p>
<b>INFLUENCE</b>		
<p>At international summits, Britain is represented twice – by the foreign secretary and the EU high representative. Co-operation has helped fight Ebola and piracy in Africa.</p>		<p>Britain has little influence within the EU. From outside, it can retake seats on international institutions and be a stronger influence for free trade and co-operation.</p>



# Moving forward: Options

'Hard' vs 'Soft' separation / exit strategy

- Hard – leaving without a deal, nullifying any existing agreements
- Soft – Deal to retain some trade and market access privileges some; free movement for EU members

No Middle Ground

## Alternative Models (B

### Alternative Brexit models

	EU membership	Norway	Switzerland	Canada	Turkey
Single market member?	Full	Full	Partial	No	No
Tariffs?	None	None	None	Reduced tariffs through free trade deal	None on industrial goods
Accept free movement?	Yes	Yes	Yes	No	No
In the customs union	Yes	No	No	No	Yes
Makes EU budget contributions	Yes	Yes	Yes (but smaller than Norway)	No	No

# Potential outcomes

- European Council president Donald Tusk: “good deal, no deal, or no Brexit”
- Implications of recent election
- The Dream Scenario
- Most realistic outcomes
  - No deal
  - Divorce-only agreements
  - Limited-tariff free trade deal

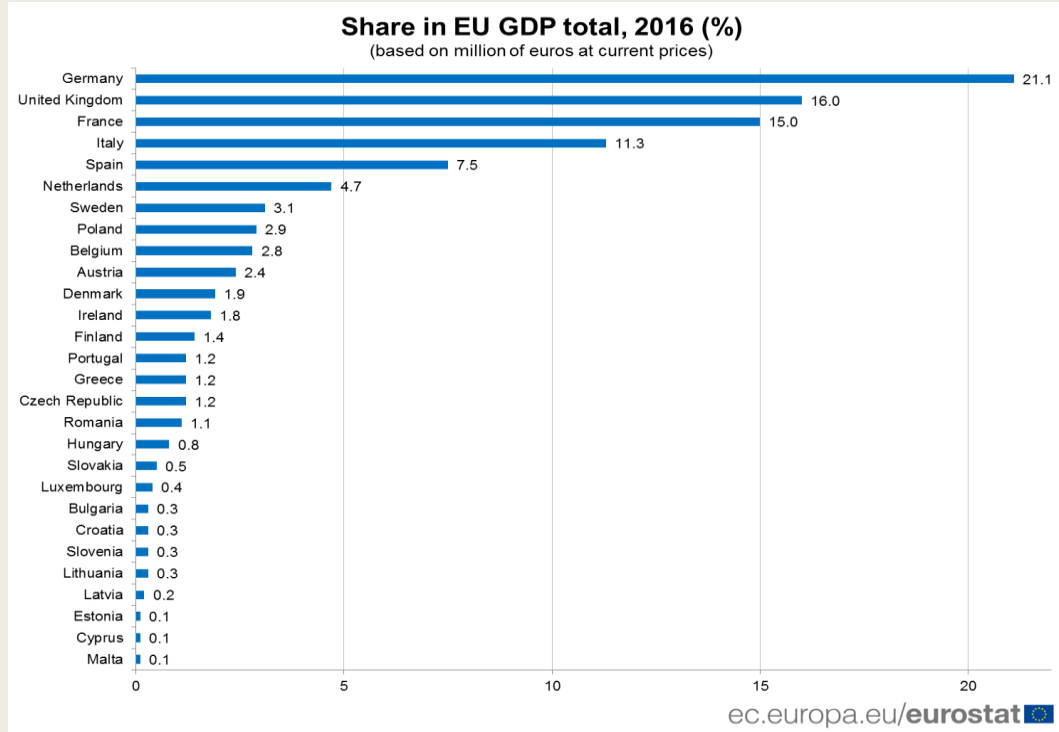


# Why it happened

1. Economics
2. Sovereignty
3. Immigration



# UK and EU



# Economics

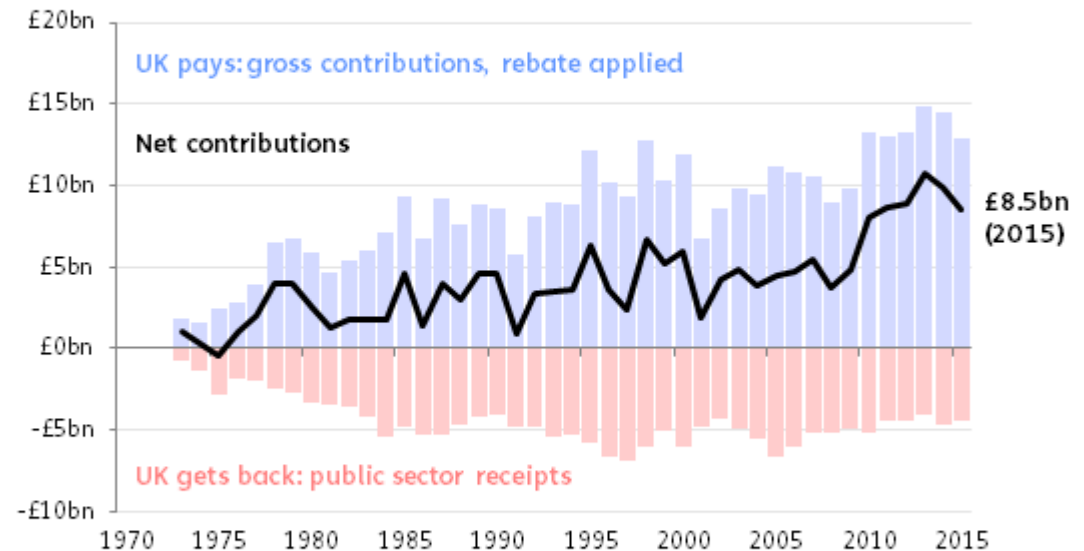
## 1. EU membership is expensive (according to UK)

-In 2015, the UK paid £13 billion to the EU budget, and only received back about £4.5 billion

-EU rules cost every part of the economy

### UK payments to EU budget

Balance of UK contributions to and public sector receipts from the EU budget, adjusted for inflation, calendar years



Source: HM Treasury European Union Finances 2015, House of Commons Library analysis and HM Treasury GDP deflators (8 January 2016)

## 2. Trade negotiations back in UK hands

-External relations, including trade, conducted partly or wholly by the EU

-ie. tariffs

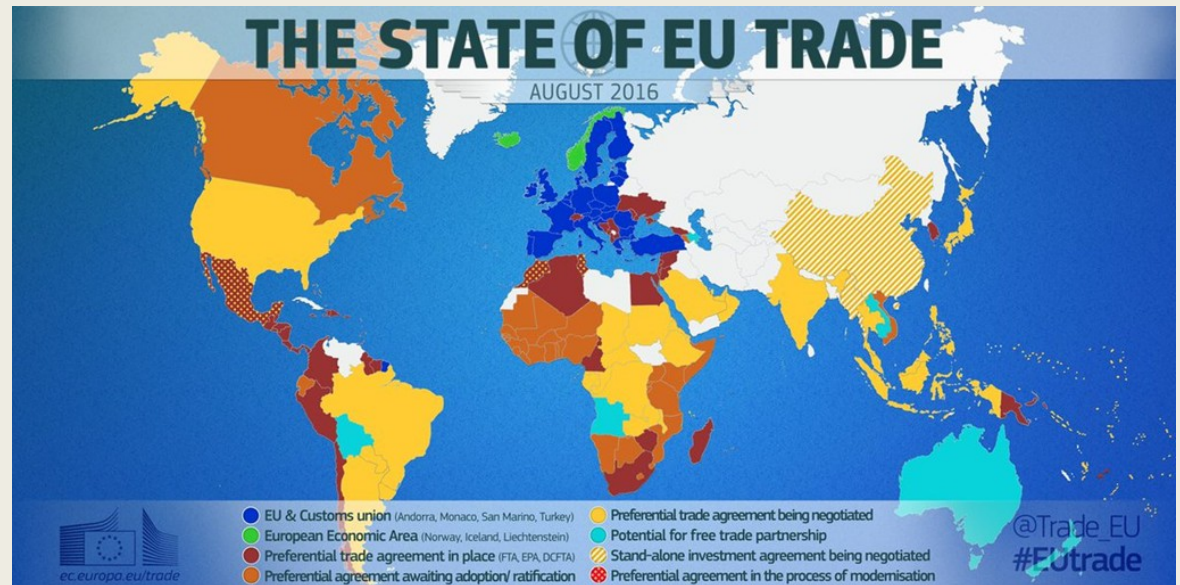
-EU extremely slow at negotiating trade deals

