

# [Brexit: causes and consequences](https://assignbuster.com/brexit-causes-and-consequences/)

On June 23, 2016, the United Kingdomvoted to leave the European Union in an event dubbed “ Brexit” (Britain + exit). This paper will explore the events leading up to the vote, the reasons for andagainst Britain leaving the EU, the immediate and long-term fallout, the stepsto implementation, and the current discussions regarding implementation.

First, recognizing the distinctionbetween the Euro Currency and the European Union is important. The EuropeanUnion is an economic and political partnership that began after WWII with sixfounding members to foster economic co-operation. The EU has steadily grown to28 countries. The idea was that countries that trade together are less likelyto go to war with each other. The Treaty on the European Union states that anyEuropean country can apply for membership if it respects the democratic valuesof the EU and is committed to promoting these values. Countries wishing to joinmust have stable institutions guaranteeing democracy, a functioning marketeconomy, and the ability to take on and implement effectively the obligationsof membership. Financial and transitional arrangements for new members must benegotiated. The EU has its own currency, the Euro, which is used by 19 of themember countries (Wheeler, 2017).  TheEuro was adopted in 1999 and is now the second most traded currency after theUnited States dollar. Some sovereign states that are not part of the EU havealso adopted the Euro, as well as many territories, departments, and states ofEuro-zone countries.

The Brexit campaign kicked off in2015, when a pledge was activated to hold a referendum, or public vote, on theUK’s membership of the EU. David Cameron made this promise under immensepressure from “ Eurosceptics” and when the Conservative political party appearedto be losing votes to the UK Independence Party. Cameron then toured EUcapitals seeking to renegotiate the terms of Britain’s membership, vowing tocampaign to keep Britain a part of the EU. When Britain went to vote, all pollsindicated that the UK would remain in the EU (Financial Times: Brexit timeline).

There were many reasons for andagainst leaving the EU. In 2016, Britain paid in over £13. 1 billion to the EU budget, but alsoreceived £4. 5 billion worth of spending. Determining whether the £8. 6 billionnet contribution is worth the other advantages of EU membership can bedifficult. The EU is a single market, meaning no tariffs are imposed on importsand exports between the 28 members. The UK currently conducts more than 50% ofits trades with other members of the EU. Britain also benefits from trade dealsbetween the EU and other world powers. Leaving the EU causes them to lose someof that negotiating power. Following Brexit, the UK could seek membership ofthe European Free Trade Area, which includes the 28 members of the EU plusNorway, Iceland, Liechtenstein, and Switzerland. However, joining the FreeTrade Area means that the UK would remain bound by almost all EU regulations, while losing their input on those regulations. Open Europe conducted a studywhich found that the worst-case scenario is that the UK economy loses 2. 2% ofits total GDP by 2030. They also found that GDP could increase by 1. 6% if afree trade deal can be negotiated. Supporters of Brexit think that it would bein the best interest of other European countries to re-establish free trade. However, opponents believe that the EU would want to discourage further exitsby making life hard for Britain (Brexit).

For proponents of Brexit, sovereignty was seen as a major reason to leave the EU. Few disagree that EUmembership involves giving up control over its own affairs. Those thatadvocated for remaining in the EU said that leaving would weaken the UK’sposition by taking away the power to influence events in an increasinglycomplex and interdependent world (Riley, 2016). British politician DouglasCarswell wrote that, “ The European Union has lost control, and is unable torespond. Being part of the EU means that we can be outvoted by the Euro blockon economic matters…The safest thing we can do is vote to take back control,”(Carswell, 2015). He goes on to add that the UK could spend more on their ownpriorities, such as scientific research, if they left the EU. Carswell alsowrites that the UK could be a greater influence for free trade and cooperationas part of the World Trade Organization.

