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An Accidental BREXIT

New EU and Transatlantic Economic Perspectives

Presented at University College London, European Institute

December 6, 2017 (and Dec. 7, Fleet Street, London)

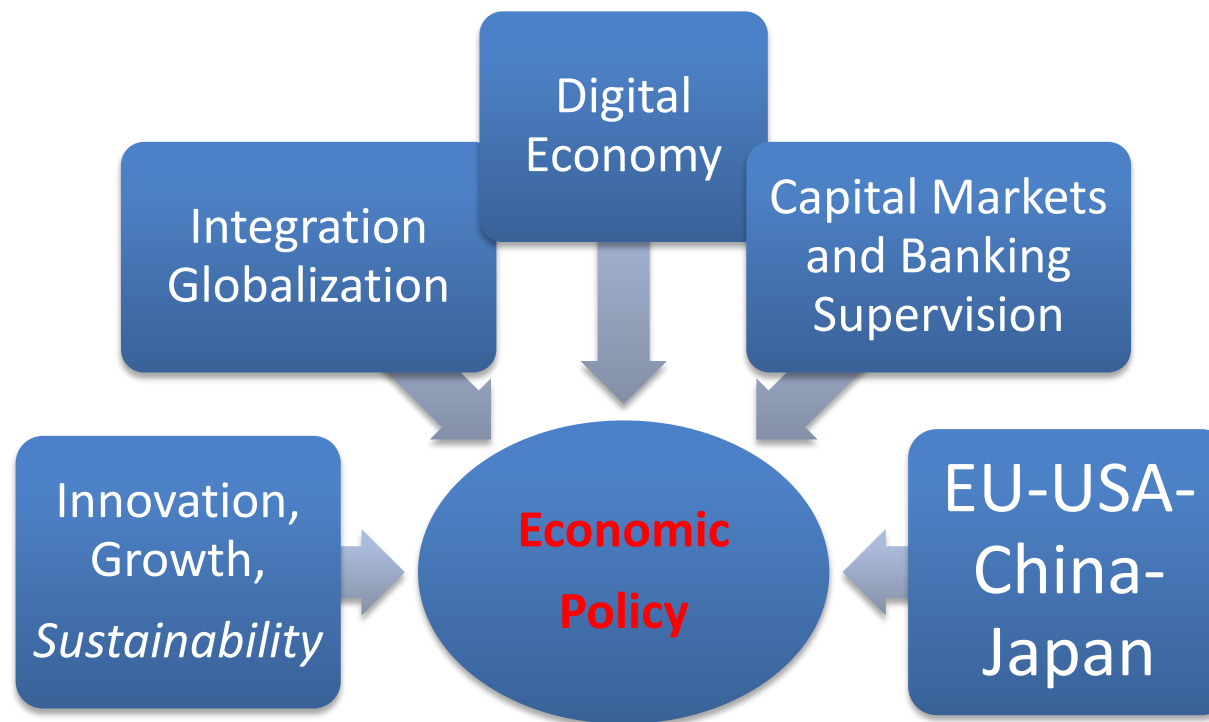
20 Years of EIIW: 2015 – Conference in Berlin and Wuppertal

- Award-winning research; *Euro Crisis anticipated in Oct 2008*
National / International Networks



About the EIIW (a private, affiliated research institute)/University of Wuppertal (2015: 20 Year Anniversary)

Research Focus Areas of the EIIW



Book available both as a paperback and as an eBook(London,Sept.2017)



Reading this book & EIIW Discussion Paper No. 234, which shows the true cost of BREXIT = 16% loss of GDP = almost 3x income loss of the UK during the Great Depression of the 1930s

Book shows: *Unclear majority* for BREXIT

- 1) 2 reasons why BREXIT based on EU referendum 2016 has no legitimacy (normal result =52.1% Remain, EU immigrants not an economic burden for UK; **Cameron's** anti-immigration rhetoric was reflecting govt adjustment problems from **banking crisis** → **BREXIT**)
- 2) Global Britain will not work
- 3) EU will disintegrate unless reformed
- 4) Referendum and free capital flows could be incompatible
- 5) Next EU banking crisis will come: BREXIT + Trump

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BREXIT aus Versehen

Das Buch beantwortet ganz aktuell die wichtigsten Fragen zum BREXIT: Wie ist das historische BREXIT-Referendum in Großbritannien abgelaufen, welches sind die Hintergründe des anstehenden EU-Austritts und welche Folgen für Deutschland, Europa und die Weltwirtschaft sind absehbar? Die BREXIT-Entscheidung ist für Europa ein Jahrhundertereignis, das die EU schwächt und die Machtgewichte global verschiebt. Die EU hat an Anziehungskraft verloren, sie ist nicht im Einklang mit dem 21. Jahrhundert, das asiatisch, digital und innovationsstark ist. Es zeigt sich, dass indirekt ein Weg von der Bankenkrise zur Anti-Immigrationswelle und zum EU-Austritt führte. Zudem war das Referendumsergebnis stark verzerrt von einer grob fehlerhaften Infobroschüre der Cameron-Regierung, die 10% zu erwartenden Einkommensverlust als Effekt eines EU-Austritts verschwiegen – mit dieser Information hätte sich eine klare Pro-EU-Mehrheit ergeben. Ein zweites Referendum? EU-Reformen? Die EU-Integration kann nur fortgeführt werden von einer Neo-EU, die besser konstruiert ist.

Paul Welfens hat eine sehr einfühlsame Studie zu den Ursachen – und Folgewirkungen – des Brexit geschrieben, der offenbar Großbritanniens größter vorsätzlicher Wirtschaftspolitik-Fehler seit der Großen Depression ist.

Prof. Dr. Harold James, Department of History, Princeton University

Im Buch vom Paul J.J. Welfens über den Ausgang des Brexit-Referendum erfolgt eine schonungslose, nüchterne und kritische Analyse, wie dieses Referendum-Ergebnis zustande kam. Welfens listet die wesentlichen kritischen Punkte auf: Jedem, der sich mit dieser Thematik ungeschminkt und offen beschäftigen will, sei dieses Buch zur Lektüre sehr empfohlen.

Prof. Dr. Dr. h.c. mult. Friedrich Schneider, Department of Economics, Johannes Kepler Universität Linz

Der Autor

Prof. Dr. Paul J.J. Welfens ist Präsident des Europäischen Instituts für Internationale Wirtschaftsbeziehungen (EIIW) an der Universität Wuppertal, dort zudem Inhaber des Jean-Monnet-Lehrstuhls für Europäische Wirtschaftsintegration und des Lehrstuhls Makroökonomik. Außerdem ist er Vorsitzender des Instituts des Bundesverbands Deutscher Volks- und Betriebswirte, Düsseldorf, Non-resident Senior Research Fellow am AICGS der Johns Hopkins University, Washington DC sowie IZA Research Fellow, Bonn. Das EIIW steht für mehr als zwei Jahrzehnte preisgekrönte Forschung. Welfens war u.a. geladener Experte des Deutschen Bundestages, des Europäischen Parlaments, der EU-Kommission, des US-Senats sowie des IWE.



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Welfens



BREXIT aus Versehen

BREXIT aus Versehen

Paul J. J. Welfens

Europäische Union zwischen
Desintegration und
neuer EU



 Springer

BREXIT aus Versehen, Springer (October 2016): 34K downloads in 1 year, 2nd ed. 2017

• ISBN 978-3658158743

1) Best British EU Referendum 2016: Historical (2nd after 1975: 2/3rds majority pro-EU)

Referendum = Highest expression of democracy



Government: Organizing EUref, giving standard INFO & allowing an open debate both pro & con



Gives majority on the referendum question:Y/N

2) Findings – one mystery finding

Cameron info blunder at the EU referendum-**NOT** informing voters in 16 page govt brochure of findings of *Treasury Study* on Benefits of British EU Membership: **BREXIT= 10% income loss: 6% loss from reduced access to EU single market, 4% from non-realization of enhanced EU single market from Cameron's negotiation with EU.** Treasury Study published 1week **AFTER** brochure mailed to households in England (April 11-13, 2016); results of study known in government. **Correct info would have resulted in 52.1% Remain**(based on UK popularity function); **disorderly UK ref**



6 Key Findings in the book An Accidental BREXIT

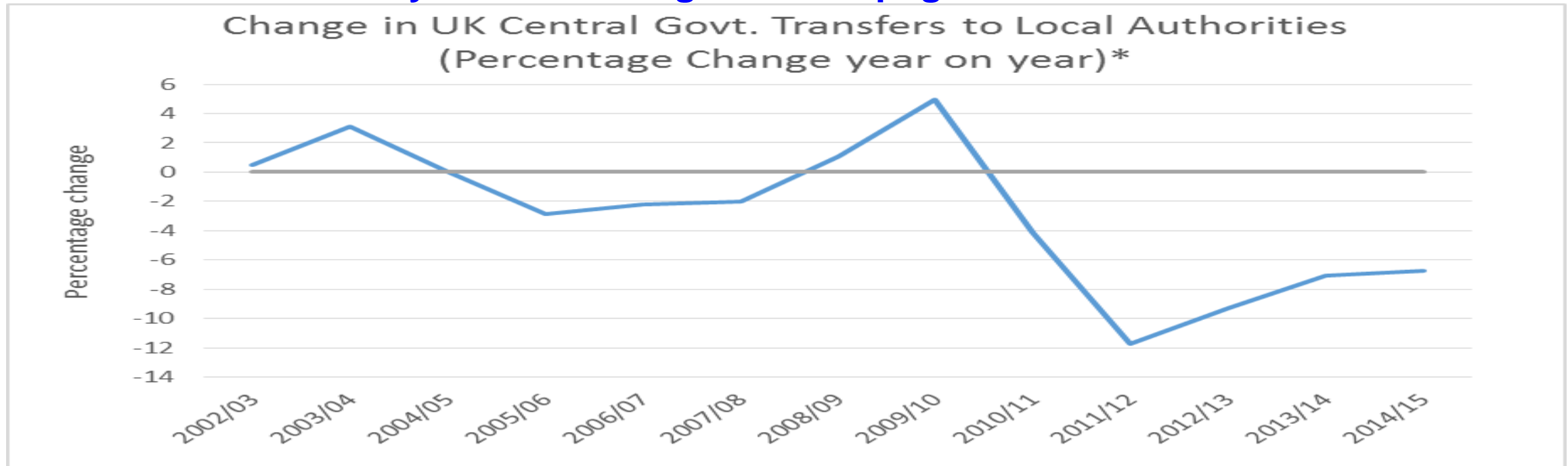
- 1) **A normal EUref = 52.1% majority for Remain; 2016 *disorderly referendum*: while Cameron in run-up to the Scottish referendum in 2014 told voters of the 1400GBP loss for every Scot; 1800 GBP loss for every UK citizen from BREXIT was not worth communicating to voters in 2016/EUref? (*Mystery about the Treasury analysis??*);**
– *and that Cameron's/May's complaining about EU immigration= burden for UK is contradictory to OECD findings*
- 2) **A referendum in an open economy could be incompatible with free capital flows**
- 3) **Global Britain will not work**

6 Key Findings in the book An Accidental BREXIT (part 2)

- 4) Post-BREXIT: low growth= **pressure for bank deregulation in the UK** (&US deregulation/Trump)= *next EU banking crisis*
- 5) **EU reforms needed, otherwise the EU will disintegrate** – with or without BREXIT: In the current EU, European elections are a driver of anti-EU party expansion and the growth of populist parties in Europe: until the European Union is dissolved
- 6) **Indirect line from the Transatlantic Banking Crisis to the immigration issues – and the BREXIT majority: EU immigration was made a scapegoat for Cameron's domestic economic policy**

Banking Crisis= 10% Deficit-GDP Ratio. Strong Need to Cut Deficits; Cameron Govt. Adopted Sharp Expenditure Cuts, *by Reducing Transfers to Local Authorities*

- Cameron's government sharply cut the financial allocations to local authorities over a number of years, in the cities and towns of the UK there was increasingly an impression of insufficient local services due to immigration, which was in fact being caused by the cuts in London. **Cameron/May created immigration scapegoat for Transfer Cuts=3.5% of GDP**



Background to the 2016 Referendum

- **Cameron had promised an EU referendum for years – June 23, 2016**
- **Cameron had obtained some concessions from EU in negotiations** in early 2016: services liberalization in EU single market, reduced access of EU immigrants to social welfare system in UK in early years
- **Since 2013** a big anti-immigration debate – emphasized by Mr. Cameron – about **too much EU immigration**(+refugee wave in Germany 2015/16)
- **Betting-odds and capital markets anticipated 2016 Remain majority**; however, result **51.9% BREXIT**; new prime minister is Mrs. May (former Home Secretary)

BREXIT Issues

- The legitimacy of the EU referendum is **very weak**.
- The whole political BREXIT process is confusing and contradictory – UK makes a decision for a century that has NO REAL MAJORITY; is this a **wise** decision?
- Who is to blame? **PM Cameron** – *and those at the Treasury* who have delayed publication of the Report of the long term UK Benefits of EU membership
- Can a non-binding EU referendum - biased through a massive information blunder by the Cameron government - be corrected? **EUref2?**

*“This above all: to thine own self be true, And it must follow as the night the day,
Thou canst not then be false to any man.”* Shakespeare, Hamlet (Act I, Scene 3)