-It has failed so far to strike deals with the US, Japan, India, and ASEAN

-UK would be faster at striking trade deals on its own

-could create 284,000

new jobs



### 3. The Euro is flawed

-the Eurozone (the EU members who have adopted the euro as their official currency) is a political project rather than an economic one

-without shared economic institutions, European economies are too big and diverse to thrive under a single currency

-deeper fiscal and political integration is needed for the euro to work, but Britain is unlikely to approve of this

-the argument: it would greatly reduce transaction costs to be on the Euro, but Britain does not want to give up its own monetary policy





# Sovereignty: EU laws > UK's laws

- European Communities Act of 1972
- National laws are overridden by EU rules



# Sovereignty: lack of EC accountability

- European Commission (EU's executive branch) is not accountable to British voters (or voters in any member state)
- The 28 commissioners (one from each member state) are appointed every 5 years
- EC members are bound by oath to represent general EU interests and not their home states' interests

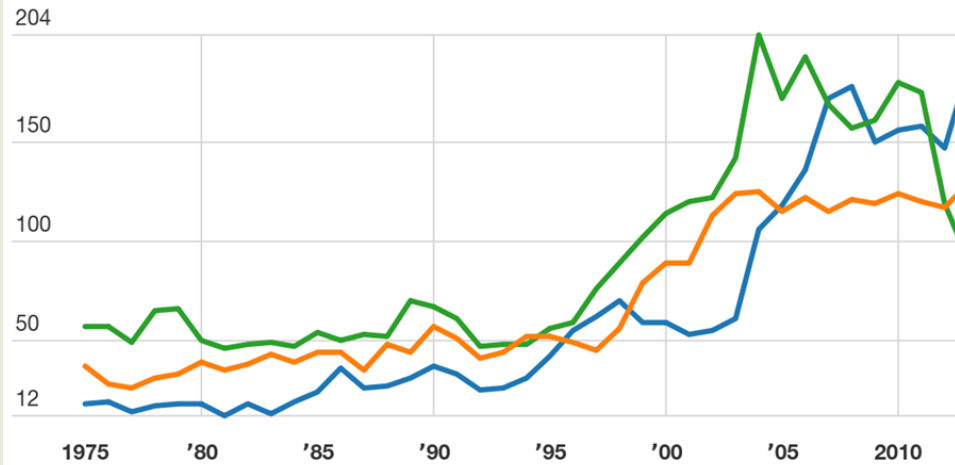
# Immigration



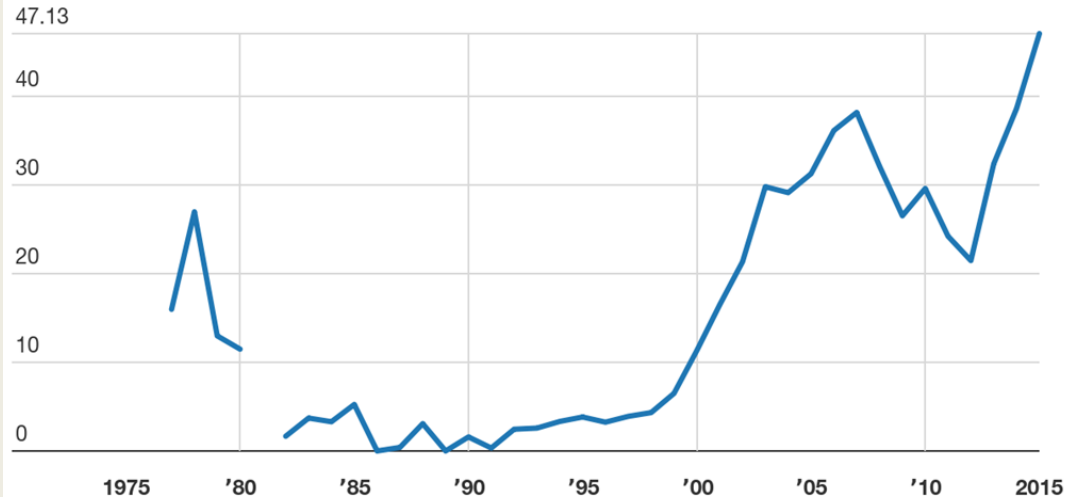
# Foreign immigrants by source

Thousands

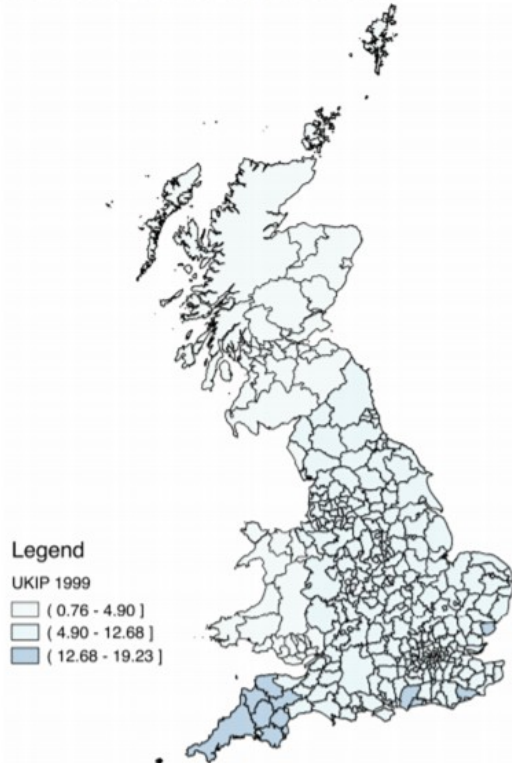
■ EU ■ Other ■ Commonwealth



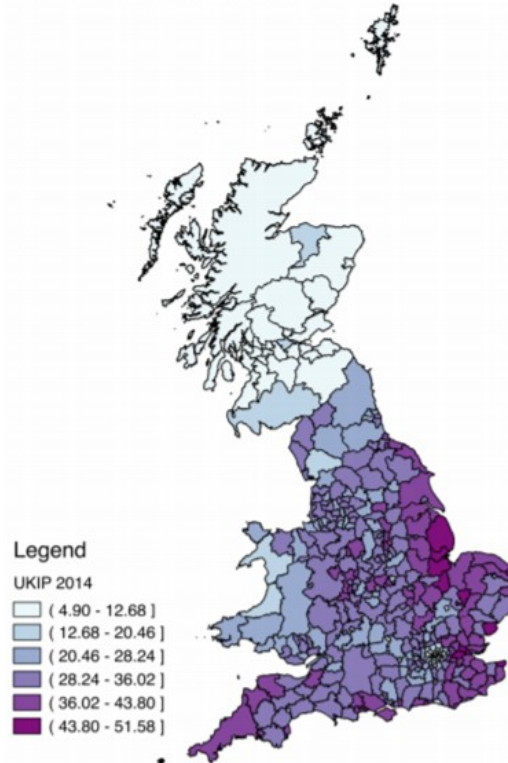
% of Ipsos respondents saying immigration is one of the most important issues facing the country