Immigration is another topic of discussion. Under EU law, the UK cannot prevent anyone from another EU member state fromimmigrating to the UK. Britons benefit from the ability to live and work in anyof the 27 other member countries. Consequently, there has been a large increasein immigration into the UK. While the recent pace of immigration has led toconcerns with housing and service provision, the overall outcome has beenpositive. Some believe that immigration should be cut and control of theborders should be regained. A decrease in immigration would mean more jobs forthe people who remain, but with a current unemployment rate of around 4. 5%, theUK does not appear to be suffering in this manner. Those that support stayingin the EU estimated that there are three million jobs linked to trade with theEU. If trade and investment falls following Brexit, some of these jobs wouldundoubtedly be lost (Brexit). However, it is not clear exactly how many ofthese jobs are dependent on the UK being a part of the European Union. On theflip side, if trade were to rise after Brexit, new jobs would likely becreated. A writer for the London School of Economics said that limiting freedomof movement between EU countries discourages the “ brightest and the best” fromcoming to Britain, and it reduces the pool of potential candidates for jobs(Brexit).

Security was another point of contention. Thoseis favor of Brexit argued that remaining in the EU is leaving the door open toterrorist attacks, because the open border does not allow them to know who isentering and exiting the country. However, several senior military figuresargued that the EU is an “ increasingly important pillar of our security” especially in light of instability in the Middle East and Russia. MichaelFallon, Defense Secretary, said that they needed the collective power of the EUto work together on counter-terrorism. However, Colonel Richard Kemp, formerhead of the international terrorism team at the Cabinet Office, said that itwas absurd to assume that the EU would put citizens at risk by reducingcooperation (Brexit).

Despitestrong arguments both for and against Brexit, the referendum to decide thefuture of the UK as part of the EU was held on Thursday, June 23, 2016. Over 30million people voted, for a turnout of 71. 8% of the voting eligible population. The UK voted to leave the EU by a vote of 51. 9% to 48. 1%. Across the UK, therewere significant differences in the percentage of the population voting toleave. Scotland and Northern Ireland voted to remain in the EU by votes of 62%to 38% and 55. 8% to 44. 2%, respectively. England and Wales voted to leave theEU with votes to leave tallying 53. 4% and 52. 5% (Wheeler).

Thevote on Brexit came with political consequences. The day after losing thereferendum, David Cameron resigned as Prime Minister. Theresa May, the formerhome secretary, took over, becoming Prime Minister without facing a fullConservative leadership contest after the key players from the “ Leave” sidewithdrew from consideration. May was against Brexit during the referendumcampaign but is now in favor of it because the British people voted for it. Herposition is that “ Brexit means Brexit”, and she began the process of leavingthe UK on March 29, 2017 when she invoked Article 50, a plan for any countrythat wishes to leave the EU. Article 50 was created in 2009 as part of theTreaty of Lisbon, becoming the first formal mechanism for a country to leavethe EU. This short, five-paragraph article spells out that any member statedeciding to quit the EU must notify the European Council and negotiate itswithdrawal with the EU. Countries wishing to leave have two years to reach anagreement and cannot participate in EU internal discussions about its departure(Wheeler).

TheArticle 50 process lasts two years. Accordingly, the intention is that the UKwill leave the EU on March 29, 2019, two years from the date that May began theprocess. This date can be extended if all 28 members agree, however currentlyall sides are focusing on this date as the key one. EU law still stands in theUK until it is no longer a member. There is currently uncertainty about howfinal the break will be on this date. Many prominent figures support atransition period of up to three years to allow a smooth implementation. Althoughall ties could technically be cut on this date, May and others would like toavoid such a “ cold turkey” exit where current regulations on things like tradeand travel ends overnight, as this could harm the economy (Wheeler). In aspeech in Florence, May confirmed her government will pursue an implementationof around two years after the formal point of departure scheduled for March2019. Under her deal, relations between Britain and the EU would remain similaras before, with the UK contributing to the EU budget to settle its divorcebill, and remaining within the single market until 2021 (Theresa).

Alongwith political consequences, Brexit also had several economic consequences. DavidCameron and many other figures who wanted to stay in the EU predicted animmediate economic crisis if the UK voted to leave. They were partiallycorrect; the pound slumped the day after the referendum and remains about 10%lower against the dollar and 15% down against the euro. However, the UK economywas estimated to have grown 1. 8% in 2016 and has continued to grow at almostthe same rate in 2017. The drop in value of the pound means that exports shouldget a boost as UK goods will be cheaper, but imported goods will get moreexpensive (United). Inflation has risen since the vote to stand currently atapproximately 4%, but unemployment has also continued to fall to a 42-year lowof 4. 3%. House prices have fallen from 9. 4% in June 2016 to 5% in August 2017(Wheeler).