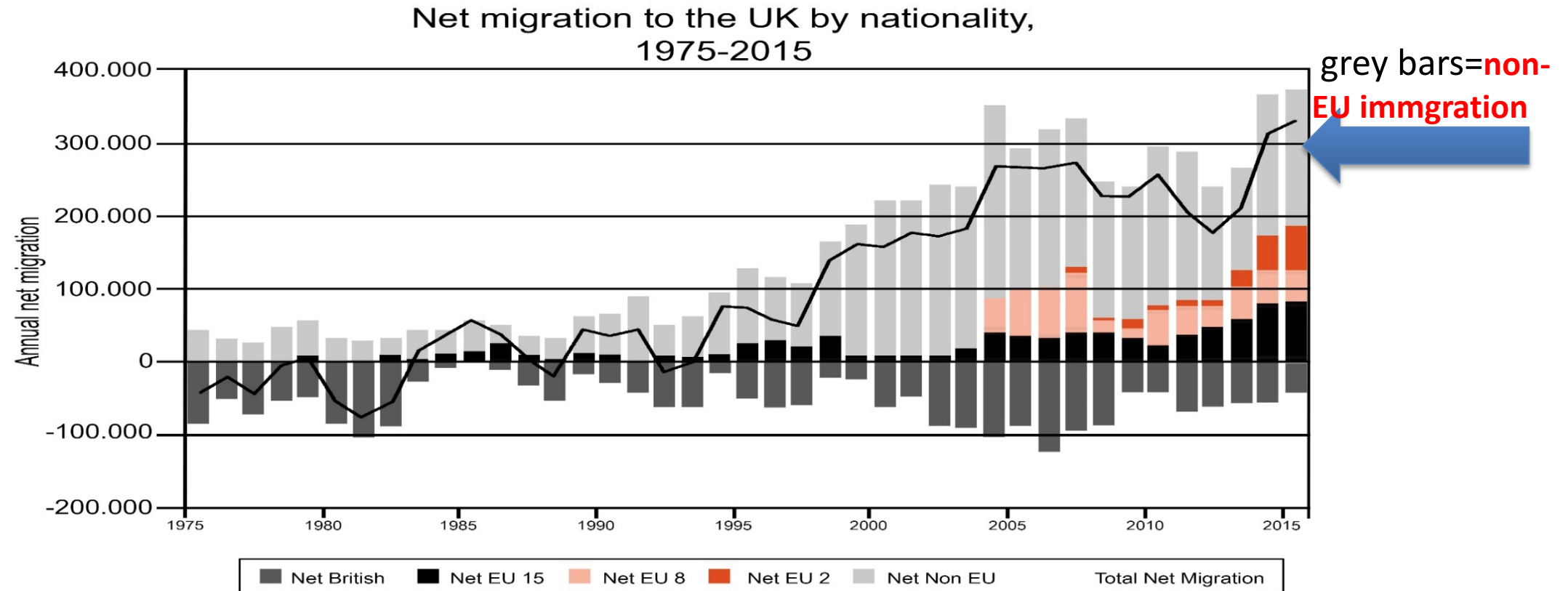
**“Brexit means Brexit and
we will make a success of it.”**
*Brexit means Brexit= weak
legitimacy of EUref!*
**Make a success of it? How
can one make a success of
BREXIT which costs 15% of GNP?
EU immigrants=burden UK,
says PM May; OECD disagrees**

3. Key Aspects

- I) Normal info policy = normal EUref result: **52.1% REMAIN** based on UK popularity functions (shows link between output growth and popularity of government; *FREY/SCHNEIDER, Economic Journal*)
- VI) **EUimmigration=BURDEN** view Cameron/May? **OECD findings=net benefit**

Feb 2017: **UK White Paper on Brexit**: chapter Controlling Immigration: „EU immigration stands **for a decade for a high burden on UK**“; BUT: following graph shows that non-EU immigration was the key challenge. **Contradiction**

Chart 5.1 - Net migration to the UK

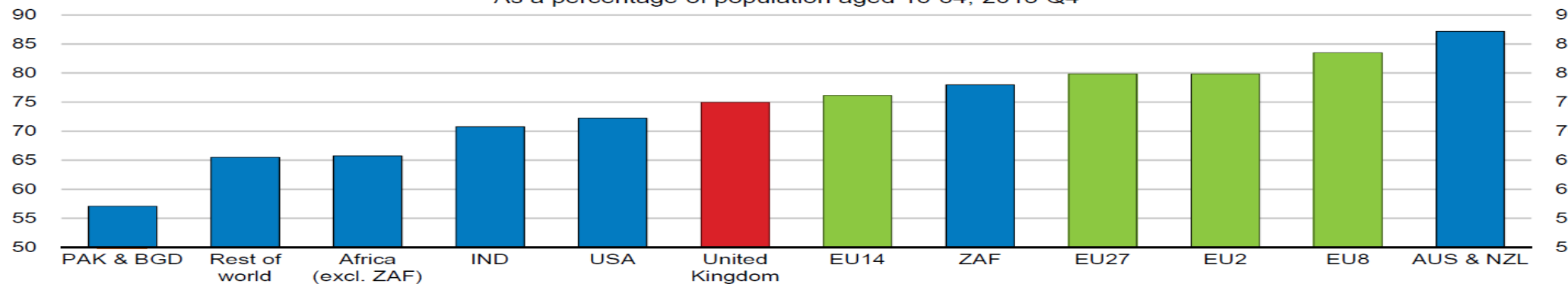


Source - ONS¹⁴

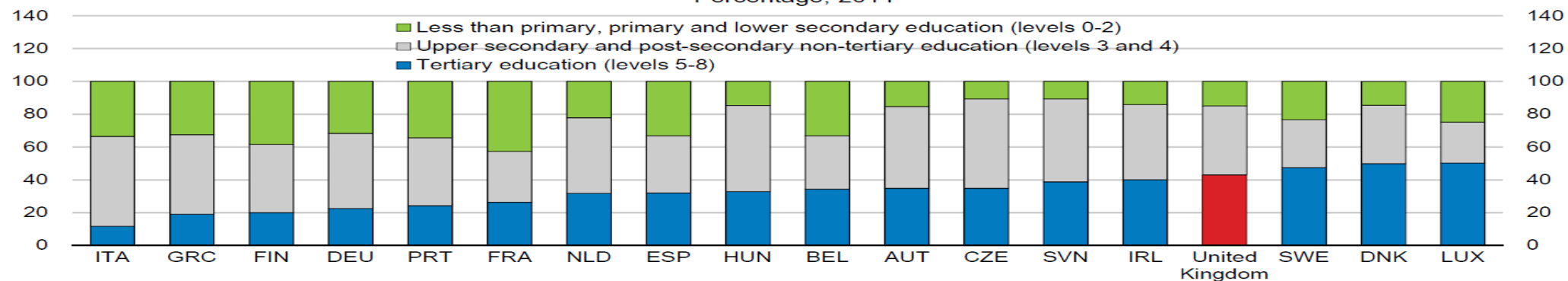
HM Govt. White Paper: The United Kingdom's exit from and new partnership with the European Union, February 2017.
Colour added by PJJW for clarity

EU Immigrants in UK – a burden? (OECD data contradicts rhetoric of UK govt.)

A. UK employment rates by country of birth
As a percentage of population aged 16-64, 2015 Q4¹



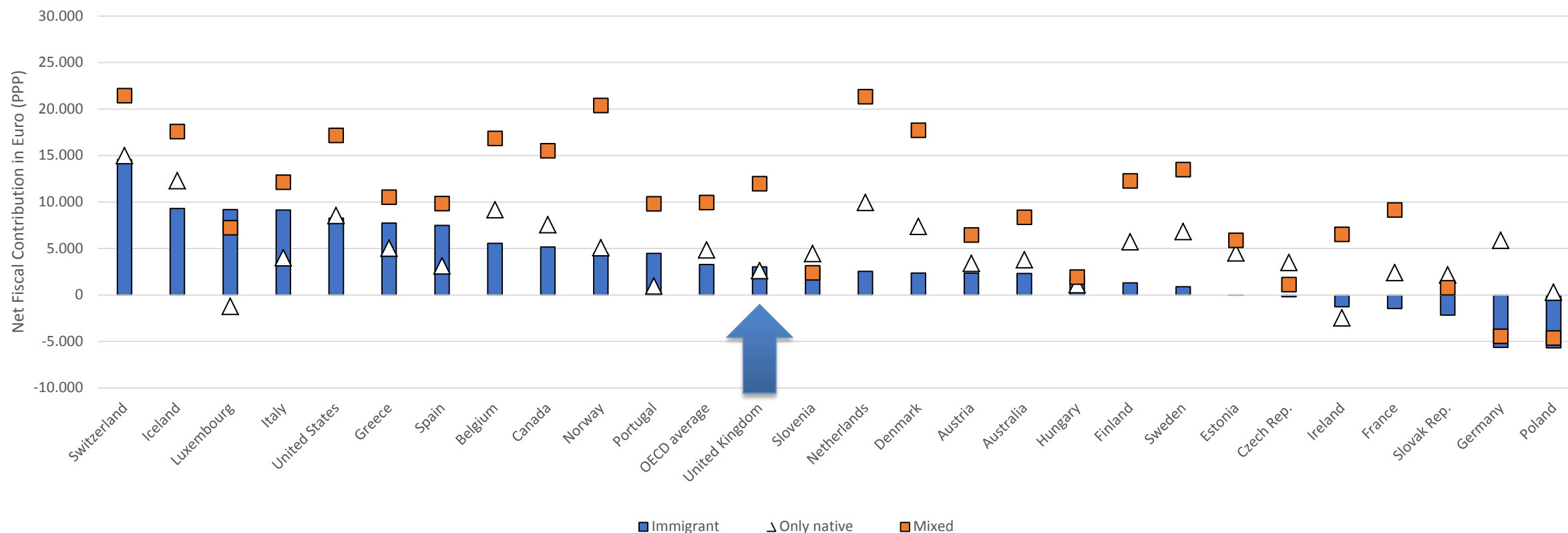
B. Migrants from the EU by educational attainment
Percentage, 2014²



Source: OECD (2016a), The Economic Consequences of Brexit: A Taxing Decision, OECD Economic Policy Paper, No. 16, OECD Publishing: Paris

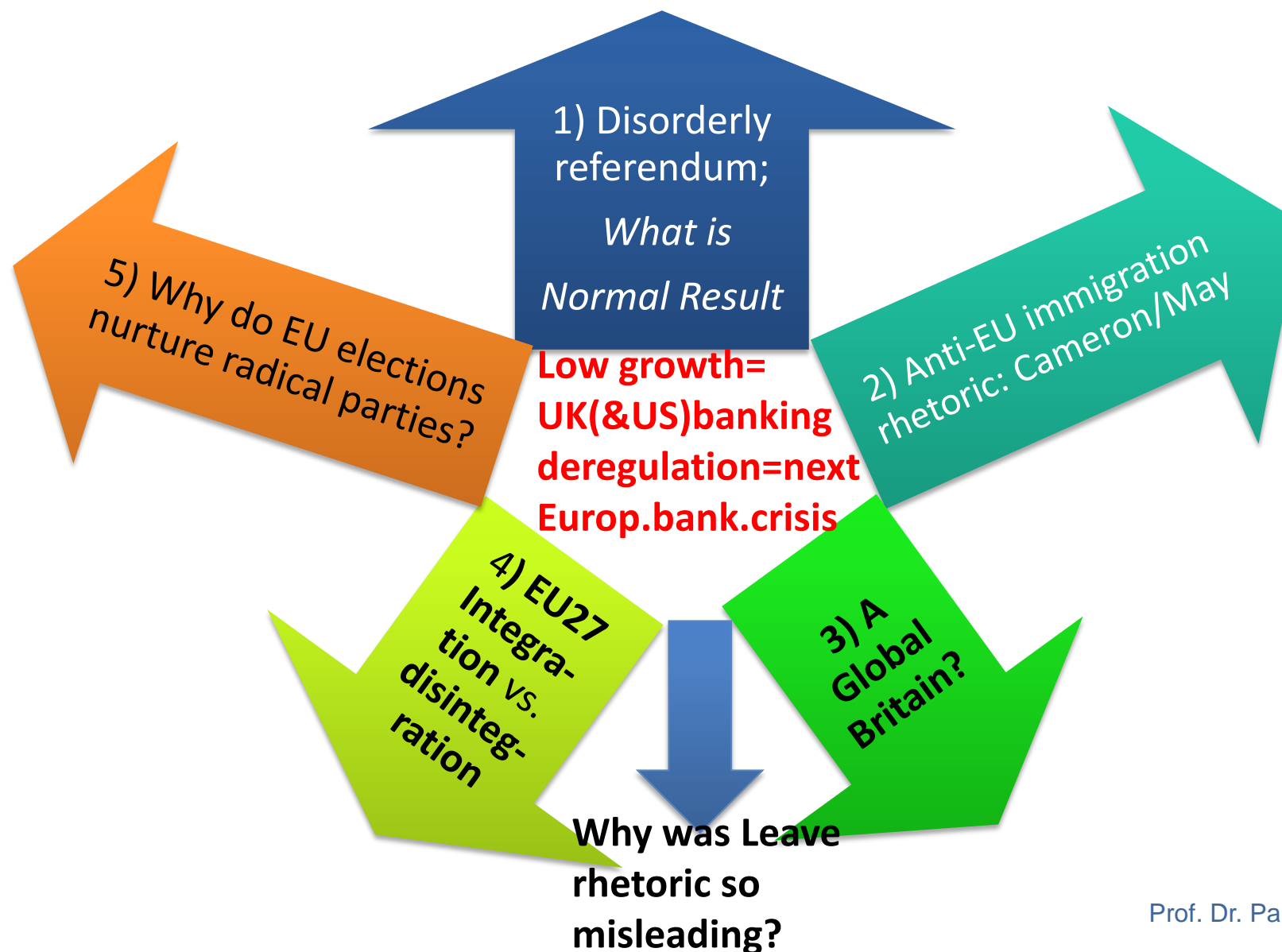
Net Contribution of Immigration on National Budget: Positive in UK – according to OECD (for EU immigrations++)

Average net direct fiscal contribution of households by migration status of the household head, 2007-2009 average, EUR (PPP adjusted)



Source: OECD International Migration Outlook 2013

Key Questions & the Answers






The VoteLeave bus and the JohnsonLie (£350m p.w. for the NHS; **fact is less than ½**; David Norgrove, UK Statistics Authority, wrote critical letter to Boris Johnson)



4. LETTERS: Norgrove letter (UK Statistics Authority) to Boris Johnson, Sept 17, 2017

Dear Foreign Secretary,



I am surprised and disappointed that you have chosen to repeat the figure of £350 million per week, in connection with the amount that might be available for extra public spending when we leave the European Union.