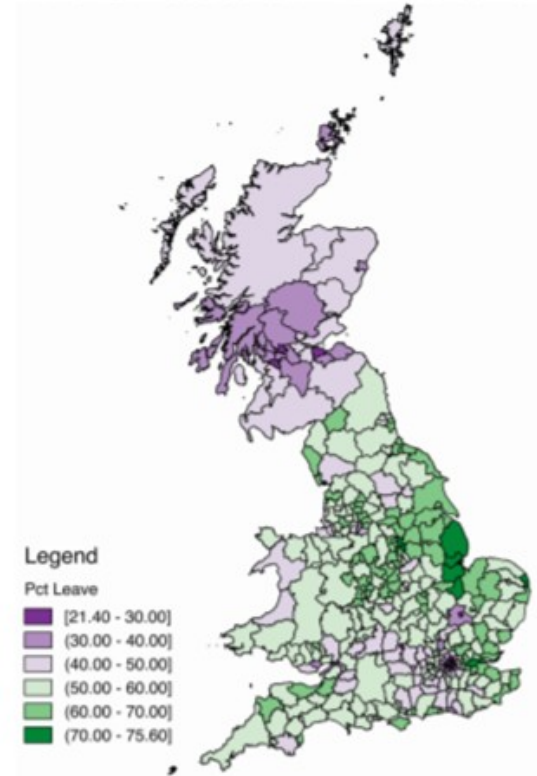
Panel A: UKIP vote in 1999



Panel B: UKIP Vote in 2014



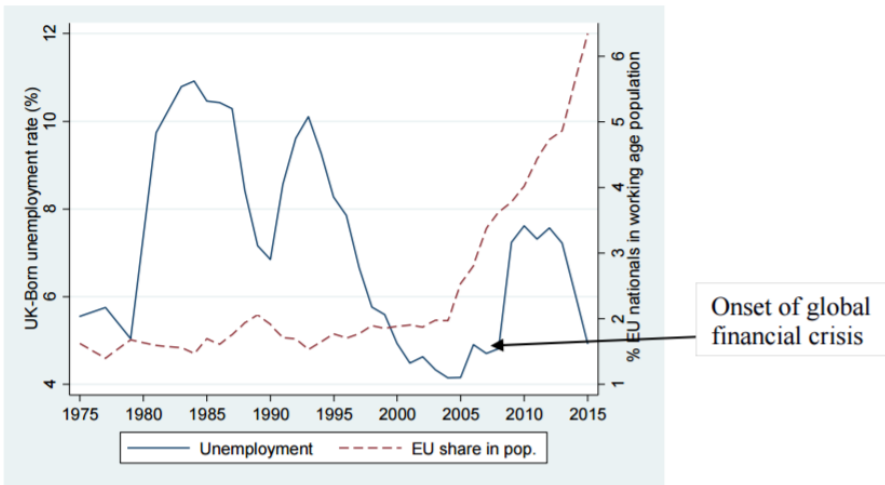
Panel C: Referendum % Vote leave





1. Employment
2. Wage
3. Housing
4. Healthcare

**Figure 4: Unemployment of UK-born and EU immigration, 1975-2015**



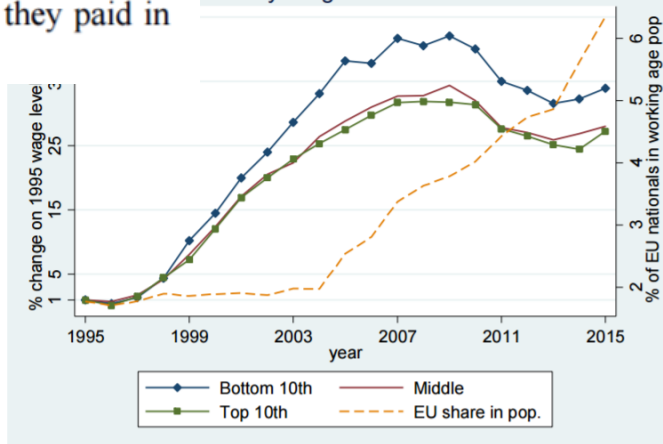
Another reason is housing. House-building in the UK has lagged behind demand for 35 years. Despite a gradual increase in completions over

the last two years, Britain is still building a third less houses than it was in 2007, with the result that the shortage of housing is becoming more acute every year. In many parts of the country, prices are out of reach for people on average incomes, let alone low paid workers. This has left a rising proportion of the workforce living in expensive, cramped, privately rented accommodation. Britain now has the lowest living space per inhabitant of any EU-15 country and the smallest new homes in the EU-28. Many blame immigrants for this state of affairs, but the real culprit is an egregious failure of public policy.

After trying to account for the many possible ways in which individuals pay taxes or draw welfare, Dustmann and Frattini (2014) find that EU immigrants made a positive fiscal contribution: they paid more in taxes than they received in welfare payments. For example, A8 immigrants paid in about £15 billion more than they took out in public spending in the decade up to 2011. While this effect may seem small, the longer-run impact could be substantial. The central estimate of the Office for Budget Responsibility (2013) is that the UK's national debt will be 40 percentage points higher in 2062 if net immigration is reduced to zero from 140,000 per year. By contrast, UK nationals, as a whole, received more in benefits than they paid in taxes.

**Impact of immigration on real wages for UK-born workers and EU immigration 1995-2015**

**I Hourly Wages Relative to 1995**



*“Successive UK governments have pandered to anti-immigrant sentiment rather than addressing the chronic policy failures behind it.”*

It's all about framing! Did voters know what they were really in for?





# Reversing Brexit?

Article 50 (5) - If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49.

Article 49 - Any European State which respects the values referred to in Article 2 and is committed to promoting them may apply to become a member of the Union.

Petition calling for second referendum garnered 4 million votes but was rejected by the government

A Theresa May BREXIT deal needs MP approval

Parliament has rejected all deals thus far.....

