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## After Brexit: Britain ´s Future

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# After Brexit: Britain's Future

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## I. INTRODUCTION

The economy is cyclical: it goes through periods of expansion followed by periods of contraction. Technically, deceleration or economic contraction is a reduction in the growth rate of the gross national product (GNP). Economic crisis is frequently associated with all situations that negatively affect the present and future performance of the main economic variables: production, employment, investment, exports and so on. Financial crisis therefore occurs when the banks, or the monetary or financial system perform in a harmful way.

The analysis of the characteristics and consequences of the international financial crisis and their connection with Britain's withdrawal from the European Union (Brexit) alerts us to the serious difficulties and risks that the world economy is currently facing. Despite the various measures introduced to overcome the crisis, by 2016 the European economy had still not recovered; banks such as Uni Credit, HSBC and Deutsche Bank are technically insolvent, yet persist in adopting monetary and financial policies that do not resolve the high and increasing level of world debt, thus fuelling the next international financial crash.

Although economic theory holds that economic crisis is linked to a process of economic recession, the present crisis is multidimensional and therefore can only be understood through a multidisciplinary lens. Indeed, from a global perspective various types of crisis can be distinguished: financial, economic, ecological, a crisis of international governance or of thought (Roelvink and Zolkos, 2015).

In light of the above, the present article aims to examine the main causes that might explain the United Kingdom's withdrawal from the European Union and the possible consequences that it could have for Europe's economic performance. It also analyses the reasons why Britain's exit from Europe could open the way to a

series of tensions on the immediate economic, political and social horizon in Europe (Brennan, 2016).

## II. DISTURBANCES IN THE BRITISH ECONOMY

Since the beginning of the twenty-first century, several violent and terrorist related events have shocked world public opinion, marked particularly by the attack of 11 September 2001. In the following years, the United States initiated a war against terror in Afghanistan that resulted in 150,000 deaths and 162,000 injured, while the invasion of Iraq by a coalition of European countries and led by the United States caused over a million violent deaths.

In turn, the military invasion of Libya by the United States, France and the United Kingdom resulted in 50,000 deaths. After five years of war Syria is stillhaemorrhaging; 270,000 dead and five million displaced persons (Syrian Observatory for Human Rights, 2018) have left the country, together with its historical and cultural heritage, in ruins.

In Great Britain, the birthplace of the Industrial Revolution, manufacturing jobs accounted for 45% of total employment before the First World War. By 1990, following the introduction of neoliberal policies set in motion by Margaret Thatcher's government, the percentage of manufacturing industry workers had fallen to 25%. In the final decade of the twentieth century and the beginning of the new millennium, globalisation favoured industrial relocation to other parts of the world, with the result that today less than 9% of the British workforce is employed in manufacturing industries (ILO, 2016). It is noteworthy that in the period 1990–2010, Great Britain lost more than three million jobs in manufacturing industries. According to Sachs (2009), globalisation helps one part of the developing world to grow, but leaves millions of people behind.

The United Kingdom, Italy, Spain and France are the European countries with the highest numbers of foreign people living within their borders (Eurostat, 2016). Of a population of 65 million people in the United Kingdom, five million were born in a different country. Between 2009 and 2014 more than a million foreign-born people acquired British citizenship, 59% of whom were originally from Bulgaria, Poland and Romania. In 2014, 64% of the immigrants from India to the European Union obtained British citizenship. The figures for immigrants from Pakistan were 52%, from Nigeria 46%, from China 32% and from the Philippines 28%.

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In this context, United Kingdom citizens demonstrated a range of social behaviours in their decision on whether to leave or remain in the European Union (EU). The majority of the population in Northern Ireland and Scotland voted to remain in the EU, whereas the majority in England and Wales supported the leave option. By age, 56% of voters between the ages of 25 and 49 voted to stay in the EU compared with just 39% of those older than 65. The majority of young people therefore voted to remain in Europe, while older people expressed their wish to leave. In a post-Brexit Europe, young people in the United Kingdom fear that they will lose the right to live and work freely in the 27 countries of the Union: 1.2 million British citizens currently live in other EU countries (Eurostat, 2016).