This confuses gross and net contributions.¹ It also assumes that payments currently made to the UK by the EU, including for example for the support of agriculture and scientific research, will not be paid by the UK government when we leave.

It is a clear misuse of official statistics.

Yours sincerely

A handwritten signature in black ink that reads 'David Norgrove'.

Sir David Norgrove

Mr. Boris Johnson versus Sir David Norman/350m Question

- **Whatever Johnson's misinformation of the public = No reaction**
 - **From PM May: 2017? No visible reaction**
 - **European Commission** (should have sent **blue busses** to all EU countries: with correct infos about net contribution of EU28 countries; or have virtual blue bus circulating in the digital social networks)
 - **Speech of Commission President** about EU perspectives and benefits in London: 0 (Cameron said to Juncker: stay home – why would Juncker simply be obedient and not give a talk; German Minister of Finance Schäuble went to London and gave a speech in early 2016)
 - **No speech of Barroso in Athens in the Eurocrisis**; no speech of Juncker in London (Obama gave a pro-EU speech)

Letter of MP Heaton-Harris (Tory Whip) to UK Universities (McCarthyism?)

Mr David Green
Vice-Chancellor
University of Worcester
Henwick Grove
Worcester, WR2 6AJ

3rd October 2017

David,

I was wondering if you would be so kind as to supply me with the names of professors at your establishment who are involved in the teaching of European affairs, with particular reference to Brexit.

5. Losses: 10-16% income loss (long run effects: cumulated) from BREXIT: Very large effect, especially difficult for lower 40% of British income earners

- **Basic EXIT deal 2017/2018:** In Dec. 2017 (?) some financial agreement between the UK and the EU on the exit bill seems to be possible;
- **Unsolved problem of BORDER REGIME Northern Ireland/Republic of Ireland**
- **Status of EU immigrants in the UK; UK immigrants in EU27 (life insurance UK??)**
- Negotiations could start on **hard BREXIT**
 - **Sectoral free trade agreements possible, e.g. in such fields as automotive, financial services; this implies that standard 60% minimum value-added**
 - **?Joint regulation of financial services EU-UK= important if new banking crisis is to be avoided**

Global Britain=high growth via Free Trade Areas UK with US, JP, China, India etc.

- **a) EU stands for 12% of UK's exports**
- **b) compensating declining EU role through UK-US TTIP not possible:**
UK exports to US only about 2,5% of UK GDP: mini TTIP will help
- **c) China FTA very difficult;** UK industry can hardly survive a Sino-UK Free Trade Agreement (&US?); **India? - government will ask for more visa access to UK...**
- **d) Japan as part of EU28-Japan FTA (unclear how UK-Japan FTA would look)**
- **e) Other partner countries/Commonwealth partners rather small, so this cannot help the UK to generate much additional economic growth**
- **f) US under Trump is undermining Multilateralism: the role of International Organizations, such as WTO=crucial for Global Britain**

GLOBAL BRITAIN WILL NOT WORK

The Cost of BREXIT and Some Perspectives on Stability

- ***Economic cost of BREXIT=3x Great Depression(over 15 years)***
- ***Office for Budget Responsibility implicitly shows on the basis of OBR's forecast 2017, Nov./OBR forecast 2015 -4 to -5% GDP 2016-20...more to come; economic loss not sudden & big***
- ***European Institute for International Economic Relations/Prof. Welfens (True Cost of BREXIT for the UK: A Research Note, EIIW Paper 234): Gross National Income = -16% = 2 months income lost (cumulated long run effect: present value) under no-deal BREXIT;***
- ***Rabobank 2017 (NL): -18% GDP in UK for no deal BREXIT***
- ***What will happen to poor people facing a decade of income stagnation?***

Effect of income Loss on UK Households with Lowest Income (by Quintiles)

Table 1: UK: Median equivalised¹ disposable household income by quintile, 1977-2015/16, UK (2015/16 prices²) in year ending 2016
£ per year (2015/16 prices)

<u>Quintile groups of all households ranked by equivalised¹ disposable income</u>				
Year	Bottom	2nd	3rd	
2015/16	13,586	20,007	26,332	

Source: Office for National Statistics

BREXIT loss (cumulated) 15.80%	2,146.59	3,161.11	4,160.46
Disposable household income			
After BREXIT loss effects	11,439*	16,846	22,172

Notes:

1 Income figures have been deflated to 2015/16 prices using the consumer prices index including owner-occupiers' housing costs (CPIH).

***** if £ 200 is the income loss for the lowest income group in BREXIT year 1, this is equivalent to a 1.5% real income loss and a loss of similar magnitude would occur in BREXIT year 2, followed by somewhat smaller percent income losses in the following years.

Source: Office of National Statistics and EIIW calculations

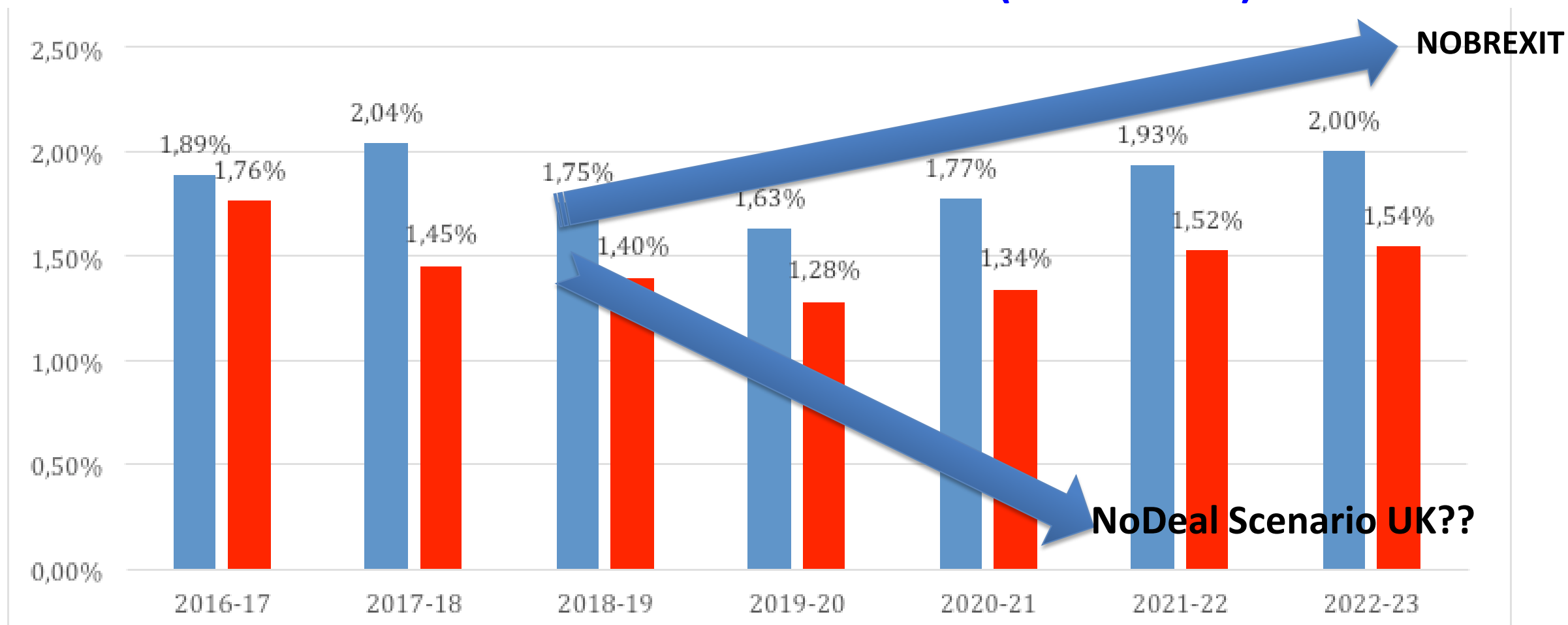
<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2016>

- **6. EU reforms necessary – regardless of BREXIT**
 - EU27= 4/5 of EU28 (2016 basis)= weakening of EU; reforms in EU27 easier?
 - Current institutional setup is destabilizing the EU as *Forschungsgruppe Wahlen(research)* shows that voters do not understand the role of EU policy = high propensity to vote for small, radical anti-EU parties (UKIP, Front National were winners in the UK and France, respectively; AfD (Germany) =7% - young populist party, could strongly grow over time (2019 European elections))
 - Not much discussion about broad reforms in the EU:
 - **Macron/France** has made proposals in the right direction
 - **Germany 2017** with no strong government=problem for EU reforms

Without EUref2 nobody can really know what majority of UK population wants

- 2018 is the decisive year in the UK: **last EXIT from BREXIT**
- **Immigration issue** will remain on agenda – **fear of muslim immigration;**
 - France (as well as Belgium) has high youth unemployment rate – this combined with islamistic digital propaganda= particular security risk
 - Standard book explaining the difference between science and religious belief – Popper (1934), Logic of Scientific Discovery, has not yet been published in Arab language; *EU project to be proposed*
- *Germany's: No new government before 2018; makes EU-UK talks difficult*
- *2 year postponement of BREXIT (May's proposal in speech in Florence)= risk of reinforcing populist AfD in German election year 2021. BREXIT populist project*

OBR GDP growth projections March 2017(blue) vs. Nov. 2017 (red); blue arrows has been added to reflect No deal scenario (downwards) & NOBREXIT



Short-term Economic Pressure Too Weak to Change Public Mood?

- **Late 2017: the domestic contradictions** were becoming stonger
 - Irish border regime issue; confusing early December talks of May in Brussels – **DUP said no to EU regulation in N.Ireland after BREXIT (Scotland asked for similar regime; +London!)**
 - **UK recognizing that EU's Exit bill is legitimate?**; logically should be independent of Accesss-Single Market Treaty
- **2018 could become a chaotic year in pol.& economic terms:UK**
- **Sovereignty illusion for post-BREXIT UK?**
 - **No influence from Brussels (?), NO influence n Brussels (bad for UK & US)**
 - **Share of foreign ownership in UK capital stock will rise from 17% in 2016 to about 40% in 2040 – economic sovereignty?**

7. Whatever BREXIT there is: EU28 university networks should be maintained, joint R&D
Further considerations for policymakers/voters:

- * BBC playing a poor role with EUreg coverage: it wants to give LEAVE group and REMAIN group an equally broad forum, but this means that Economic nonsense of LEAVE group gets a strangely big voice. BBC (Dec. 2017) offers students to identify fake news while BBC 2016 was the UK's biggest source on fake economic news: BBC would not even hear foreign (US, EU27 neutral economists) with a regular comment on L & R
- * economic experts partly contradictory, sometimes analysis not solid – disappointing
- * Newspapers (Johnson)+internet=new platform for propagation of economic nonsense

DEBR





Table 1: A Cost-Benefit Analysis of BREXIT for the UK (assuming no UK-EU deal is reached)

1) Avoiding annual net contributions to the EU of 0.4% of Gross Domestic Product (GDP)	Capitalized at an interest rate of 3% gives a present value (long-term) of 13.3% of annual national income
2) Effect of UK imports from the EU burdened with tariffs after BREXIT: 0.25% of Gross Domestic Product	8.3% of UK Gross Domestic Product (2016)
3) Reduced profits for UK firms due to lowering net prices (before EU tariffs) in the Single Market	8.3% of UK Gross Domestic Product (2016)
4) Reduced output in the UK of 6% in the long term due to worsened access to the EU single market	6% of Gross Domestic Product (2016) according to the UK Treasury analysis (2016) on the advantages of British membership of the EU: assuming a UK-EU deal (in the no deal scenario: 7.0% of UK Gross Domestic Product)
5) Macro feedback effect from 4), which would lead to a 1% reduction of income in the EU27 which, in turn, causes an associated further reduction of 0.2% of income in the UK. of 1%	0.2% of UK Gross Domestic Product
6) Non-realization of the benefits due to single market deepening which was negotiated by Cameron with the EU at the beginning of 2016	4% of UK Gross Domestic Product (according to the UK Treasury analysis (2016) on the advantages of British membership of the EU)
7) Effect of a raised share of foreign ownership of the UK's capital stock as a result of the real depreciation of the Pound from 17% in 2016 to 30% in 2030	4.3% of UK Gross National Income
8) Unilateral abolition of tariffs on agricultural products	1% of UK Gross Domestic Product
9) UK-USA “mini-TTIP” agreement	2% of UK Gross Domestic Product
Total Effect in % of Gross National Income	-15.8% (net) of UK national income

