

Brexit: causes and consequences



**ASSIGN
BUSTER**

On June 23, 2016, the United Kingdom voted 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 and against Britain leaving the EU, the immediate and long-term fallout, the steps to implementation, and the current discussions regarding implementation.

First, recognizing the distinction between the Euro Currency and the European Union is important. The European Union is an economic and political partnership that began after WWII with six founding members to foster economic co-operation. The EU has steadily grown to 28 countries. The idea was that countries that trade together are less likely to go to war with each other. The Treaty on the European Union states that any European country can apply for membership if it respects the democratic values of the EU and is committed to promoting these values. Countries wishing to join must have stable institutions guaranteeing democracy, a functioning market economy, and the ability to take on and implement effectively the obligations of membership. Financial and transitional arrangements for new members must be negotiated. The EU has its own currency, the Euro, which is used by 19 of the member countries (Wheeler, 2017). The Euro was adopted in 1999 and is now the second most traded currency after the United States dollar. Some sovereign states that are not part of the EU have also adopted the Euro, as well as many territories, departments, and states of Euro-zone countries.

The Brexit campaign kicked off in 2015, when a pledge was activated to hold a referendum, or public vote, on the UK's membership of the EU. David Cameron made this promise under immense pressure from “Eurosceptics”

and when the Conservative political party appeared to be losing votes to the UK Independence Party. Cameron then toured EU capitals seeking to renegotiate the terms of Britain's membership, vowing to campaign to keep Britain a part of the EU. When Britain went to vote, all polls indicated that the UK would remain in the EU (Financial Times: Brexit timeline).

There were many reasons for and against leaving the EU. In 2016, Britain paid in over £13.1 billion to the EU budget, but also received £4.5 billion worth of spending. Determining whether the £8.6 billion net contribution is worth the other advantages of EU membership can be difficult. The EU is a single market, meaning no tariffs are imposed on imports and exports between the 28 members. The UK currently conducts more than 50% of its trades with other members of the EU. Britain also benefits from trade deals between the EU and other world powers. Leaving the EU causes them to lose some of that negotiating power. Following Brexit, the UK could seek membership of the European Free Trade Area, which includes the 28 members of the EU plus Norway, Iceland, Liechtenstein, and Switzerland. However, joining the Free Trade Area means that the UK would remain bound by almost all EU regulations, while losing their input on those regulations. Open Europe conducted a study which found that the worst-case scenario is that the UK economy loses 2.2% of its total GDP by 2030. They also found that GDP could increase by 1.6% if a free trade deal can be negotiated. Supporters of Brexit think that it would be in the best interest of other European countries to re-establish free trade. However, opponents believe that the EU would want to discourage further exits by making life hard for Britain (Brexit).

For proponents of Brexit, sovereignty was seen as a major reason to leave the EU. Few disagree that EU membership involves giving up control over its own affairs. Those that advocated for remaining in the EU said that leaving would weaken the UK's position by taking away the power to influence events in an increasingly complex and interdependent world (Riley, 2016). British politician Douglas Carswell wrote that, "The European Union has lost control, and is unable to respond. Being part of the EU means that we can be outvoted by the Euro block on 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 own priorities, such as scientific research, if they left the EU. Carswell also writes that the UK could be a greater influence for free trade and cooperation as 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 from immigrating to the UK. Britons benefit from the ability to live and work in any of the 27 other member countries. Consequently, there has been a large increase in immigration into the UK. While the recent pace of immigration has led to concerns with housing and service provision, the overall outcome has been positive. Some believe that immigration should be cut and control of the borders should be regained. A decrease in immigration would mean more jobs for the people who remain, but with a current unemployment rate of around 4.5%, the UK does not appear to be suffering in this manner. Those that support staying in the EU estimated that there are three million jobs linked to trade with the EU. If trade and investment falls following Brexit, some of these jobs would undoubtedly be lost (Brexit). However, it is not

clear exactly how many of these jobs are dependent on the UK being a part of the European Union. On the flip side, if trade were to rise after Brexit, new jobs would likely be created. A writer for the London School of Economics said that limiting freedom of movement between EU countries discourages the “brightest and the best” from coming to Britain, and it reduces the pool of potential candidates for jobs (Brexit).