One notable and pervasive aspect of the Leave Europe campaign was the call to reinstate national sovereignty; its defenders argued that European integration severely affected industrial production and employment. In England, those on the right of the political spectrum warned that immigration had negative repercussions in terms of lowering wages of local workers, driving up housing prices and making cities less safe. Immigration was at the heart of their discourse, not because it directly affects the central inland areas of the country, but because of a fear that their identity would be eroded in a similar way as in the more marginalised neighbourhoods of London, with higher rates of delinquency, poverty and immigrants (Von Rompuy, 2016).

There is no doubt that the majority decision in England to leave the European Union will have a harmful effect on the integrity of the United Kingdom as a whole, since the citizens of Scotland and Northern Ireland voted overwhelmingly to remain (Hindmoor and Taylor, 2015). There is a distinct possibility that Scotland will once again try to gain its independence from the rest of Britain. In the 2014 referendum, the Scots voted in favour of remaining in the UK, essentially because that would guarantee their permanence in the European Union. It is important to note that 62% of citizens living in Scotland voted to remain in the EU, and Nicola Sturgeon, Scotland's First Minister, stated that Scotland cannot leave Europe against the majority will of its population (Bogdanor, 2016). Now, with the United Kingdom on its way out of the EU, it is very likely that Scotland will hold a new independence referendum, with a view to rejoining the EU in the future. The Brexit result reflects a deep division in British society and has sown the seeds for a lurking polarisation that will spread across Europe as a whole (Achen and Bartels, 2016).

Most of the population with lower incomes and educational levels were also in favour of breaking the connection with Europe. The Guardian (2016) reported that the three electoral constituencies with the highest purchasing power voted to remain, while those in the

poorest constituencies voted overwhelmingly to leave the European Union.

### III. THE EUROPEAN FINANCIAL CRISIS AND BREXIT

Since the beginning of the crisis in 2007, several measures have been put in place to overcome the economic crisis in Europe: monetary expansion, reduced interest rates, zero interest rates, negative interest rates, the purchase of toxic assets; yet despite all these measures the crisis persists. The United Kingdom's decision to leave the EU occurred in the midst of a severe, prolonged international economic and financial crisis, the effects of which were felt most severely in Europe (Nicolaidis, 2013).

The Eurozone is slowly recovering, although mid-term perspectives are very uncertain (IMF, 2015). In fact, recovery of the European economy is fragile, unemployment is high and several banks have large portfolios of non-performing loans (Bank for International Settlements, BIS, 2015). Furthermore, unemployment, especially among young people, migration and the staggering increase in the numbers of people seeking refuge and fleeing from their countries as a result of war and terrorism, are all aspects that configure and aggravate Europe's multiple crises (Begg et al., 2015).

To improve the balance sheets of the banks and stimulate investment in Eurozone countries, in June 2014 the European Central Bank introduced a policy of negative interest rates. This gave private banks access to free money from the Central Bank, thus improving their financial situation and providing financial capital that, supposedly, must be invested in production activities (Massumi, 2015). However, low interest rates in the United States, Europe and Japan have favoured borrowing, and the negative interest rates have led to the devaluation of the euro due to large investors transferring their capital to other activities in the global economy. As a result, by the end of 2014 credit in euros and dollars granted to non-bank borrowers outside the Eurozone and the United States had risen to 2.3 billion euros and \$9.5 billion, respectively (BPI, 2015), and the debt in dollars outside the United States represented a seventh of world GDP (BIS, 2015).

By setting negative interest rates, saving is discouraged in order to stimulate consumption and growth; however, a further aim of this policy is to benefit companies, enabling them to obtain credit at low interest rates for investment. The problem is that individual citizens do not borrow for a very simple reason: they have already accumulated large amounts of debt. Companies, in turn, do not use the loans they are granted to improve production, generate employment and increase productivity, but rather to purchase their own shares and return the money to their owners. The IMF has confirmed that the reduction of

interest rates and other global factors has led to a fourfold increase in borrowing by non-financial companies in the main emerging markets, rising from four billion dollars in 2004 to over 18 billion in 2014 (IMF, 2015), more than the gross national product of the United States.