2016-2019

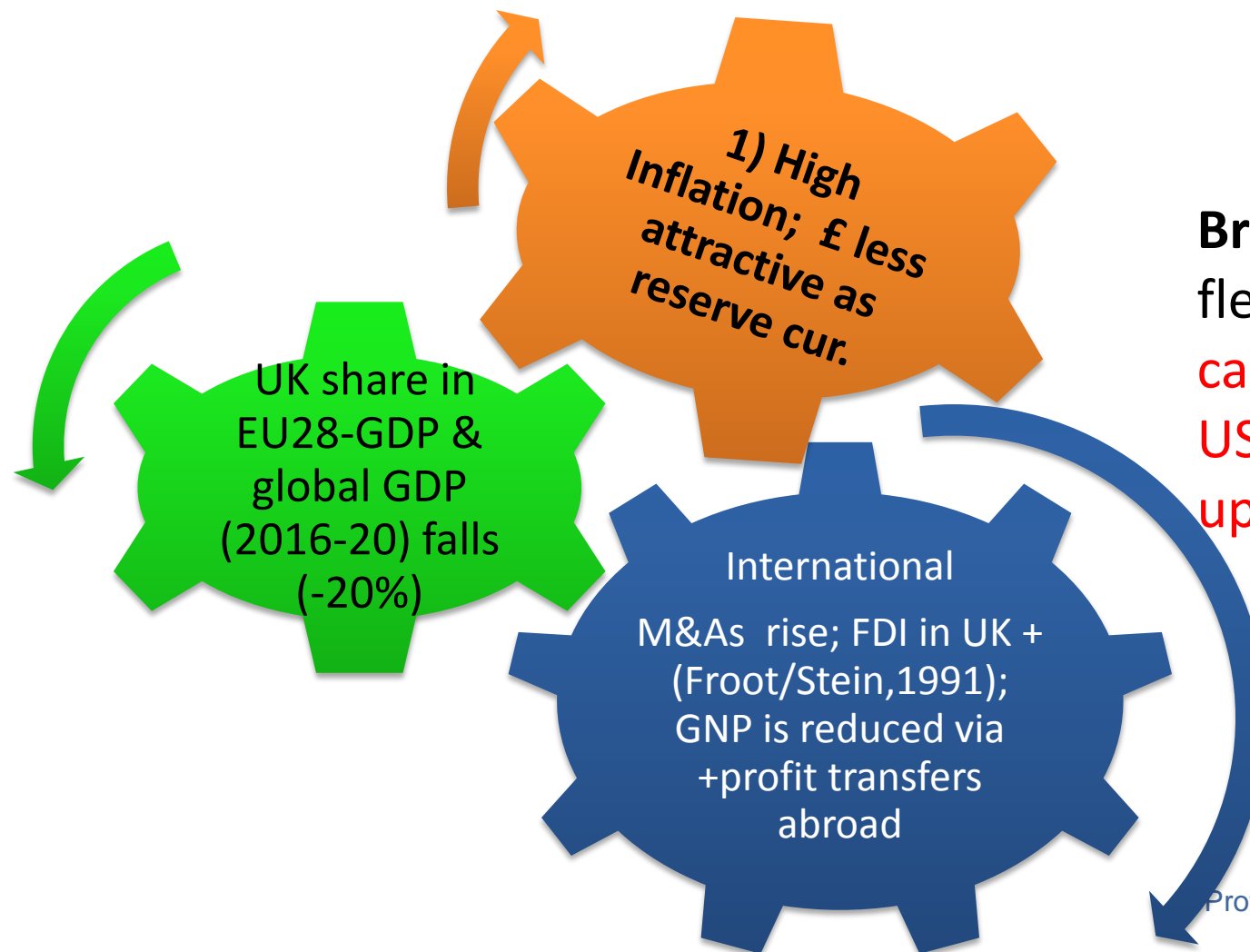
2017: Snap election in UK: May government lost majority in June (DUP needed)

2018: 2 negotiations to be finalized: **1) EU exit treaty** 2) Future EU single market access

2019: Finding majority in European parliaments and in the UK??

EXIT is about 1) payments of UK
2) the rights of EU citizens living in UK
3) the Northern Ireland border regime on the island of Ireland (**Good Friday Agreement, 1998**)
4) UK citizens living in EU27: **they could lose entitlement to UK life insurance because of BREXIT; UK should offer compensation here; so far UNFAIR**

After referendum 2016, UK snap election 2017: depreciation



British economy is flexible, but BREXIT facts cannot be overlooked; US stock market+ EU27 upswing stabilize UK

UK BREXIT Dynamics – what to expect in the case of a No Deal BREXIT

BREXIT welfare loss

- = **-16% income loss for UK** (EIIW Paper No. 234), incl. 2% gain from a UK-US TTIP, 1% from zero tariffs on agricultural products
- **Rabobank** says -18% real GDP in No Deal case;
- **Office for Budget Responsibility 2015/2017 forecast comparison** implies 5% BREXIT-linked GDP loss 2016-2020; next -10% to come after 2020;
- **Next banking crisis in Europe and the West**, respectively, within a decade
- **Second Scottish Referendum?**(Lydian King Croesus 542BC and the Oracle of Delphi:You will destroy a great empire....)
- **As Labour Party/Mr. Corbyn** dislikes EU single market, the 16 million pro-EU voters and the 3m. additional pro-EU voters from an orderly EUref have **no voice** – except Liberal Democrats/Greens - hence **BREXIT will come in 2019: as**
“Britain’s worst deliberate economic policy mistake since the Great Depression” (in the words of Harold James, Princeton)

Summary: Key Findings in *An Accidental BREXIT*

- 2) While Cameron gov. – and also May gov. (see BREXIT White paper 2017) have **emphasized what a difficult burden EU immigration is, the fact is that – according to OECD – immigrants are actually net contributors to British budget**
- 3) The **Global Britain approach of Prime Minister May** – to adopt new free trade agreements after 2018 in order to generate higher output growth - **will not work** (except for FTA with US/JP); **not least since US is undermining the WTO and multilateralism**
- 4) **The EU27 could disintegrate in the long run** – BREXIT is a minor impulse; the key problem is the EU institutional setup itself (results from Forschungsgruppe Wahlen, GER) and the fact that European elections have a bias to reinforce **radical (anti-EU) parties**
- 5) **UK will adopt – following the US/Trump – a new deregulation wave= next banking crisis in Europe/West** in the long run unless there is joint EU27-UK regulation; such joint regulation is unlikely!

BREXIT years 2018/2019

- **q) BREXIT means a considerable welfare loss for UK:**
 - **10% income loss (6% real GDP loss from BREXIT +4 %) according to the Treasury Study**
– **assuming bilateral trade treaty UK-EU; No-deal case = 7%, GDP loss +4% from NoSMP+**
 - **massive real devaluation losses = 20% of the GBP** which means that the UK's share in world income thus falls equally=lower pol. leverage in (trade) diplomacy and through higher inward FDI share of foreign ownership in UK capital stock up = **GNP growth slowing down**
- **b) Not clear that BREXIT treaties will find a majority in the UK parliament in March 2019; political crisis in 2019 – which will also weaken the US (given strong US-UK links)**
- **c) If there is BREXIT:**
 - **role of France (politically) and Germany (economically) reinforced; smaller countries will seek new positioning (eg NL, Denmark facing Franco-German dominance; Poland etc.)**
 - **Transitory destabilization of the UK; UK-US FTA starts; weakening of EU; new conflicts e.g. about UK subsidization of British steel industry as announced by Mr. Corbyn (Labour Party)**
- **d) Banzhaf Index: Power of big countries (majority voting) increased aftr BREXIT (Kirsch, 2016), even if Scotland joins EU (biggest rel. winners Pol. & Spain)**

8. BREXIT as a Historical Challenge to the EU

- **1. BREXIT means that the EU will shrink by 18% (GDP) and 12% (population):** EU nimbus of ever-growing club is destroyed; internal leadership equilibrium Germany-UK-France also – as only Germany/France left.
- **2. First EXIT of an EU member country from a community which started in 1957 with six countries:** Germany, France, Italy, Belgium, the Netherlands and Luxembourg – and has 28 EU member countries at the beginning of 2019.
- **3. BREXIT is a historical step - for the next 100 years** – and raises the question of what other countries will want to follow the UK (e.g. Germany: the populist AfD has suggested this in election program).
- **4. EU Commission had not anticipated that BREXIT could come** – poor political management
- 5. BREXIT move stands for a populist UK referendum largely linked to fear of EU immigration and fear of losing British identity – in the context of globalization/rise of China; free movement of labor is one element of the EU single market program (4 freedoms): **SMP = +3% GDP**
- **6. Will the EU27 further disintegrate or adequately reform itself?**

The World Economy in the early 21st Century

Globalization, Digital Growth,
CHINA++

USA under President Trump: Neo-protectionism+ bilateralism; against EU/multilateralism, pro-BREXIT

OECD countries face less political stability!

BREXIT is a strong blow to EU integration and integration worldwide; rule of the West

UK depreciation could reach 30% in the context of BREXIT; foreign ownership in UK capital stock will rise from 17% to 30% =4.3% GNP loss: higher share of profits in will be transferred to FDI source countries

Quote from Dean Acheson as retired Secretary of State (West Point speech)

- Pro-Leave campaign group (II) has argued that EU immigration is such a burden that Brexit is necessary and the broader Leave group has argued that post-Brexit UK could again assume a leadership role in the Commonwealth – after Free Trade Agreements have been concluded with India, Canada, New Zealand, et cetera.
 - (1) There is no Commonwealth that wants such UK leadership
 - (2) *FTA with India will be difficult – India will require visa deregulation; UK anti-immigration*
 - (3) *Dean Acheson (1962) “Great Britain has lost an empire and has not yet found a role. The attempt to play a separate power role apart from Europe, a role based on a „special relationship“ with the US and on being the head of a “commonwealth” which has no political structure, unity, or strength – this role is about played out.” Dean Acheson, former US Secretary of State, in famous speech at West Point, 1962; Leave Campaign with story of post-BREXIT UK leadership in Commonwealth = 1962*

9. No Way Out?

- **2016: June 23, historical EU referendum; UK leaving the EU after 45 years on the basis of a disorderly referendum and with many internal splits: Scotland 62 % Remain, Northern Ireland 56% Remain**
- **2018: 2nd EU referendum? This is the only way to remedy the disorderly EuRef of 2016**
- **If there is simply BREXIT in 2019, the UK will become a politically unstable country since it will have to live with big historical contradictions & unsolved internal conflicts**
-

10. Analytical Focus on BREXIT

FDI + effects from real devaluation of Pound (Froot/Stein, QJE, 1991)

UK facing trade decline (EU exp=12% of UK GDP); unlikely that UK get favorable conditions in EU market access

Depreciation of EU institutional capital; EU/Eurozone reforms?

Output effects UK and EU27; see TTIP, Trade+FDI/Innovation+Growth model is needed

Jungmittag/Welfens, EIIW paper 212

UK policy reactions;

e.g. monetary policy (QE)

Global Britain-Approach

*** US without UK implicit ambassador at the EU**

*** Germany's role + (German EU?)**

*** EU27 could become more protectionistic: old group of 4 is dead - Germany, UK, NL, Danmark**

*** New bank deregulation in UK facing lower growth/+US= Next Banking Crisis rather likely**

Should one ignore the strange nature of the British EU referendum? EU27 perspective?

- **So far no discussion about the disorderly EU referendum and the “dishonest” Cameron/May anti-EU-immigration rhetoric. SHAKESPEARE/Hamlet...**
- **Populist forces still growing in Europe: BREXIT itself partly reflecting populist views – Michael Gove (Cameron govt.) – Nobody interested in the view of experts (economists)**
- **EU27 strong or weak? (440 million inhabitants); almost equal to Eurozone in the long run; with BREXIT there will be pressure on Eastern European countries to join the Eurozone – otherwise these countries will become rather isolated politically. Raises questions about adequate reforms in the Eurozone: not much to be seen so far (GREECE?/Constitutional reforms? Capital market integration?)**

13) Background to the Referendum: Influence of International Capital Markets/Forex Markets on Referendum Outcome in 2016

- **Capital markets had a wrong view of referendum** in the week prior to referendum 2016
- **Appreciation of the Pound = expected Remain victory** = influence on Remain voter participation (--) and pro-BREXITvoter participation (++)
- How strong would the depreciation of the Pound have to be in the weeks prior to the referendum date to trigger a Remain majority?
- **Can one have free capital flows and an UNDISTORTED national referendum in UK?**
Obviously difficult – Problem of Free markets and Democracy/referendum option

