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- Prime Minister May's Article 50 letter is lacking legitimacy
- Cameron/May claims on the immigration burden were perfidious
- Historical but flawed referendum can only lead to a political debacle in the UK

British BREXIT Letter: Lacking in Legitimacy and Economic Reason

Just a few days after the 60th anniversary of the signing of the Treaty of Rome, Prime Minister May sent the letter officially notifying Brussels of the UK's intention to leave the EU. Theresa May has said she wants a hard BREXIT and that the majority which voted for Leave in the referendum on June 23rd, 2016, gives the process a high-level of legitimacy. The latter argument, however, is clearly questionable – in the 16-page information brochure, the Cameron government concealed the findings of a Treasury study which found that an exit from the EU would lead to a loss of real income of up to 10%. By applying well-known popularity functions for the UK, which show the relationship between income growth and government popularity, a standard information policy on the side of the Cameron government would have resulted in a 52.1% majority for Remain. From this perspective, the 23rd June referendum is flawed – particularly so, as prior to the Scottish Independence Referendum in 2014, the Cameron government informed voters that a vote for independence in the referendum would mean a loss in income of £1,400 per capita. Before the EU referendum, however, not a single word on the even higher threatened per capita income losses was included in the information brochure which was sent to households across the UK.

A referendum without an orderly information policy – especially with a result as close as 51.9% for BREXIT – has no legitimacy, nevertheless the May government has used the referendum as a starting point to energetically follow a policy of withdrawing from the EU, i.e. for the UK to leave the EU in 2019 after more than forty years. The economic situation for the UK in 2016/2017 is not particularly bad, as a strong devaluation of the Pound and a soaring stock market in the US, which also pushes the FTSE in London higher, is stabilizing Gross Domestic Product in the UK. However, with a raising of the inflation rate by 2 percent in 2017 – compared to 2016 – real income will fall, and in 2018/2019 British real income will grow at a slower pace than previously. The announcement by the May government that it would seek to achieve more growth from 2019 by concluding a number of free trade agreements, under the heading of 'A Global Britain', will not work. Exports to the US, which represent about 2% of GDP, pale in comparison to British exports to the EU – which account for more than 12% of GDP – even in the event of a slight rise as a result of a US-UK mini-TTIP agreement. The United Kingdom will have to pay substantial exit costs of €40-50 billion, or about 2% of GDP, as the UK will have to foot the bill for the pensions of British EU officials and for EU projects which are ongoing and which will continue after 2019. One cannot assume that the UK will still be part of the EU in mid-2019 when elections to the European Parliament are due to take place.

Thus, the claim made by Chancellor of the Exchequer Hammond in presenting his March budget to the House of Commons, that he had £26 billion in reserve in order to finance an expansive fiscal policy without difficulty, is a misleading assertion. The model of the Office of Budget Responsibility (OBR), which Hammond used to support his figures, is neither a modern DSGE model, nor does it facilitate the modelling of the BREXIT-related problems facing the UK, in particular the significantly inhibited access to the EU single market after 2019. The rising growth between 2018 and 2021 as forecast by the OBR is extremely doubtful.

With the flawed referendum in June 2016, the UK is succumbing to a historical error and indirectly rejecting international cooperation in Europe – at the same time, damaging the very concept of integration in the world economy. BREXIT also indirectly destabilizes other regional integration clubs, such as Mercosur in Latin America and ASEAN, which since 2016 has established a single market modelled on the EU.

The claim by Prime Ministers Cameron and May – including in the British government's White Book on exiting the EU in 2017 – that the UK was overburdened by EU immigrants is an absurd assertion: In Chart 5.1 of the British government's White Paper, it is shown that for over a decade it was not EU immigration which dominated net migration dynamics, but rather immigration from non-EU countries. Furthermore, the OECD has shown that the EU immigrants have a positive net effect on the UK's state coffers, meaning that EU immigrants contribute to financing infrastructure and investment in education and schools for British citizens. Here, the British and European public are being treated like fools – this is far removed from the words of Sir Francis Bacon, one of the founders of the British tradition of rationality in the Middle Ages, who argued that political and scientific claims must be supported by some kind of statistical evidence in order to be taken seriously. Of course, the EU also needs urgent reforms in order to cope with the challenges of the 21st century. However, the UK should move away from dishonest and insincere politics, or face its own disintegration – at least in terms of a pro-European Scotland and the rest of the Kingdom, not to mention the fate which could await the Conservative Party.

Forthcoming: Paul Welfens, An Accidental Brexit, London: Palgrave Macmillan