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

Despite strong arguments both for and against Brexit, the referendum to decide the future of the UK as part of the EU was held on Thursday, June 23, 2016. Over 30 million 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, there were significant differences in the percentage of the population voting to leave. 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 the EU with votes to leave tallying 53.4% and 52.5% (Wheeler).

The vote on Brexit came with political consequences. The day after losing the referendum, David Cameron resigned as Prime Minister. Theresa May, the former home secretary, took over, becoming Prime Minister without facing a full Conservative leadership contest after the key players from the “Leave” side withdrew from consideration. May was against Brexit during the referendum campaign but is now in favor of it because the British people voted for it. Her position is that “Brexit means Brexit”, and she began the process of leaving the UK on March 29, 2017 when she invoked Article 50, a plan for any country that wishes to leave the EU. Article 50 was created in 2009 as part of the Treaty of Lisbon, becoming the first formal mechanism for a country to leave the EU. This short, five-paragraph article spells out that any member state deciding to quit the EU must notify the European Council and negotiate its withdrawal with the EU. Countries wishing to leave have two years to reach an agreement and cannot participate in EU internal discussions about its departure (Wheeler).

The Article 50 process lasts two years. Accordingly, the intention is that the UK will leave the EU on March 29, 2019, two years from the date that May began the process. This date can be extended if all 28 members agree, however currently all sides are focusing on this date as the key one. EU law still stands in the UK until it is no longer a member. There is currently uncertainty about how final the break will be on this date. Many prominent figures support a transition period of up to three years to allow a smooth implementation. Although all ties could technically be cut on this date, May and others would like to avoid such a “cold turkey” exit where current regulations on things like trade and travel end overnight, as this could harm

the economy (Wheeler). In a speech in Florence, May confirmed her government will pursue an implementation of around two years after the formal point of departure scheduled for March 2019. Under her deal, relations between Britain and the EU would remain similar as before, with the UK contributing to the EU budget to settle its divorce bill, and remaining within the single market until 2021 (Theresa).

Along with political consequences, Brexit also had several economic consequences. David Cameron and many other figures who wanted to stay in the EU predicted an immediate economic crisis if the UK voted to leave. They were partially correct; 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 economy was estimated to have grown 1.8% in 2016 and has continued to grow at almost the same rate in 2017. The drop in value of the pound means that exports should get a boost as UK goods will be cheaper, but imported goods will get more expensive (United). Inflation has risen since the vote to stand currently at approximately 4%, but unemployment has also continued to fall to a 42-year low of 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 pensions increase 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 had proposed ditching the 2.5% part of the law. However, as part of the post-election deal with the Democratic Unionist Party, the triple lock remains guaranteed. Any expats who rely on UK income, like pensions,
<https://assignbuster.com/brexit-causes-and-consequences/>

will be impacted by currency changes. Additionally, more than a million pensioners living in Spain are currently being paid annual cost of living rises by the UK government. There is considerable concern regarding whether this policy will continue (Connington, 2017).

Savings rates dropped to record lows following the vote, partially driven by the Bank of England's decision to halve Bank Rate in August 2016. Other factors also played in to the drop, including investors who feared instability and sought a safe haven in government bonds. Prices were pushed up and their yield was consequently decreased. Pessimism in the immediate aftermath of the referendum has subsided and savings rates have begun to bounce back. However, it is expected that rates will remain volatile until Brexit talks are settled and it can be determined what policies will be in effect. The Brexit referendum also impacted mortgage rates. Experts were wrong, however. While it was predicted that 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 by increased competition in the mortgage market. Towards the end of 2016, rates began to creep back up, and this pattern of gradual increases is predicted to continue (Dyson, 2016).