BREXIT: UK in EU starting 1973? At least in 1975 EU referendum with 67% Remain

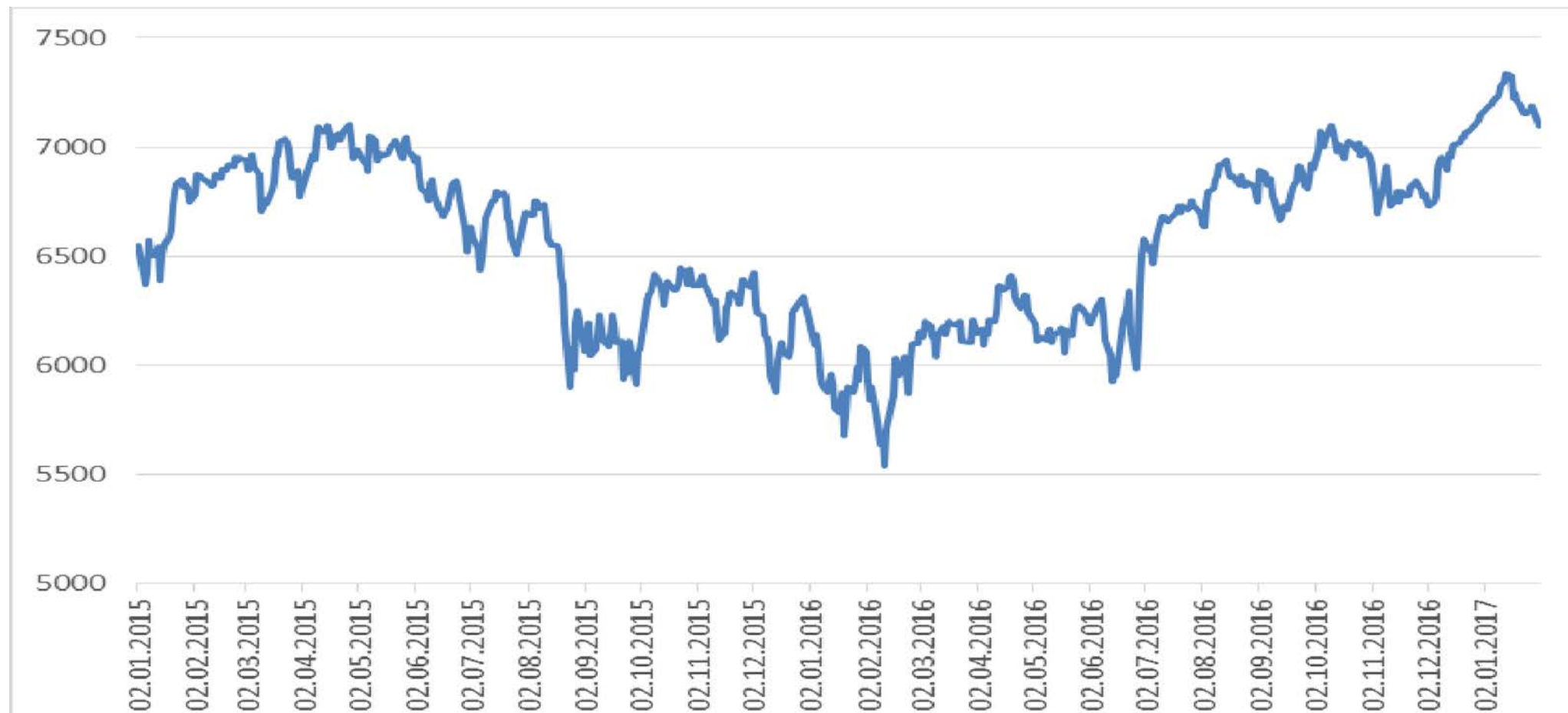
-
- **1993 EU single market, 4 freedoms; 2004 first EU Eastern Enlargement, but UK, Ireland and Sweden said they would not need transition period in field of free labor movement**
- **2007-09 Banking Crisis (2010-2016 Euro Crisis) which triggers BREXIT....**
- **2013 announcement of Mr. Cameron: There will be EU referendum if he should be re-elected; Cameron wanted referendum mainly to fight UKIP+intra-Tory anti-EU rebels**
- **Referendum June 23, 2016: Cameron for Remain** – he had obtained some EU concessions in Brussels: restrictive UK social policy would be possible for several years vis-à-vis immigrants (e.g. from Eastern EU accession countries); reinforced EU single market in services, electricity market and digital integration.
- ***Why was Mr. Cameron emphasizing the Anti-EU immigration rhetoric? Need for a culprit in the field of the underprovision of local public goods = reflecting in turn a staggering cut of transfers to local communities, namely 3.5 percent of GDP within 5 years; need for these cuts reflected the 11% peak in the deficit-GDP ratio in the UK after banking crisis***

13. Markets: BREXIT at no cost? UK referendum campaign: LEAVE pointed to “project fear”

- Immediately after the referendum apparently no major negative economic reaction in late 2016?
 - **UK stock market remained at high level**: But this was US effect
 - **Net capital formation weakening in 2017**; output in some sectors has started to decline in 2017 (-10 % production UK automotive; about – 5% in construction); EU27 expansion supports UK's economic development; but Eurozone growth >UK growth since 2017
 - Real wage decline in early 2017 as **inflation rate much higher than anticipated in early 2016** (inflation driven by devaluation)
 - **Foreign investors put investment on hold** in many sectors in 2017; **foreign investment bankers want to move out of London** (back to New York or relocate some activities to Frankfurt/Paris and Dublin)

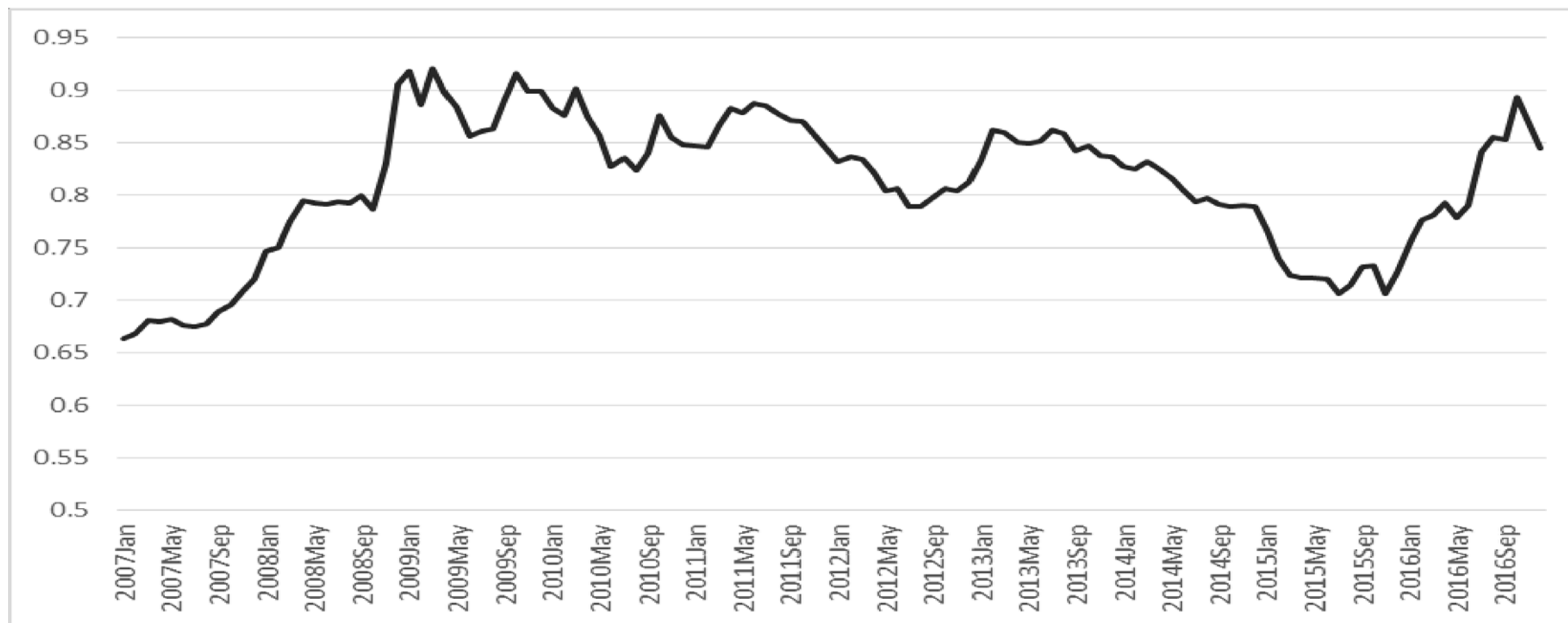
Stock Market Development in UK (driven by US stock market)

Figure 3: FTSE 100 (daily)



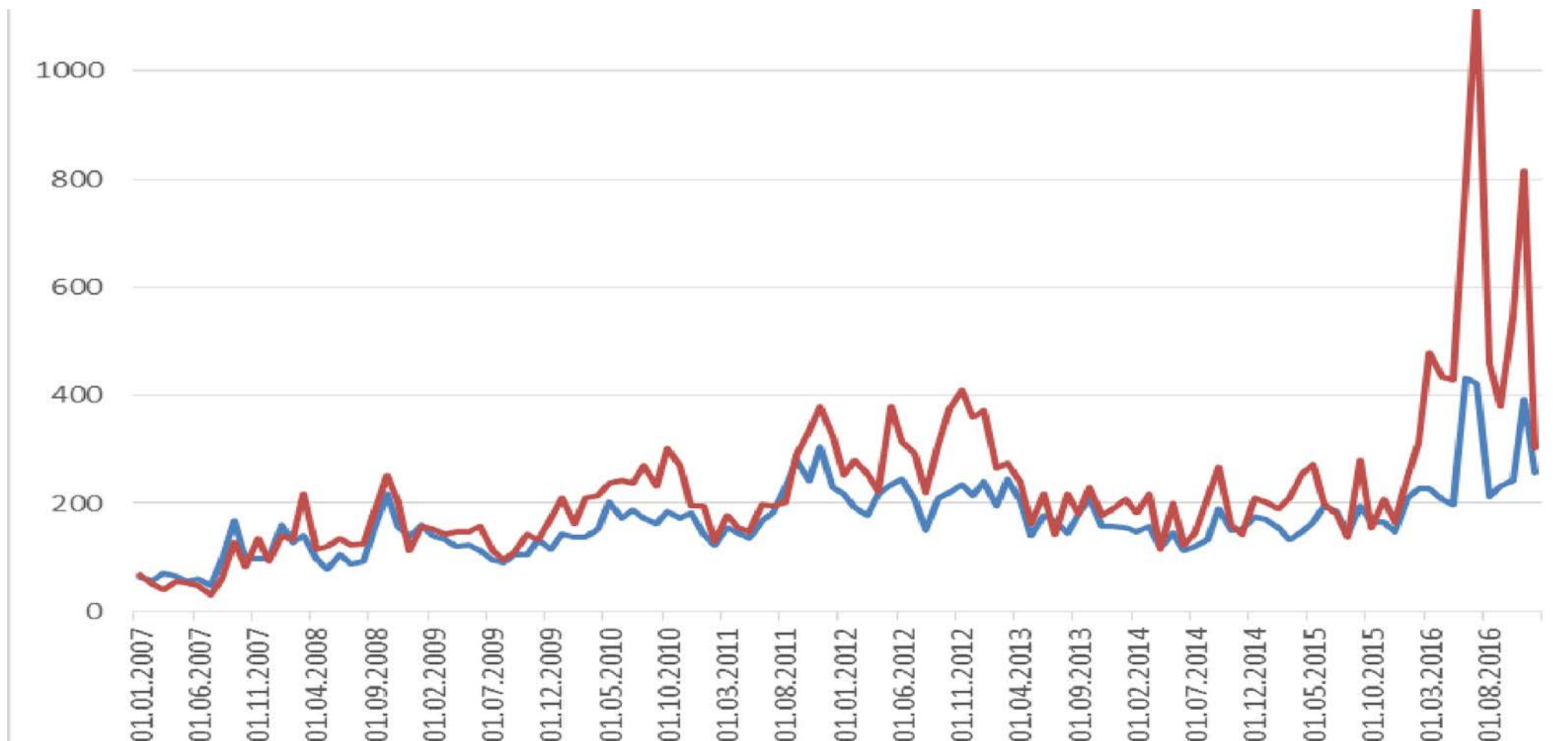
Pound Exchange Rate

Figure 2: ECB reference exchange rate, UK pound/Euro (monthly)

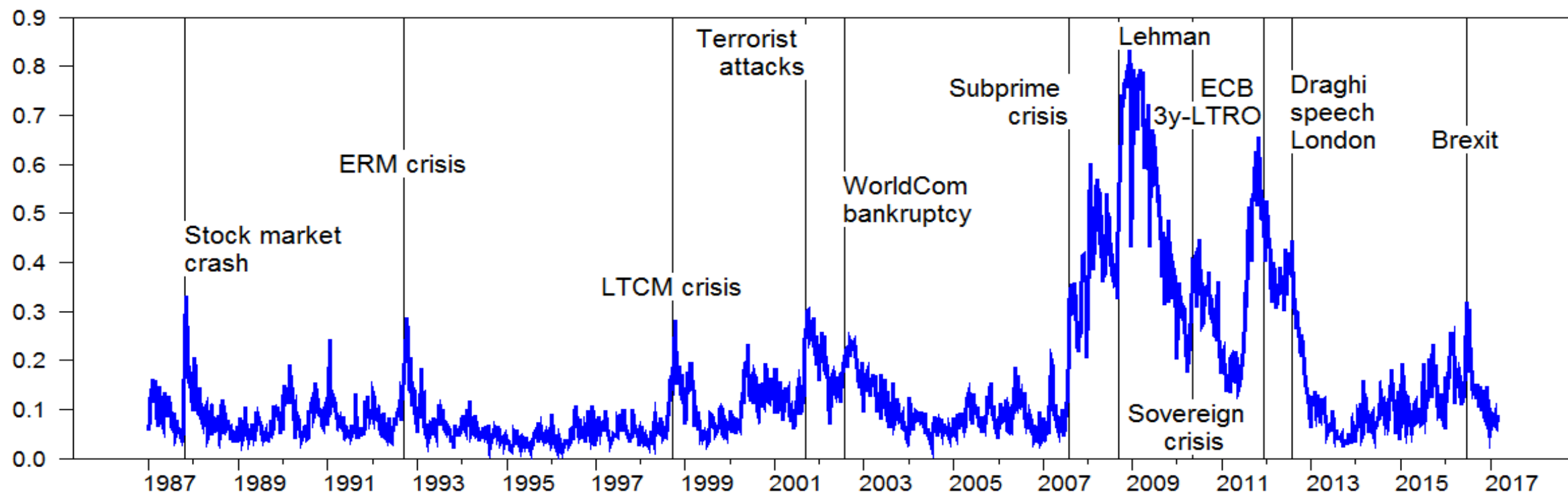


Source: ECB Statistical Data Warehouse

Economic Policy Uncertainty Index: EU blue, UK red)



CISS indicator (Compositive Indicator of Systemic Stress; ECB)



Notes: weekly data, 2 Jan 1987 to 7 April 2017.