To solve the difficulties facing banks in the Eurozone, the European Central Bank adopted a monetary expansion policy. Between March 2015 and September 2016, it scheduled the purchase of public and private debt securities to the value of 1.14 billion euros, the equivalent of 60 thousand million euros per month over a 19-month period (Mars, 2015). This money was not invested in production initiatives that generate employment, but rather was used to acquire assets with which to speculate – real estate, bonds and equities – leading to the concentration of income and wealth, which is now in the hands of the richest 1% of the world's population (OECD, 2015).

In June 2016, a few days after the Leave campaign victory in the UK referendum, the Federal Reserve reported that Deutsche Bank and the Spanish Santander Bank were the only two out of 33 banks to fail its stress test against the risk of a possible financial crisis. Deutsche Bank shares then fell dramatically from 24 euros in December 2015 to 14 euros in November 2016. The Italian banks also required “support” for an estimated 360 thousand million euros in past-due loans. In July 2016, Folkerts-Landau, chief economist of Deutsche Bank, stated that immediate financing of 40 thousand million euros was needed to prop up the Italian bank. He also called for a bailout of 150 thousand million euros for the European banks, arguing that just as the United States had helped its banks with 475 thousand million dollars, it was now time for Europe to do the same since “Europe is seriously ill and needs to address very quickly the existing problems, or face an accident [...] It is time to change the rules” (Folkerts-Landau, 2016). In consequence, the International Monetary Fund recommended the European Union clean up bank balance sheets, increase fiscal support and introduce reforms to raise growth potential. To offset the risk of stagnation, the IMF report called for reductions in the cost of hiring workers and in “the excessive protection for workers on regular contracts” (IMF, 2016).

There is a major contradiction in the policy of the central banks: on the one hand, because of high household debt, the demand for credit is insignificant; but on the other hand, the banks have no incentive to lend due to the negative interest rates, a situation that has distorted the credit markets by driving real estate speculation (Parvin, 2018). This policy fuels a rentier culture, which directly contradicts aspirations to increase productivity and employment. In addition, the IMF's Global Financial Stability Report (2016) warns that insurance companies have become a new global

systemic risk, since at a global level they accumulate total investments of 24 billion dollars in long-term assets and securities. The fall in interest rates has increased insurers' vulnerability to the imbalances of the financial market since if the value of their assets were to fall again, they would not easily be able to underwrite their customers' savings or risks as they did in the past. The lower the interest rates, the more vulnerable insurance companies become, particularly in the United States and Europe (IMF, 2016).

a) *The development of the transition period for the United Kingdom's withdrawal from the European Union*

In legal terms, it is clear what has to be done following the official notification to leave, and that the United Kingdom must make this notification in accordance with its constitutional requirements, even though these requirements are not formally written down. The confusion lies in how the constitution will be interpreted in decisions taken during the withdrawal process. Article 50 is not ambiguous: it clearly sets out that the Member State wishing to withdraw must do so in accordance with its constitutional requirements, (mirroring the conditions set out in Article 49 of the Treaty of the European Union for accession, which uses the same expression).

The purpose of this wording is to prevent an illegal bid by a Member State to break of a commitment without appropriate internal democratic checks and balances. The parallel rationale for both joining and leaving the EU provides a robust and balanced guarantee that lends stability to international legal relations. The uncertainty surrounding compliance with constitutional requirements arises from the absence of a written constitution in the United Kingdom (Vincent, 2015). Britain joined Europe following the approval of the European Communities Act with an absolute majority in 1972, which was later modified and completed with the European Union Act of 2010. The UK Parliament cannot simply repeal the 1972 European Communities Act, since this law, as well as approving accession, provided for the direct effectiveness and primacy of European directives over internal legislation across all British administrative and judicial authorities, and allows British judges to present questions referred, among other provisions. The United Kingdom is bound to fully respect its obligations until the treaty is formally ended, and therefore the law cannot be repealed at this stage (Somin, 2016). The denouncement of or withdrawal from the treaty is performed through the same constitutional procedure by which consent was contracted to the treaty from which the State wishes to withdraw. However, if a withdrawal agreement is negotiated, the UK parliament will ratify (or not) the agreement and repeal the laws of 1972 and 2010. If negotiations fail, withdrawal will take place two years