The UK and EU negotiating teams met for the first time on June 19, 2017. They meet face-to-face for four days each month in Brussels to try to reach an agreement on the rights of UK and EU citizens after Brexit, a figure for the amount of money the UK will pay upon leaving, and what will happen to the Northern Ireland border. These negotiations are complex, as it is complicated to unpick 43 years of treaties and agreements. The UK team is led by David Davis, a veteran Conservative MP who is Secretary of State for Exiting the

<https://assignbuster.com/brexit-causes-and-consequences/>

European Union. On the EU side, Michel Barnier, a former French foreign minister and EU commissioner, is leading the charge (Wheeler). Since this has never been done before, a great deal will have to be improvised as the negotiations continue.

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

One main topic of discussion in the negotiations is the type of trade deal the UK will have with the UK following Brexit. Studies by the National Institute for Economic and Social Research suggest that leaving the single market could cause a long-term reduction in UK trade with Europe between 22% and 30%, unless they sign exactly the same free trade deal they have currently. Many in the EU have made it clear that they do not support this. This significant drop in trade reflects the purpose of the single market as reducing tariff and non-tariff barriers within the EU. The government believes that a portion of the trade impact can be offset by creating new free trade deals with countries outside of the EU, but that could take a while (Wheeler).

The other major problem involving trade is immigration and labor mobility. Internationally operated businesses often require moving key staff in and out of the country seamlessly, and certain sectors such as agriculture and food preparation rely on thousands of EU workers. This issue is one that would be particularly impacted by a “cliff-edge” exit and would greatly benefit from transitional arrangements. While it has yet to be agreed upon for sure, at this time, it seems that all EU nationals lawfully living in the UK for at least five years will 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 give certainty to the 1.2 million expats living elsewhere in Europe. Barnier has demanded more clarity and ambition from the UK government, saying that this proposal does not go far enough and he wants the same level of protection citizens have under current EU law. May has said one of her key takeaways from the Leave vote is that the British people want a reduction in immigration. She would like the net migration, or difference between the amount of people entering and leaving the country, to reach a “sustainable” level of below 100,000 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 many East and Central European countries (Wheeler).

Another very important facet of the Brexit negotiation is how to avoid a “hard” border between Northern Ireland and the Irish Republic, who have been living mostly in peace since the Good Friday Agreement twenty years ago. The invisible land border has been crucial to economic development and has been of huge symbolic importance. Neither side wants Brexit to result in new barriers, but the UK government has not yet produced a realistic proposal on

how to avoid physical border controls. The EU worries that leaving this border unpoliced creates a conduit for goods to flow illegally between the UK and the EU via Ireland (Financial Times: Brexit risks).

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

Two more current issues are affecting the talks surrounding implementation. The UK government’s EU Withdrawal Bill, formerly known as the Great Repeal Bill, reached committee stage in the House of Commons in November 2017. This bill aims to ensure that European law will no longer apply in the UK following Brexit, by repealing the 1972 European Communities Act. Any existing EU legislation will be carried over into domestic UK law to help with a

<https://assignbuster.com/brexit-causes-and-consequences/>

smooth transition. This bill will be one of the largest legislative projects ever undertaken in the UK, presenting a unique challenge because the body of EU law is found in many different places and in many different forms. Many UK laws will 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, the government plans to create powers to correct statute where necessary, without full Parliamentary scrutiny (Wheeler). The passing of this bill is further complicated by the ongoing negotiations with the EU.

Another new development affecting Brexit is growing evidence that thousands of fake accounts may have been used to influence the Brexit vote. Britain's intelligence watchdog is facing demands to examine whether Russians interfered. Academics in the UK have found that at least 419 Twitter accounts operating from the Kremlin-linked Russian Internet Research Agency tweeted about Brexit. Additionally, thousands of other Russian Twitter accounts posted more than 45,000 times about Brexit during last year's referendum, in a span of just 48 hours. Approximately 13,000 accounts that tweeted about Brexit during the campaign disappeared after the vote. Theresa May has declined to say whether she believes Russia had interfered, supporting the position that there is no evidence yet. Putin also has denied Russia's role, saying the day after the vote that, "We closely followed the voting but never sought to influence it," (Booth, 2017). The impacts of the Withdrawal Bill and possible Russian intervention have yet to be seen, but will definitely affect the proceedings of the talks surrounding implementation.