BREXIT 2016 has weak legitimacy if one considers Cameron's info policy

- **Mrs. May has argued there is a strong legitimacy for BREXIT – this is not convincing at all...**
- 16-page info brochure of Mr. Cameron mailed to households in England April 11-13 (1 week before Treasury Study published) had not a single word on the Treasury Study findings. WHY?..
 - **normal UK government info policy – 1800 GBP per capita in UK (Treasury St.)= Remain majority**
 - **compare to Scotland ref. 2014: Cameron info for Scots that 1400 GBP income loss/per cap. IF..**
- **EU immigration issue: conjecture of Mr. Cameron/Mrs. May that EU immigration has for many years been a big burden for the UK...**
 - **Is EU referendum in the end more about British identity?**
 - **Will expectations of BREXIT voters – typically of a low education level - be correct in that the UK's global power and economic position will be better after Brexit? Cameron's Minister of Justice, Michael Gove said: people are fed up with view of experts – this, however, is an unconvincing view in an advanced Western country**

14. EU Immigration into the UK – and Bank of England Findings

- Mrs. May in the White Paper 2017 emphasized: **A decade of EU immigration burden...**
- However, OECD shows that immigrants in the UK = **net contribution to the gov. budget**
- **Employment rates of EU immigrants higher than UK average;**
- ***Bank of England: only one group of workers facing lower wages in the context of EU immigration - unskilled services worker***
- **Immigrants in the UK not only workers, but also entrepreneurs** that create new jobs (such jobs roughly sufficient to absorb all immigrants in the work force)
(US: 40% of the Fortune 500 firms were created by immigrants or first generation descendants)
- But **May government** in White Paper on Brexit (2017, Feb.): **Burden of EU immigration**

15. German Perspectives on BREXIT

- 2017 Sept. = Delay in formation of German government; ('Jamaica coalition' talks have failed), **new Grand Coalition likely, but could be unstable**
- Reinforced role of France and Macron, respectively (has good links to Trump)
- May strategy is confusing: UK exit minister David Davis in Paris in Nov. 2017 did not want to talk much about BREXIT plans – this is confusing; in early December PM May suggests in Brussels: **soft border regime N.Ireland/Ireland where Northern Ireland should maintain EU regulations** (Scotland called for similar privilege): **DUP said NO**
- Germany's government formation delays = raising the Exit Bill for the May government and brings further delays; grand coalition in Germany?
- May will push very much for a minimum deal and she might get a majority in the Parliament in March 2019 = BREXIT reality = UK will face political destabilization and have serious problems in cooperation with EU27 which has its own serious problems
- Extension of UK participation in EU27 (May's proposal: Florence speech) is a problem for Germany as 2021 there will be national elections in Germany

16. Transatlantic Perspectives

- **UK traditionally (1973-2016) the EU country that would be the US voice** at the EU negotiation table – will this be France or Germany (with Germany there could be a dispute about Germany's high current account surplus)?
- **UK for US multinationals/big banks as a gateway to the EU single market; US foreign investors stand for 7 percent of UK output**, US banks in London very strong; with single EU passport of banks the City of London is banking center for EU28 – highly unlikely that this would still be possible in the future/BREXIT
- **Crucial for US governments 1973-2016: UK+Germany+Denmark+the Netherlands = pro-free trade group** in the EU that helps to prevent protectionist policy of Europe – how important this perspective is for President Trump is unclear

Mrs. May's Government Weakened after Snap Election 2017/Irish Problems

- She needs the support of the Democratic Unionist Party (Northern Ireland); **looks strange for Ireland which fears that neutrality of British government in regard to political developments in Northern Ireland is gone**
- **There is a potential new/post-BREXIT Irish conflict that initially had been solved with the help of the US President Clinton** (Good Friday Agreement, signed in 1998; UK/Ireland and the second element was an agreement between the parties in Northern Ireland)

17. Some Global Britain Problems

- **US under Trump in favor of protectionism and bilateralism;**
- **US is undermining multilateralism: BIS and WTO (and...); *undermines UK's Global Britain approach of many more new British FTAs***
 - ***The UK will look for support from other countries in order to maintain WTO – what the Trump Administration wants is unclear/pro-protectionism; in 2017 it has stopped TTIP and TPP, it has restarted the NAFTA negotiations to GET A BETTER DEAL – this is possible, but it undermines the willingness of partner countries to consider long-term cooperation with US as Trump's opportunistic behavior creates a new confidence problem on the side of US partner countries (US NATO leadership less credible, can cause many new international problems – costly for the US; lack of US REALISM)***
 - ***Part of Leave Campaign in the UK has argued: UK could be a renewed Commonwealth leader***

Quote from Dean Acheson (retired US Secretary of State, 1962...)

Commonwealth approach of Leave Groups leaves open obviously two questions:

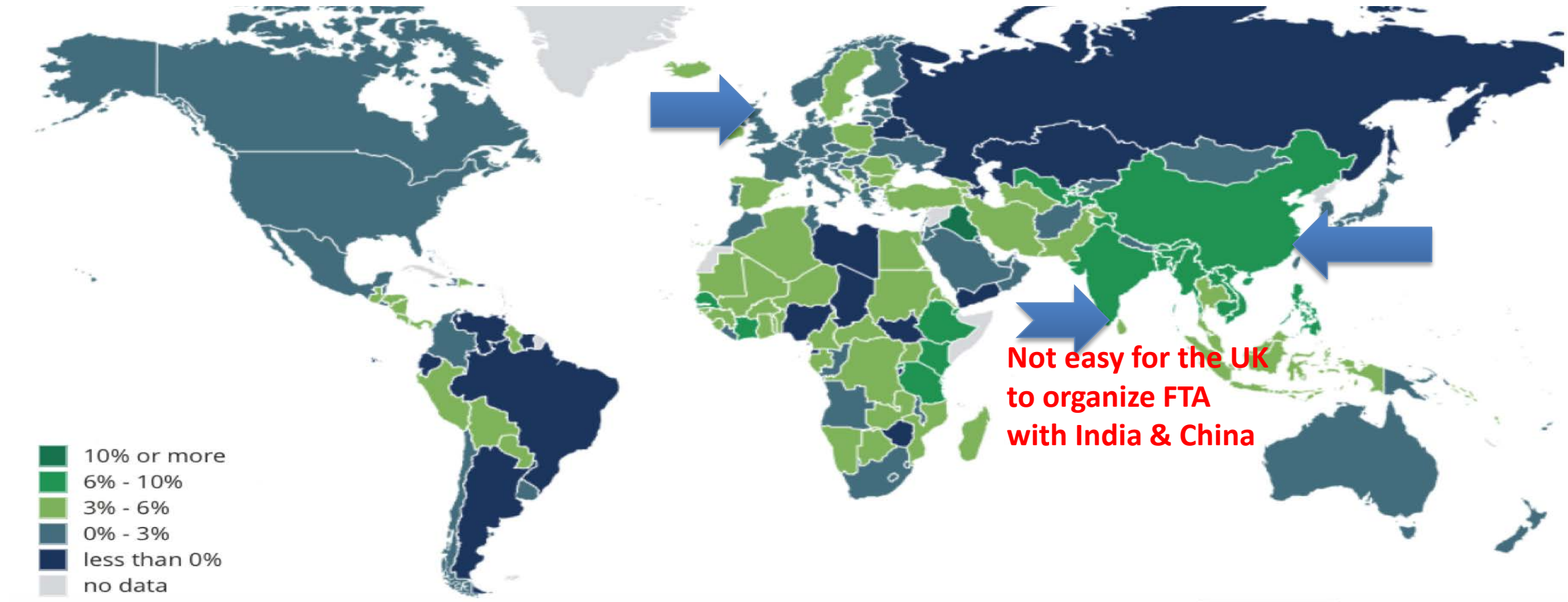
- Will a new Commonwealth strategy of the UK be welcomed by other Commonwealth member countries?
- Could a new British Commonwealth strategy create major benefits for the UK?

An old answer from the US (1962) is an adequate answer after BREXIT referendum:

“Great Britain has lost an empire and has not yet found a role. The attempt to play a separate power role apart from Europe, a role based on a „special relationship“ with the US and on being the head of a “commonwealth” which has no political structure, unity, or strength – this role is about played out.”

Dean Acheson, former US Secretary of State, in a famous speech at West Point, 1962

Global Growth Map (change of real GDP in percent; 2016); UK>Eurozone before 2017; UK seeks FTA with countries with high growth...possible?



18. David Davis' long list of potential new FTA partners

- US – ok
- India – will not be easy to achieve: **issue is visas for more Indians working in UK**
- China – very doubtful = phasing out much of UK manufacturing industry; Hong Kong...
- New Zealand, Canada, Australia: yes, but economically of limited importance
- Japan (low priority) – EU2017 has negotiations with Japan; considerable progress

CAN GLOBAL BRITAIN approach easily generate new growth dynamics so that BREXIT economic pain will not be felt? Probably NOT

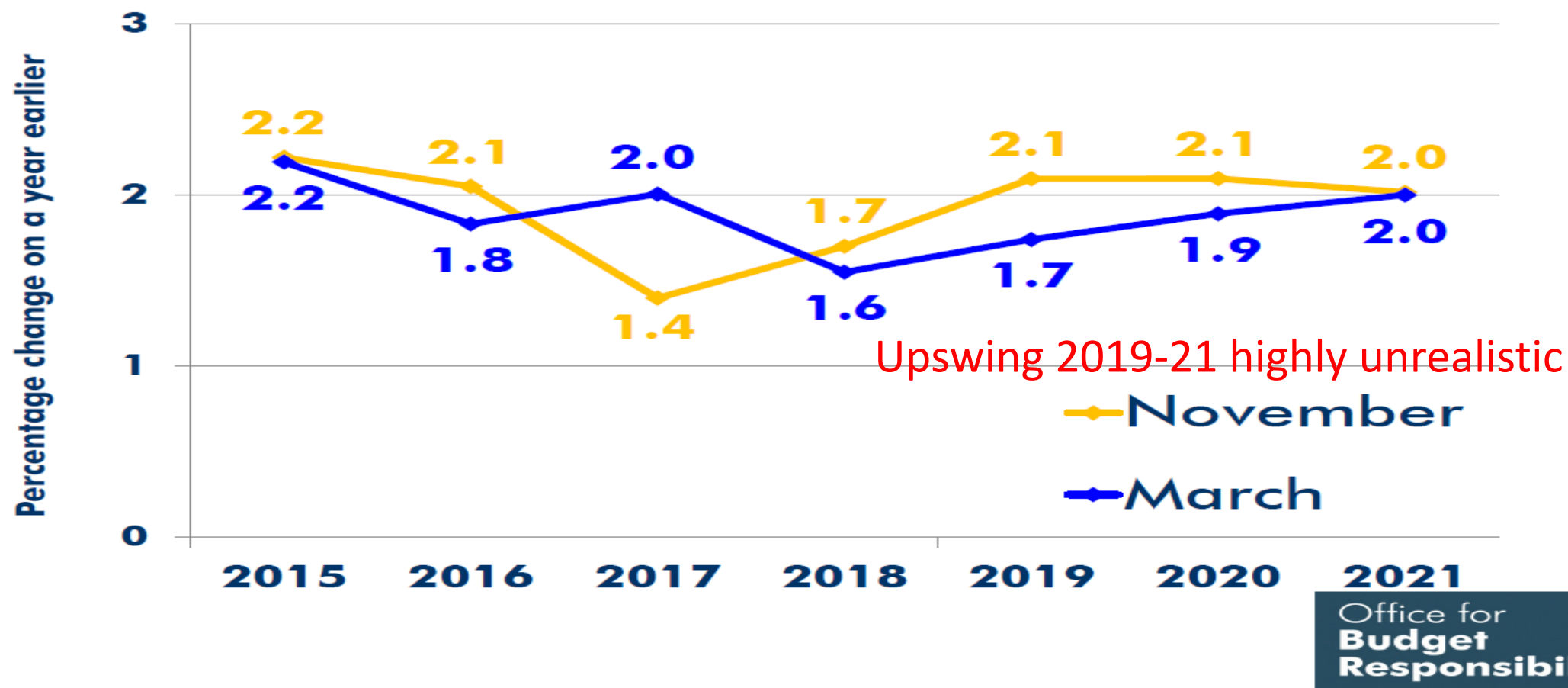
More on the UK Perspectives: BREXIT means which Brexit?

- **1) hard BREXIT** = 2019 exit without customs union/EU single market membership; worst case is WTO default position
- **2) soft BREXIT**
 - **bilateral agreements, some UK contribution to the EU budget** in exchange for sectoral free trade agreements –
 - **plus possibly equivalence agreements for banks in the field of EU regulation** so that banks in London enjoy the privilege to access the whole EU financial market from the UK
 - **special agreements for UK/Ireland border regime in Northern Ireland;** and credible agreement among parties in Northern Ireland to stick to the 1998 Good Friday Agreement (brokered in part by US President Clinton)

UK Economic Growth Perspectives

- **With almost 3% inflation rate in 2017, real income growth of workers is weakening;** and trade unions are weak in the UK. Hence consumption growth will decline
- With political uncertainty in the UK continuing and very difficult negotiations between the UK and the EU27, the **British growth rate will decline 2018/2019** (despite the real devaluation of the Pound - **raises net exports in the medium term, but makes imports of high-tech/knowledge-intensive products more expansive for UK exporters which thereby face declining international competitiveness** in the long run)
- **Net immigration from EU countries will decline due to uncertainty** of the status of immigrants – and due to the anti-immigration rhetoric in the UK; weakens UK growth
 - **immigrants are not only workers, they also are entrepreneurs** (in the UK have created more jobs than there are immigrants); in the US 40% of the Fortune 500 firms were created by immigrants or first-generation children.
 - **Return to nationalism is linked to Banking Crisis which showed to the people in the EU** that **only national governments** can act/are powerful enough to prevent disaster