Pensions, savings, investments, and mortgages are also affected by Brexit. The UK has a“ triple lock” for state pensions, which is an agreement by which pensionsincrease by the highest of the level of earnings, inflation, or 2. 5% each year. Cameron said this policy would likely be threatened by a UK exit, and May hadproposed ditching the 2. 5% part of the law. However, as part of thepost-election deal with the Democratic Unionist Party, the triple lock remains guaranteed. Any expats who rely on UK income, like pensions, will be impacted by currencychanges. Additionally, more than a million pensioners living in Spain arecurrently being paid annual cost of living rises by the UK government. There isconsiderable concern regarding whether this policy will continue (Connington, 2017).

Savingsrates dropped to record lows following the vote, partially driven by the Bankof England’s decision to halve Bank Rate in August 2016. Other factors alsoplayed in to the drop, including investors who feared instability and sought asafe haven in government bonds. Prices were pushed up and their yield wasconsequently decreased. Pessimism in the immediate aftermath of the referendumhas subsided and savings rates have begun to bounce back. However, it isexpected that rates will remain volatile until Brexit talks are settled and itcan be determined what policies will be in effect. The Brexit referendum alsoimpacted mortgage rates. Experts were wrong, however. While it was predictedthat rates would initially rise following the vote, they actually fell. Again, this was partly due to the cut of the Bank Rate. It was also caused byincreased competition in the mortgage market. Towards the end of 2016, ratesbegan to creep back up, and this pattern of gradual increases is predicted tocontinue (Dyson, 2016).

TheUK and EU negotiating teams met for the first time on June 19, 2017. They meetface-to-face for four days each month in Brussels to try to reach an agreementon the rights of UK and EU citizens after Brexit, a figure for the amount ofmoney the UK will pay upon leaving, and what will happen to the NorthernIreland border. These negotiations are complex, as it is complicated to unpick43 years of treaties and agreements. The UK team is led by David Davis, aveteran Conservative MP who is Secretary of State for Exiting the EuropeanUnion. On the EU side, Michel Barnier, a former French foreign minister and EUcommissioner, is leading the charge (Wheeler). Since this has never been donebefore, a great deal will have to be improvised as the negotiations continue.

Barnierhas not been hesitant to remind the UK side that the “ clock is ticking” on thenegotiations. EU summits in March and June 2018 will be important in theprocess, but the real time crunch is expected to come in the fall of 2018. If adeal is to be approved by Parliament, the European Parliament, and the EUstates, it will need to be agreed upon by this point to meet the Article 50deadline. 72% of the EU states will have to vote in favor of the deal for it topass. Although the UK could leave before March 2019 if an agreement is reachedsooner, that is highly unlikely at this stage. May says leaving the EU with nodeal in place is preferred to signing a bad one (Wheeler). If Brexit occurswith no agreement on trade, the UK would operate under World Trade Organizationrules.

Onemain topic of discussion in the negotiations is the type of trade deal the UKwill have with the UK following Brexit. Studies by the National Institute forEconomic and Social Research suggest that leaving the single market could causea long-term reduction in UK trade with Europe between 22% and 30%, unless theysign exactly the same free trade deal they have currently. Many in the EU havemade it clear that they do not support this. This significant drop in tradereflects the purpose of the single market as reducing tariff and non-tariffbarriers within the EU. The government believes that a portion of the tradeimpact can be offset by creating new free trade deals with countries outside ofthe EU, but that could take a while (Wheeler).

Theother major problem involving trade is immigration and labor mobility. Internationallyoperated businesses often require moving key staff in and out of the countryseamlessly, and certain sectors such as agriculture and food preparation relyon thousands of EU workers. This issue is one that would be particularlyimpacted by a “ cliff-edge” exit and would greatly benefit from transitionalarrangements. While it has yet to be agreed upon for sure, at this time, itseems that all EU nationals lawfully living in the UK for at least five yearswill apply for “ settled status” and be able to bring over spouses and children. Any deal on future legal status and rights must also be reciprocal and givecertainty to the 1. 2 million expats living elsewhere in Europe. Barnier hasdemanded more clarity and ambition from the UK government, saying that thisproposal does not go far enough and he wants the same level of protectioncitizens have under current EU law. May has said one of her key takeaways fromthe Leave vote is that the British people want a reduction in immigration. Shewould like the net migration, or difference between the amount of peopleentering and leaving the country, to reach a “ sustainable” level of below100, 000 per year. The rate of increase in population has slowed since the vote, largely driven by an increase in emigration from the UK by citizens of manyEast and Central European countries (Wheeler).

