

Prof. Dr. Paul J.J. Welfens, President of the European Institute for International Economic Relations at the University of Wuppertal Jean Monnet Professor for European Economic Integration; Chair for Macroeconomics, (Rainer-Gruenter-Str. 21, D-42119 Wuppertal; +49 202 4391371), Alfred Grosser Professorship 2007/08, Sciences Po, Paris; Research Fellow, IZA, Bonn; Non-Resident Senior Fellow at AICGS/Johns Hopkins University, Washington DC

Welfens has testified before the US Senate, the German Parliament, the European Parliament, the European Central Bank, the IMF, etc. Welfens is one of Europe's leading economists and the author of An Accidental Brexit, London: Palgrave, September 2017

welfens@eiiw.uni-wuppertal.de , www.eiiw.eu

filename: BREXITus2017

EIIW 2015 = 20 years of award-winning research



September 18, 2017, based upon a presentation at Georgetown University (September 12)

BREXIT Analysis: Distorted Majority, Fake News about Immigration Burden, Dim Prospects for Global Britain Approach, Weakening Europe as Problem for the US

- 1) The result of the British EU referendum of June 23, 2016, was 51.9 % for BREXIT. The expected 'fair' result, however, would have been 52.1% for REMAIN – namely if the Cameron government's information brochure (16 pages, sent to all households in England April 9-11) would have mentioned the key finding of the Treasury Study that BREXIT would mean a -10% real income effect in the long run: -6% from weaker EU single market access in the future and a -4% non-realized gain from the enhanced EU single market implementation that Mr. Cameron had obtained in negotiations with the EU. Using standard UK popularity functions, which show the link between output growth and government popularity, suggests that the inclusion of the income loss figure in the 16-page information brochure would have resulted in a clear REMAIN vote. This information blunder is very strange, and this all the more since the Cameron government had, in the run-up to the Scottish Independence referendum in 2014, clearly informed voters that every Scot would lose £1,400 Pounds in the case of independence – and all the benefits from British EU membership. The income loss of BREXIT according to the 2016 Treasury analysis amounted to £1,800 Pounds per capita, yet this info was suppressed in the information brochure.
- 2) There has been an intensive debate about EU immigration which Mr. Cameron portrayed as a major burden for the UK. However, the OECD has shown that immigration in the UK brings net benefits for the British budget. This has not prevented Mrs. May – she had been the Home Secretary (interior minister) in the Cameron governments for six years – from repeating the point about the massive long run immigration burden in the White Paper of 2017 which, however, also shows a graph according to which non-EU immigration had been the dominant phenomenon. The anti-immigration rhetoric of Cameron has mainly served to create a scapegoat for the massive cuts in government transfers to local communities after the Transatlantic Banking Crisis: - 3.5 percentage points of national income within five years which brought an under-provision of local public goods; and this problem was then blamed on EU immigrants.
- 3) The May government has announced a new Global Britain strategy according to which a series of new free trade agreements (FTA) will be concluded by the UK after BREXIT and this should raise output growth considerably. Such a strategy will not deliver on promise since the only free trade agreements with major trading partners to be concluded concern the US and Japan. An FTA with India will be difficult since the Indian government will want to negotiate about both trade and easier visa conditions for Indian workers – and immigration is not popular in the UK. An FTA with China is hardly conceivable since the US will oppose this for strategic reasons and since a broad FTA would bring a sharp

contraction of UK industry. A Global Britain approach will be very difficult to implement if the Trump Administration continues undermining multilateralism, the World Trade Organization and the Bank for International Settlements et cetera.

- 4) The British EU referendum of 2016 was a disorderly - thus violating the principles of political rationality and fairness in a serious way. It is impossible to draw any valid conclusions from this distorted referendum as to what the British majority really wants in terms of EU membership. The promise of the Leave campaign that BREXIT would come at no cost or would even bring economic benefits is quite doubtful. The strong Pound depreciation - about 15% in the year since the referendum - drives up the inflation rate which has reached almost 3% in 2017 instead of the 1% or so anticipated in 2016. The Pound depreciation rate is also equivalent to a 15% loss of the British GDP share in world gross domestic product and hence the British leverage in international negotiations will reduce. The suggestions of the Leave group in the UK that the country could play a new leadership role in the Commonwealth is totally misleading: Dean Acheson already noted clear doubts about such an idea as a relevant view in his speech at West Point in 1962.
- 5) Knowledge about the EU institutions in the UK was particularly weak. In a survey by the Bertelsmann Foundation, two simple questions about the EU were put to respondents in EU countries and could be answered correctly by 81% of the German respondents, 80% of the Italian respondents, 74% of the French respondents, 53% of the Polish respondents, but only 49% of British respondents; the UK joined the EU in 1973, Poland in 2004 - lack of adequate information policy by the EU in the United Kingdom thus was part of the problem surrounding EU membership.
- 6) The EU should adopt broad institutional reforms, including stricter admission criteria for Eurozone membership and a stricter implementation of national debt brakes; plus a higher EU budget - so far only 1% of gross domestic product. The latter is a key problem since the *Forschungsgruppe Wahlen* - an expert group on voting in Germany - has shown that voters at the national election easily understand what the key political topics and fields are, while at the European elections a majority indicates that they do not understand what key policy fields are relevant at the EU level; consequently, there is a tendency to vote rather strongly for radical parties as a means to express general dissatisfaction. Those radical parties have won the European elections in the UK and France in 2014 and the radical, right-wing start-up party AfD obtained 7% in Germany. These radical parties then reinvest the reputation and EU funds obtained in Brussels into national elections so that the EU becomes a source of political radicalization in Europe and creates a self-inflicted need for a strange grand coalition in the European Parliament until that day when an anti-EU majority will dominate.
- 7) BREXIT also risks having a negative impact on the peace process in Northern Ireland and the Good Friday Agreement in particular - an agreement which was reached partly due to support from then President Bill Clinton.
- 8) With a weakening of Western Europe there will be problems for the West. In the future, the US will rely on Germany's government as a voice in Brussels, at the same time a more Germany dominated EU will not find broad political support from EU27 partners. Both the US and the EU should consider options for better cooperation, particularly in a consistent policy for foreign direct investment in China where a more level playing field is needed. Germany and the EU27 without the UK and traditional US support look like a new problem version of the Home Alone movies.

PS: About true lies in the BREXIT campaign: On September 17, 2017, Sir David Norgrove, Chair of the UK Statistics Authority, wrote a letter to Foreign Secretary Boris Johnson, concerning the alleged £350 million in weekly contributions to the EU emphasized by the latter in his pro-BREXIT campaign, stating "This confuses gross and net contributions...It is a clear misuse of official statistics". You can find the Norgrove letter on the BREXIT monitoring of EIIW, namely www.eiiw.eu