19. Revisions: UK Annual Real GDP Growth Forecast (March 2017 vs. Nov 2016)



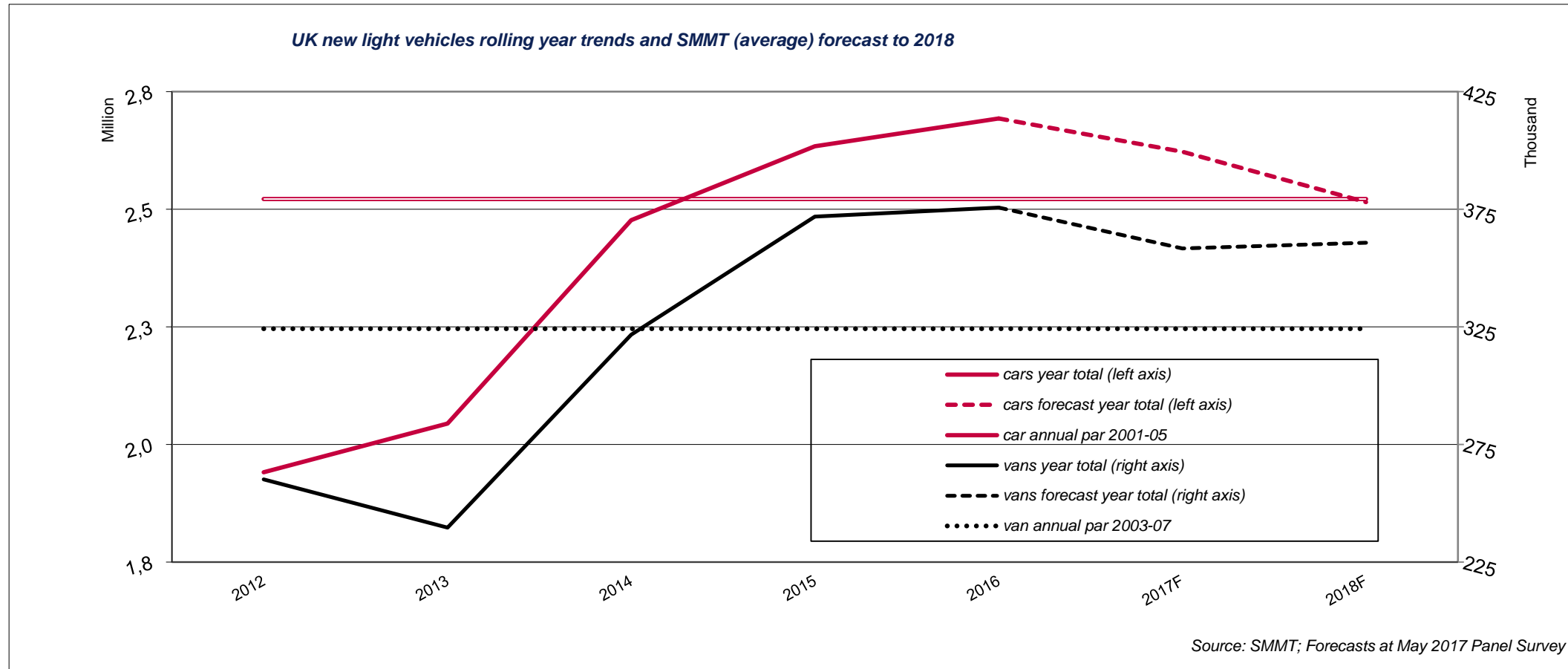
Source: Office of Budget Responsibility, Economic and Fiscal Outlook, March 2017

OBR's 2020 GDP Forecast 2017 v. 2015: BREXIT Effect Negative

THE UK'S DECREASING 2020 GDP FORECAST



SMMT April 2017 forecast UK new car and van registrations 2017 - 2018



Source: Society of Motor Manufacturers and Trades (SMMT), Forecast new car and van registrations, April 2017

20. The UK and the US

- Trump Administration will support UK and UK seeks US BREXIT support from US
 - **US-UK FTA in 2019 = ¼ of a TTIP project** (US exports to UK=1/4 of US exports to EU28)
 - UK will have to seek a new international role and a new role in Europe; US: UK should follow the US
- **US undermining multilateralism which undermines Global Britain project**
- US is losing EU pro-free trade **quadruple group UK-Germany-Netherlands-Denmark**

The UK and the US

- UK no longer the US voice in Brussels; US likely to use Germany as a main partner in the EU: **will reinforce fear of German-dominated EU in Europe**
- NATO could be more difficult to organize if EU27 countries reinforce military cooperation (and joint policy efforts/cooperation) that so far have met resistance by UK
- US will follow UK in reducing corporate tax rates; UK will follow US policy of banking deregulation – not least due to reduced output growth in the US 2018-2020 = in t+x **the next Transatlantic Banking Crisis in a few years**; *could be avoided only if the EU27 and the UK agree upon joint regulation of banking and financial markets in Treaty; not very likely*
- *While stricter regulation is in place in 2017 than in 2007 in Western OECD countries there could be strong **roll-back (deregulation) in US/UK: Strong European deregulation wave would be the result**; a new big transatlantic banking crisis could emerge: Could be bigger than 2007-09; could undermine democracy in the West!*

BREXIT as a Problem for the UK, Europe and the US (the West)

- **Slow growth in the UK will stimulate government to adopt a new banking deregulation** wave (+ lower corporate tax rates) in 2019
- **US already has started to dismantle the Dodd-Frank Act in 2017** under Trump Administration
- **US-UK banking deregulation will generate high pressure for parallel banking deregulation in the EU** (see ARTUS/VIRARD, 2006 explaining the mechanism)
- **Excessive banking deregulation in the West** will generate the Next Western Banking Crisis (NWBC) – the cost of which could exceed that of the crisis of 2008/09
 - Role of IMF with FSAP (Financial Sector Assessment Policy) and of BIS (Bank for International Settlements/Basel III Rules) not strong enough to maintain adequate prudential supervision for big banks – certainly not if Trump Administration weakens BIS
 - Avoiding BREXIT thus would have considerable benefits for the West/world economy

21. Vicious circle from “foreign” (US&UK) banking deregulation

Excessive banking deregulation = banking crisis 2007/08 = in UK new Cameron anti-immigration rhetoric = BREXIT

BREXIT dynamics will lead to new banking deregulation

UK deregulation + US dereg. (weakening Dodd-Frank Act) = next banking crisis in Europe

2018/2019 critical transition years

- Considerable political uncertainty in UK;
- After 2017 - and elections in France and Germany - new EU reforms likely
- High likelihood that the EU-UK treaty will not get a majority in the British Parliament in March/April 2019 - default is “WTO BREXIT”
- **WTO-BREXIT could cause a high devaluation and high financial market volatility; Liquidity problems in EU27 as certain specialized financial services from UK (dealing with risk and special services for SMEs) are no longer easily available in EU27**
- (EU27 faces need to encourage in 2017/2018 the creation of new services in the Eurozone; will Germany/France/other EU countries launch an adequate initiative? Germany's Ministry of Finance not really on a cooperative path with France so far; Berlin afraid of increasing French economic influence)

Legal Aspects Matter

- **European Court of Justice (May 2017): Free Trade Agreements EU-X based on European Parliament** – only portfolio investment rules and investor dispute settlement needs national (and regional) parliaments' approval: **Could make EU-UK FTA easy (although portfolio investment is a field relevant to London banks...)**
- **Is BREXIT the start of EU disintegration** – leading Europe back to the late **19th century?** (+ China & US): Rather likely unless adequate national and EU reforms are undertaken

22. May's Global Britain Approach – Will It Work?

- **Global Britain approach (David Davis in 2016; Premier Cameron Feb. 2017)**
 - **Use new political freedom after 2019 to engage in many new Free Trade Agreements** = higher growth for the UK = not feeling any BREXIT pain
 - **British exports are almost 13% of UK GDP, exports to US are about 3% of GDP**
- **Can the Global Britain approach of May government work? Not really**
 - **FTA with US and Japan; YES; *but not with India* (visa issue) or *China*** – (British industry would collapse)
 - **With weaker EU single market access and some sectoral EU-UK FTAs, minimum value-added requirements of 60% for UK will undermine British export position in EU/world**
 - **Relocation of banks etc. from London to the EU27**, as from 2019 the banks in London without an EU-Passport can no longer serve the EU market from the UK; US, Japanese and British banks (banks from London) will transfer activities to the EU27

Weakening of Multilateralism; Multilateralism = making the small big and the big (countries) civilized said the WTO Secretary General in late 2016

- What effects will **BREXIT** have on **regional integration areas and multilateralism** in the global economy (e.g. **Mercosur, ASEAN and others**)?
Weakening of other regional integration clubs – ASEAN, following EU example, has started single market 2016
 - As regards multilateralism, here the US Trump Administration enters the picture in a negative way
 - If there is **weakening of Mercosur or ASEAN or EU, there could be more regional conflicts and higher military expenditures** in many countries (including UK and some EU countries) and hence lower growth of per capita consumption
 - UK might benefit from an EU28 free trade agreement (ie with Japan – **the latter being more interested in FTA with the EU after President Trump has announced that TPP is dead.**

23. Current EU Is Unstable

- **Why do European elections with an EU mini budget (1 percent of GDP) nurture political radicalism in Europe?**
 - 1) some Eurozone problems still lingering on
 - 2) basic idea is that the supranational policy layer should not assume responsibilities where the EU member countries could do the “job” themselves = principle of subsidiarity; STATIC VIEW...
 - *voter turnout at EU elections has been strongly declining over decades = weak intensity of EU political competition = weak efficiency of supranational policy process*
 - *Forschungsgruppe Wahlen (political sciences/voting behavior expert group) found that German voters understand the topics at Germany's regional and national elections, but have no idea about the EU competences/topics and therefore indicate a rather high willingness to vote for radical small parties at European elections (recall: 7 percent for right-wing populist AfD in 2014; in UK and France radical parties were winners at European elections, namely UKIP and Front National): More public expenditures and fiscal policy at EU layer could help to overcome the problems of voter confusion*
 - *Theory of Fiscal Federalism suggests that infrastructure exp., defense, some redistribution should be at the supranational level; will Germany/France launch an initiative in this direction in 2018? NO?!!!*

Current EU Setting ...

- **Means that EU becomes source of political radicalization/expansion of populist parties** in France, Germany and other countries
- **Eurozone unable to have an efficient stabilization policy:** IMF says that 1% GDP shock in the USA and the Eurozone will have a reduction of consumption in the Eurozone that is 3 times as high as in the US
- **EU countries unable to cope with China challenge**
 - **FDI asymmetry:** e.g. China's FDI faces almost no restrictions in the EU, but EU firms in China face considerable restrictions with respect to majority ownership; EU Commission should become much more active
 - Major sectors in Germany dissatisfied with EU trade policy – “very weak“, lobbying in Berlin for a more nationalistic foreign trade policy which in turn undermines the EU; in France a similar line of reasoning is likely – **this, however is not success-promising strategy for the EU to be a leader in economic globalization**

24. Conclusions for 2019

- 2019: my view: **NO majority in the British Parliament** for Treaty 1 (Exit Bill) and Treaty 2 (UK access to EU single market); **UK new elections** in spring 2019 = labor government wins
 - **EU-UK customs union could result from this**; problem with immigration in the EU unsolved
 - **Massive Pound appreciation**
 - **Not excluded: referendum II on EU membership**; UKIP returns, crisis of the Conservative Party
- **Alternative is BREXIT implementation:**
 - Could lead to second Scottish independence referendum: Remain or joining the EU
 - New problems in Ireland
 - UK GDP reduced by about 0.6 percent for a about a decade, EU GDP reduced by about 0.1 p.
 - China and Russia will strongly benefit in the global power game (EU27=4/5 of EU28); other EU countries could follow the BREXIT path

A Historical Note on European US Political Relations

- The US has supported EU integration over decades – good for Europe, good for the US
- **This tradition seems to be interrupted by Trump Presidency**
- 1953: Jean Monnet as the president of the European Coal and Steel Community (founded in 1952: forerunner of the EU) visited the US – and was welcomed by President Eisenhower; Mr. Juncker, the EU Commission President declared in 2017 that he will visit the US but was not sure that the US president would meet him...
- **The EU Commission should adopt crucial reforms**, but the initiative will have to come from Germany/France/Italy – **Merkel & Macron** could launch a new initiative?? With BREXIT and a rather ineffective Trump Administration plus lack of EU reforms = **crisis of the West:**
- **2019 will be decisive year: 100 years after Versailles, year 1 of BREXIT, new president of the ECB and year 3 of western confusion**

Many thanks for your kind attention

- Book „An Accidental BREXIT“, London: Palgrave
- more in EIIW paper No. 238; and paper No. 234,
www.eiiw.eu
- 2015 = 20 years of award-winning research at EIIW

Appendix 1: EU Commission Forecast for UK (Jan. 2017)

• Indicators	2015	2016	2017	2018	2019*
• GDP growth (% , yoy)	2,2	2,0	1,5	1,2	1,0
• Inflation (% , yoy)	0,0	0,7	2,5	2,6	2,2
• Unemployment (%)	5,3	4,9	5,2	5,6	6,0
• Public budget(% of GDP)	-4,4	-3,4	-2,8	-2,5	-2,9
• Public debt (% of GDP)	89,0	88,6	88,1	87,0	88,2
• CA balance (% of GDP)	-4,3	-5,0	-4,8	-3,9	-3%
• UK Office for Budget Responsibility has much more favorable view 2018/2019					

Appendix 2: Main Arguments; a) for Leave (MIX, 2016)

- the EU has eroded national sovereignty by shifting control over many areas of decision-making from national leaders to Brussels;
- **the EU lacks democratic legitimacy and accountability** because many of its decisions are made behind closed doors by non-British and/or unelected officials;
- EU bureaucracy and regulations stifle the UK's economic dynamism;
- the UK would be better off freed from the EU's rules and regulations and able to focus more on expanding ties to growing and dynamic emerging economies elsewhere;
- **the UK's contributions to the EU budget are too expensive (0.4% of UK GDP)**
- **high levels of immigration** to the UK from Central and Eastern Europe mean fewer jobs and lower wages for British citizens; and
- Brexit would have a minimal effect on security cooperation and defense issues because the UK would remain a leading member of NATO.

b) Main Arguments for Remain

- **membership is essential for the UK's economic fortunes, as half of the UK's exports go to the EU "single market";**
- **EU membership serves as a launchpad for the UK's global trade;**
- Brexit would mean losing out on the benefits of the prospective U.S.-EU comprehensive free trade agreement, **the Transatlantic Trade and Investment Partnership (T-TIP);**
- the EU has many shortcomings, but the UK is "better off fighting from the inside";
- EU membership gives the UK a stronger voice and more influence in foreign policy;
- the EU has important transnational security dimensions, and Brexit would "divide the West," weakening its ability to deal with threats such as terrorism and Russian aggression; and
- Brexit is a "leap in the dark," with uncertain consequences and no clear vision of what a post-EU future would look like"

Cameron Negotiation Results – February 2016

- The UK would not face the obligation to cooperate in the EU under its traditional mantra of “an ever closer union” – a wording found in the Treaty of Rome in 1956. To some extent this revisionist position of Mr. Cameron is strange, since joining the EU in 1973 meant, of course, subscribing in some way to this historical motto regarding EU integration, while prospects for the twenty-first century – with ongoing US dominance, soon shared with China – will make closer European cooperation in many fields really useful.
- The EU assured that the decisions of the **Eurozone would not amount to a discrimination of interests of non-Eurozone EU member countries** (here, the UK certainly felt some political support from Denmark, Sweden and some Eastern European countries. The Eurozone has experienced serious problems in the Euro Crisis foreseen by this author with regard to Portugal, Spain, Greece and Italy in the book manuscript *Transatlantische Bankenkrise*/Transatlantic Banking Crisis in October of 2008. Not anticipated by the Commission, national governments or experts.