Laid forth nearly impossible criteria

# Politics

UK Prime Minister David Cameron follows through with his promise to resign if the Leave campaign won



Home Secretary Theresa May is elected by the Conservative Party and replaces Cameron

Weakened status of Labour Party

US President Elect Donald Trump praises the vote



# Current Climate

Currently, 69% of Britons think BREXIT is going badly so far (YouGov)



UK Appearing to be heading for a “hard exit”



# Hard Brexit at hand: What this means

What Hard Brexit would look like:

- Leaving without a deal in place
- Focus is on giving UK full control of its border and ability to negotiate new trade deals
- UK gives up full access to EU single market and customs union, no compromise on issues like free movement of people
- Likely that the UK would initially fall back on WTO rules while negotiations occur

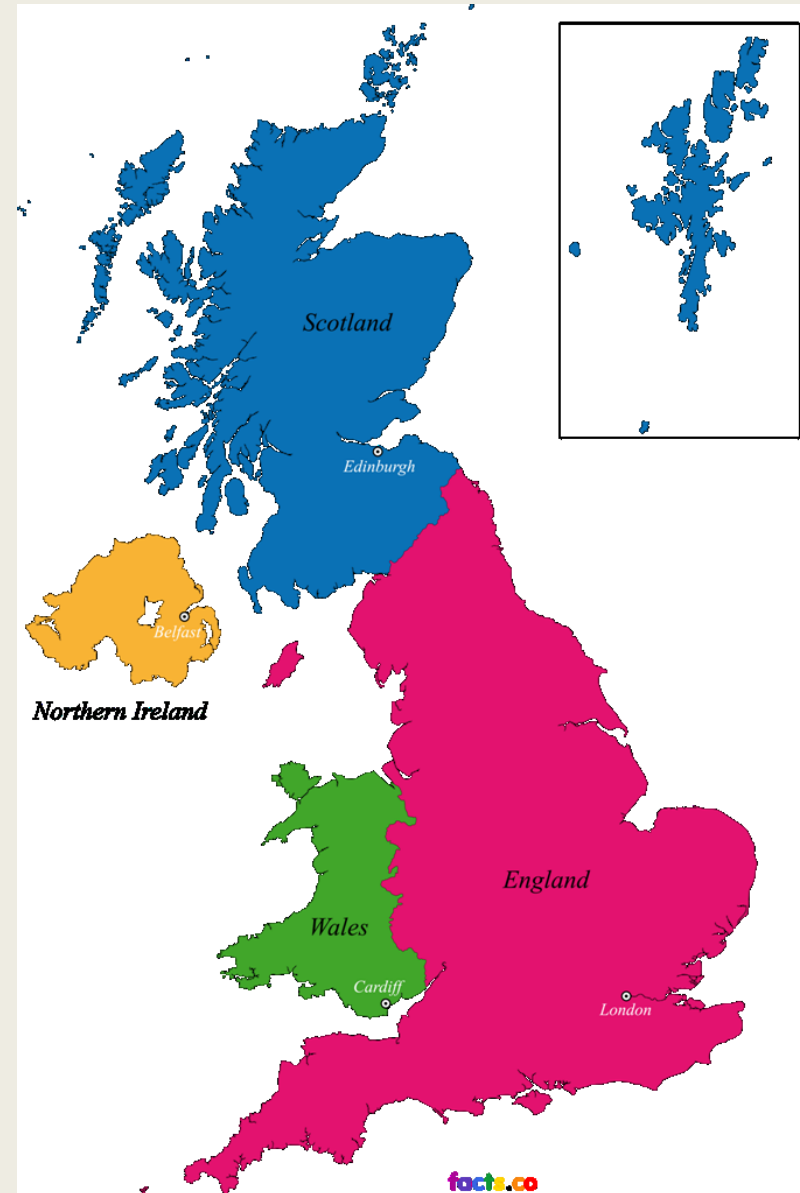


# Politics

Japan and US rejecting trade deals with  
UK

Scotland threatening to leave the UK

Northern Ireland could vote to also  
leave the UK and join the Republic  
of Ireland



# Business and Economics

Major challenges for EU business -  
especially manufacturing



Finance and services fleeing London and  
going to EU

Increased likelihood of recession in both  
EU and UK

Forecasts from the Bank of England  
already project slower growth

Growth will depend on future trade  
agreements, but no takers



# Useful links

<http://www.vox.com/2016/6/22/11992106/brexit-arguments>

<http://blogs.ft.com/ftdata/category/brexit-2/>

<http://www.strongerin.co.uk/#ugK4pwYoghy0ag00.97>

[http://www.voteleavetakecontrol.org/why\\_vote\\_leave.html#collapseOne](http://www.voteleavetakecontrol.org/why_vote_leave.html#collapseOne)

<http://www.cnn.com/2016/05/18/europe/eu-referendum-timeline/>