The year and a half following the Brexit vote has been a contentious time in the UK. The full economic impact is unknown, and markets will likely be volatile as discussions continue and Brexit plays out fully. It is yet to be seen exactly when and how the UK will exit the European Union. Further complicating the exit date is May's promise that Members of Parliament will vote at the end of the two year process to approve whatever deal is agreed to. They could potentially vote to send the UK back to renegotiate. Any deal that is made also must be approved by the European Parliament. With so much uncertainty regarding the politics, economics, and other implications of Brexit, discussion on this topic is far from over. Once a deal is finally agreed to, it will impact the UK and the EU for years to come.

References

Booth, R., & Hern, A. (2017, November 15). Intelligence watchdog urged to look at Russian influence on Brexit vote. Retrieved from: <https://www.theguardian.com/uk-news/2017/nov/15/intelligence-watchdog-urged-to-look-at-russian-influence-on-brexit-vote>

Brexit: What are the pros and cons of leaving the EU. (n. d.). Retrieved from: <http://www.theweek.co.uk/brexit-0>

Carswell, D. (2015, October 09). Douglas Carswell: Why I'm backing Vote Leave in the EU referendum. Retrieved from: <http://www.telegraph.co.uk/news/newstopics/eureferendum/11922172/Douglas-Carswell-Why-Im-backing-Vote-Leave-in-the-EU-referendum.html>

Connington, J. (2017, March 10). How Brexit will affect your money: investments, currency and more. Retrieved from [http://www. telegraph. co. uk/investing/isas/brexit-will-affect-money-investments-currency/](http://www.telegraph.co.uk/investing/isas/brexit-will-affect-money-investments-currency/)

Dyson, R. E. (2016, June 24). Brexit: how will your savings and mortgages be affected? Retrieved from [http://www. telegraph. co. uk/personal-banking/savings/brexit- outcome-what-it-means-for-savings/](http://www.telegraph.co.uk/personal-banking/savings/brexit-outcome-what-it-means-for-savings/)

Financial Times: Brexit risks destabilizing Ireland's fragile peace. (n. d.). Retrieved from [https://www. ft. com/content/046ce872-c30a-11e7-b2bb-322b2cb39656](https://www.ft.com/content/046ce872-c30a-11e7-b2bb-322b2cb39656)

Financial Times: Brexit timeline: key dates in UK's divorce with EU. (n. d.). Retrieved from [https://www. ft. com/content/64e7f218-4ad4-11e7-919a-1e14ce4af89b](https://www.ft.com/content/64e7f218-4ad4-11e7-919a-1e14ce4af89b)

Kennedy, S. (2017, July 14). Explaining Brexit's Costs and Whether Britain Will Pay Up. Retrieved from [https://www. bloomberg. com/news/articles/2017-07-14/brexit-s- costs-and-whether-britain-will-pay-up-quicktake-q-a](https://www.bloomberg.com/news/articles/2017-07-14/brexit-s-costs-and-whether-britain-will-pay-up-quicktake-q-a)

Riley-Smith, B. (2016, June 16). Leave or Remain in the EU? The arguments for and against Brexit. Retrieved from [http://www. telegraph. co. uk/news/2016/06/16/leave-or-remain-in-the-eu-the-arguments-for-and-against-brexit/](http://www.telegraph.co.uk/news/2016/06/16/leave-or-remain-in-the-eu-the-arguments-for-and-against-brexit/)

<https://assignbuster.com/brexit-causes-and-consequences/>

Theresa May Seeks 2-Year Brexit Implementation Period. (n. d.). Retrieved from <http://time.com/4952988/britain-theresa-may-brexit-two-years-implementation-period/>

United Kingdom. (n. d.). Retrieved from <https://atlas.media.mit.edu/en/profile/country/gbr/>

What are the key issues for the Brexit negotiations? (2017, March 29). Retrieved from <http://www.bbc.com/news/uk-39196315>

Wheeler, A. H. (2017, November 13). Brexit: All you need to know about the UK leaving the EU. Retrieved from <http://www.bbc.com/news/uk-politics-32810887>