Cameron Negotiation Results – February 2016 contd.

- **Reinforcing the EU single market: digital, energy, services**
- The EU agrees that improving international competitiveness is an important task and that the EU regulatory burden should be reduced; it is, however, not clear what the EU could really do – beyond leaner regulations in some fields – to improve international competitiveness, since the power to set national framework conditions for the business community and to finance innovation support schemes lies primarily with EU member countries themselves - not with the EU.
- **The UK should get the right to exclude EU immigrants in the UK from full access to the British social welfare system for several years.**

Post-Referendum Economic Developments in the UK

2016:

Devaluation

Real estate prices fell

2017/18:

Inflation rises

Real wage rate falls

Positive trade balance effect

Employment rises

Output rises

Investment-GDP ratio falls

GDP growth falls

Bargaining for higher wages

Real wage rate rises

Employment falls

2019 Brexit:

US-UK mini TTIP

Output growth rises

UK getting more dependent on US

UK-EU trade falls, FDI inflows

Lower output growth in UK and the EU

Higher budget deficit

Inflation rises

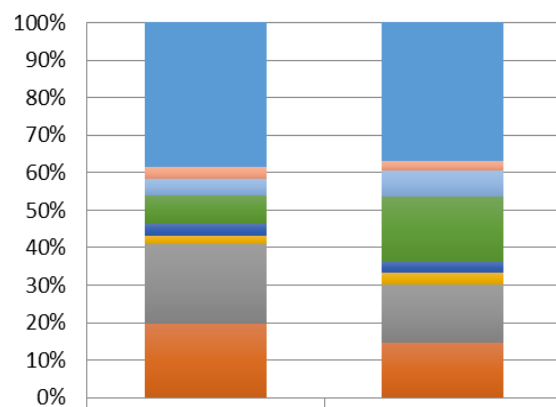
Rising financial market volatility

UK Government Review of Competences (Recurring themes)

- Subsidiarity and proportionality crucial to EU competence in all areas
- A need for greater democratic accountability of EU institutions
- ECJ had too wide a scope over the interpretation of competences
- Accountability could be improved by giving national parliaments a greater role
- Contributors also commented that the UK has often been successful in shaping the EU agenda including UK's influence in directing reforms of the enlargement process
- Other reports highlighted how EU programs benefit the UK including funding opportunities offered by the EU for UK universities in light of the importance of education as an export industry to the UK.
- But respondents also called for further progress in many areas. The need for less and better EU regulation was a common theme in all reports
- Importance of the EU focusing on the areas where it adds genuine value

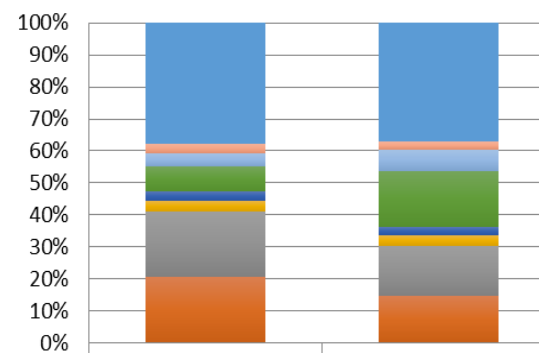
UK and EU27 in the World (GDP in Percentage of World PPP and Population)

**GDP in Percent of the World
PPP (Current International Dollars)**



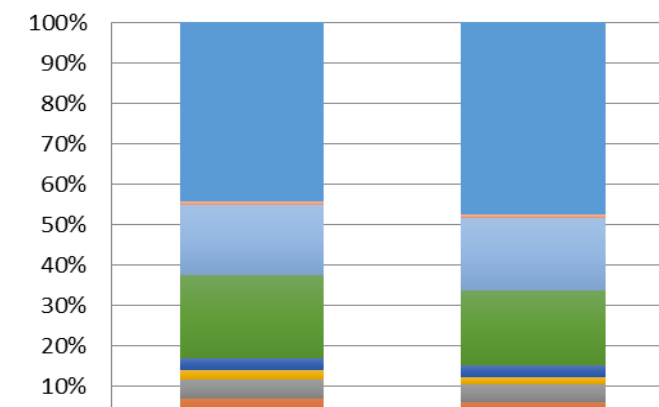
	2000	2015
Rest of the world	0,384284805	0,370242209
United Kingdom	0,031717584	0,023810925
India	0,043559422	0,070029499
China	0,076629087	0,173486138
Brazil	0,03259953	0,028008183
Russian Federation	0,020701713	0,031343429
United States	0,212788741	0,157921176
European Union excl. UK	0,197719117	0,145158442

**GDP in Percentage of the world
PPP (Constant 2011 International
Dollars)**



	2000	2015
Rest of the world	0,377207391	0,371867909
United Kingdom	0,030883581	0,023272514
India	0,042258977	0,069686145
China	0,074341363	0,172635537
Brazil	0,031626287	0,027870859
Russian Federation	0,032770769	0,032453473
United States	0,206436037	0,157146891
European Union excl. UK	0,204475596	0,145066672

**Population
in Percentage of the World**



	2000	2015
Rest of the world	0,44263462	0,473867549
United Kingdom	0,009630128	0,008866406
India	0,172265664	0,17845597
China	0,206468236	0,186646045
Brazil	0,028744672	0,028291535
Russian Federation	0,02397153	0,019613993
United States	0,046139315	0,043750493
European Union excl. UK	0,070145835	0,060508008

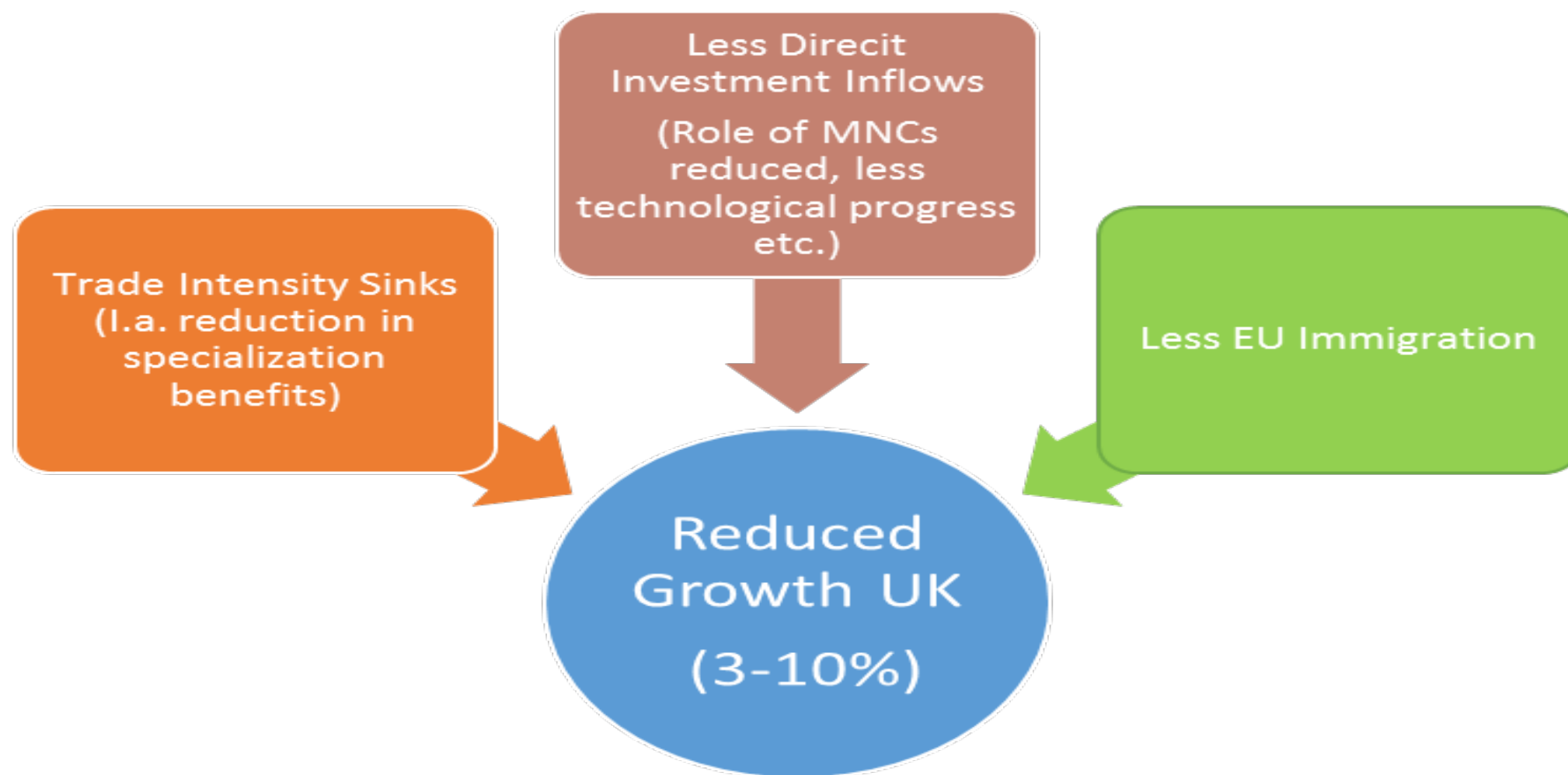
Source: World Bank, World Development Indicators, retrieved on 09.01.2017 17:08

The GDP Share Generated by US Subsidiaries in Europe (and Selected European Countries)

Country	2009	2010	2011	2012	2013	2014
EU	3.00%	2.98%	3.01%	3.22%	3.01%	3.16%
France	1.94%	1.90%	1.91%	1.87%	1.87%	1.94%
Germany	2.55%	2.50%	2.46%	2.36%	2.36%	2.47%
UK	6.58%	6.31%	6.09%	5.84%	5.84%	5.75%

Source: BEA database and WDI database. EIIW calculations: note, data is taken from all Majority-Owned Bank and Non-Bank

BREXIT-Effect Channels Reducing Real Income in the UK



Actual and Adjusted Results Based on an Adequate Information Policy by Cameron

	Actual Result	<u>Simulation I Corrected Result</u>	<u>Simulation II Corrected Result</u>
		Basis Info: -6% real income with BREXIT = minimum information from Cameron government which one should expect to receive as a voter from the HM Treasury analysis.	Key info from the Treasury study: -10% growth effect (-6% plus -4% as a result of non-participation in EU Single Market deepening due to BREXIT) plus effect of 3 percentage point increase in income tax
UK Remains in the EU	48.1%	50.4%*	52.1%*
UK Leaves the EU	51.9%	49.6%*	47.9%*

(*Calculated on the basis of popularity elasticities in Frey/Schneider "A Politico-Economic Model of the United Kingdom")

Weak Aspects of the Referendum Campaign

	Voter Mobilization	Voter Winning
Timing of the Treasury study on the costs of BREXIT – Totally Inadequate	0	Very Low
Pro-EU argumentation	Weak	Weak
Consistency	Low	Medium
Mobilization of government	Low	Medium

27. JOHNSON Wisdom: Sept. Boris Johnson Op-Ed in the Daily Telegraph (ca. 4,000 words)

“Well, in so far as they doubt our resolve, I believe they are wrong; and I am here to tell you that this country will succeed in our new national enterprise, and will succeed mightily. Those 17.4 million people – they weren’t fools, you know. They weren’t stupid. They weren’t as bad as some would have you believe. They were right; and even if you think they were wrong, I hope you agree that it is our duty, as democrats, to fulfil the mandate they gave us.”

Seen as putting PM Theresa May under pressure from BREXIT hardliners within her cabinet – influencing May’s Florence speech days later on September 22, 2017.

BREXIT Effect on UK Median Incomes (based on EIIW working paper No. 234)

Table 1: UK: Median equivalised¹ disposable household income by quintile, 1977-2015/16, UK (2015/16 prices²) in year ending 2016
£ per year (2015/16 prices)

Quintile groups of all households ranked by equivalised ¹ disposable income				
	Year	Bottom	2nd	3rd
	2015/16	13,586	20,007	26,332

Source: Office for National Statistics

BREXIT loss (cumulated)	15.80%	2,146.59	3,161.11	4,160.46
Disposable household income				
After BREXIT loss effects		11,439*	16,846	22,172

Notes:

1 Income figures have been deflated to 2015/16 prices using the consumer prices index including owner-occupiers' housing costs (CPIH).

***** if £ 200 is the income loss for the lowest income group in BREXIT year 1, this is equivalent to a 1.5% real income loss and a loss of similar magnitude would occur in BREXIT year 2, followed by somewhat smaller percent income losses in the following years.