Anothervery important facet of the Brexit negotiation is how to avoid a “ hard” borderbetween Northern Ireland and the Irish Republic, who have been living mostly inpeace since the Good Friday Agreement twenty years ago. The invisible landborder has been crucial to economic development and has been of huge symbolicimportance. Neither side wants Brexit to result in new barriers, but the UKgovernment has not yet produced a realistic proposal on how to avoid physicalborder controls. The EU worries that leaving this border unpoliced creates aconduit for goods to flow illegally between the UK and the EU via Ireland(Financial Times: Brexit risks).

Thefinal contentious topic of discussion is how much the UK will owe the EU forits exit. Barnier wants the UK to cover their liabilities and budgetarycommitments. A Commission spokesman likened it to still needing to pay your tabeven if you leave the bar. The “ divorce bill” could include pension payments toEU officials, guarantees on loans such as the bailout of Ireland, and spendingon infrastructure agreed on but yet to be financed. The EU wants Britain torespect the obligations resulting from the entire period of their membership, referencing the seven-year budget period that runs through 2020. The estimatesas to how much this bill could end up totaling range from 5 billion pounds toover 100 billion euros. Once Britain leaves, the EU will have to fill a void inits budget of about 10 billion euros, which could mean increasing contributionsfrom the remaining 27 members, cutting spending, or finding alternative revenuesources (Kennedy, 2017). Ideally, this issue would have been addressed first, but the British preferred to address everything at the same time so trade-offsand compromises could be made. This approach is part of the reason why littleheadway has been made.

Twomore current issues are affecting the talks surrounding implementation. The UKgovernment’s EU Withdrawal Bill, formerly known as the Great Repeal Bill, reached committee stage in the House of Commons in November 2017. This billaims to ensure that European law will no longer apply in the UK followingBrexit, by repealing the 1972 European Communities Act. Any existing EUlegislation will be carried over into domestic UK law to help with a smoothtransition. This bill will be one of the largest legislative projects everundertaken in the UK, presenting a unique challenge because the body of EU lawis found in many different places and in many different forms. Many UK lawswill also no longer work upon exit, since they refer to institutions of the EU. Since not all of this can be accomplished through the repeal bill, thegovernment plans to create powers to correct statute where necessary, withoutfull Parliamentary scrutiny (Wheeler). The passing of this bill is furthercomplicated by the ongoing negotiations with the EU.

Anothernew development affecting Brexit is growing evidence that thousands of fakeaccounts may have been used to influence the Brexit vote. Britain’sintelligence watchdog is facing demands to examine whether Russians interfered. Academics in the UK have found that at least 419 Twitter accounts operatingfrom the Kremlin-linked Russian Internet Research Agency tweeted about Brexit. Additionally, thousands of other Russian twitter accounts posted more than45, 000 times about Brexit during last year’s referendum, in a span of just 48hours. Approximately 13, 000 accounts that tweeted about Brexit during thecampaign disappeared after the vote. Theresa May has declined to say whethershe believes Russia had interfered, supporting the position that there is noevidence yet. Putin also has denied Russia’s role, saying the day after thevote that, “ We closely followed the voting but never sought to influence it,”(Booth, 2017). The impacts of the Withdrawal Bill and possible Russian interventionhave yet to be seen, but will definitely affect the proceedings of the talkssurrounding implementation.

Theyear and a half following the Brexit vote has been a contentious time in theUK. The full economic impact is unknown, and markets will likely be volatile asdiscussions continue and Brexit plays out fully. It is yet to be seen exactlywhen and how the UK will exit the European Union. Further complicating the exitdate is May’s promise that Members of Parliament will vote at the end of thetwo year process to approve whatever deal is agreed to. They could potentiallyvote to send the UK back to renegotiate. Andy deal that is made also must beapproved by the European Parliament. With so much uncertainty regarding thepolitics, economics, and other implications of Brexit, discussion on this topicis far from over. Once a deal is finally agreed to, it will impact the UK andthe EU for years to come.

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