after notification without the intervention of the British Parliament, except for the obligation to repeal membership legislation, which would be a far from democratic move by the United Kingdom. All of this would of course be possible for a British Conservative government that has no confidence in representative democracy and entrusts crucial decisions to referendums (on the modification of parliamentary election legislation to break with the two-party system, on Scottish independence and, most recently, on EU membership). It is assumed that the State will act in good faith and that it will require a reasonable period of time, but that it will not play for time in order to strengthen its negotiating position and tacitly take advantage to create division among Member States. We know who sets the guidelines (the European Council), who forms part of the negotiating team (the Commission), who gives instructions and nominates the head of the negotiating team (the Council), how the agreement is approved (twenty out of twenty-seven votes cast in favour) or how the negotiations are extended (unanimous decision), what an EU international agreement is (i.e. not a mixed agreement and therefore not requiring ratification by all member states), which needs the approval of the European Parliament, and must be connected in some way to the negotiating stage and ratification by the Member State that wishes to leave. We know that if negotiations fail, the default option for relations between the UK and the EU will be World Trade Organisation rules. What we do not know is the material or political content of these rules. Unlike traditional treaties between states, treaties signed by the EU have specifically given citizens certain rights that often modify their legal situation. What direction the conditions of the future relationship will take remains a mystery. And there are signs of logical differences among Member States regarding the options for future relations with and general attitude to the United Kingdom (Figus et al., 2017).

#### IV. CONCLUSIONS

Britain's withdrawal from the European Union will have both positive and negative global and regional consequences. The international financial crisis and Brexit have shown that the neoliberal integration discourse and model facilitate corporate prosperity for transnational companies, but seriously harm citizens' well-being. The United Kingdom's decision to leave the European Union has shaken up the neoliberal integration model that was designed to create favourable conditions for transnational capital, and that has generated profound social inequalities. Although the European Union is expected to maintain its current integration policies, revisiting the options for commercial and cooperation negotiations among countries has become inevitable in the context of Brexit.

If the European Union persists in encouraging European integration through the indiscriminate opening up of markets, it is highly likely that the space will be modified for industrial policies and deindustrialisation will be heightened in certain European countries, especially those from the former Soviet bloc, stimulating asymmetries between the EU and neighbouring regions, which in turn will fuel the intensity of migratory processes and social conflict in the Old Continent (Brown, 2015).

Brexit and the unexpected arrival of Donald Trump in the White House open the doors for a restructuring of the global economy and geopolitics. If protectionist trade barriers are raised, in the medium term exports to the United States from the rest of the world will fall, the consequence of which will be lower circulation of the dollar in the international currency markets and, therefore, depreciation of the US dollar, thus providing favourable conditions for US corporations to increase their export capacity. However, given the huge difference in salaries between emerging economies and the US economy, it will be practically impossible for sectors such as the electronics, automobile or textile industries to return to the USA, but other sectors such as robotics, new software applications, nanotechnology, biotechnology and artificial intelligence may give rise to a new international division of labour in which the USA will seek to occupy a privileged position.

The UK's withdrawal from Europe will have intense repercussions on the application and even the setting up of new important instruments for international litigation in sectors that are closely linked to the internal market, such as intellectual property and financial services. It is important to note that the consequences will be intensified in the field of industrial property since Great Britain will be outside existing EU industrial property rights – which, in the case of EU rulings on brands and design, for example, incorporate their own competency regulations – and will particularly affect the establishment of the unitary patents system and its complex mechanism for solving controversies.

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