



Understanding Brexit and its implications for the future of the UK and Europe

Professor Kevin Featherstone
European Institute, LSE

Presentation at the Cyprus Economic Society
Nicosia, 15 March 2019

Why BREXIT?

- Balance *sovereignty & market access*.
 - Until 2016, *economics* mattered more (Single Market), given opt-outs.
 - But 2016 the ‘*take back control*’ theme won. Linked to *intra-EU immigration*.



UK detachment

- €, Schengen opt-outs.
- Opposed EU Constitution, EU Charter of Fundamental Rights
- Vetoed EU Fiscal Treaty 2011.
- Cameron sought special terms 2015-16.



And yet...



- ‘EU’ never **a top issue** in UK elections.
- Parliament: **never a euro-sceptic majority**.
 - Key divisions within parties.
- Excellent record **–implementation, compliance**.
- **UK championed** economic reforms (Lisbon 2000; Services)
- UK part of **majority** 87% of time in EU Council of Ministers’ decisions.
- **No** strong economic lobby pushing for a **referendum**

BREXIT voters: word cloud



From: British Election Study. Paper by Chris Prosser, Jon Mellon, and Jane Green, 2016.

Visual imagery: immigration



Fig. 1 Breaking point poster:



Fig. 2 Leave.eu poster:



Fig. 3 Turkey poster:



‘Take Back Control’ =
EU immigration

BREXIT reflects Dani Rodrik's globalization trilemma

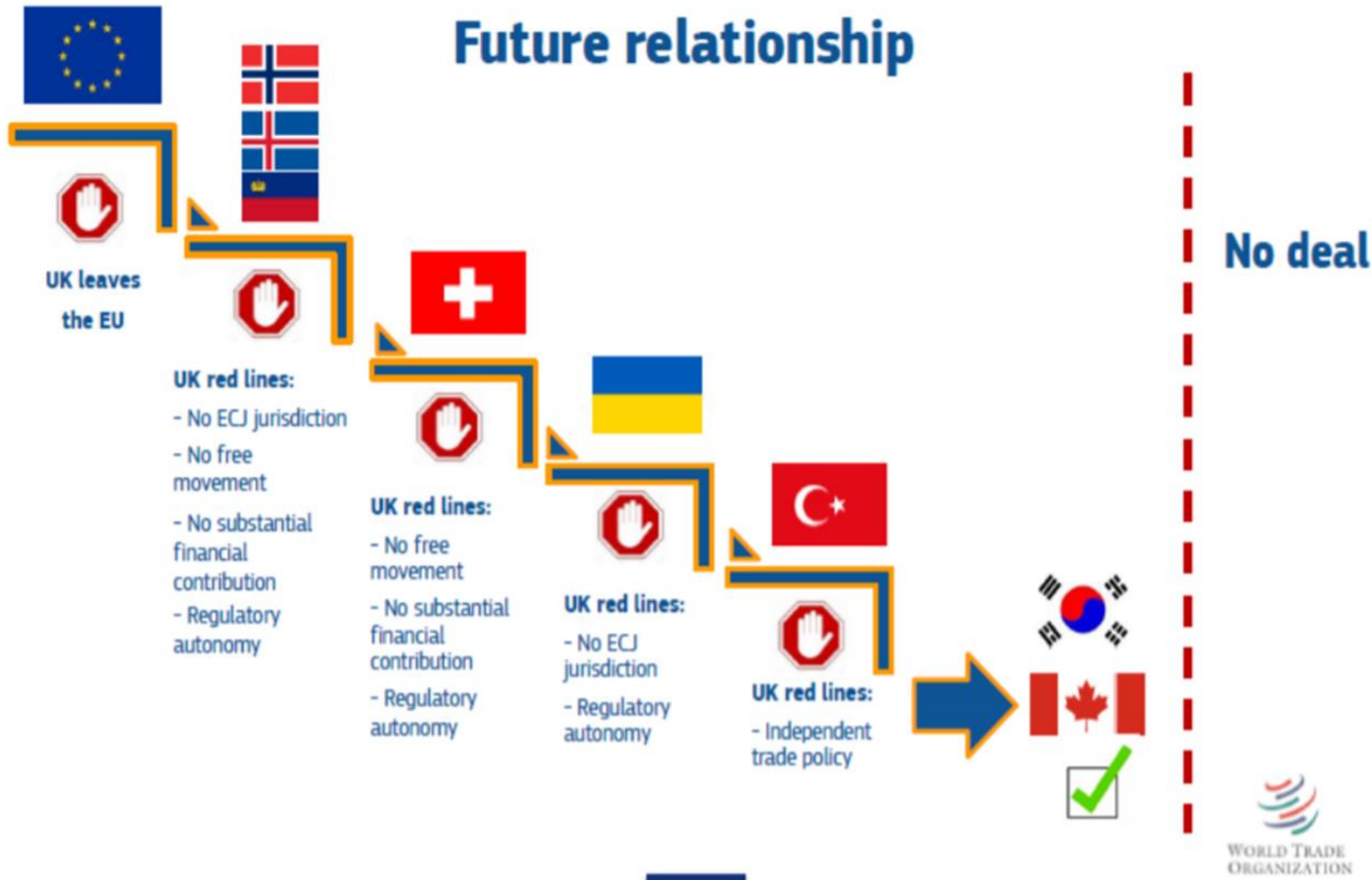
- Democracy, national sovereignty & global economic integration.
 - Any 2, but never all 3 in full (Rodrik, 2011).



“BREXIT means BREXIT”...???

What is the UK asking for?

PM's 'red lines' limit BREXIT options...



A bargaining theory 'puzzle':

- **UK weaker than EU27 on 3 key elements:**[Martil & Staiger, 2018]
 - **Economic size; Viable alternatives; Credibility of (early) domestic constraints**
- **But UK adopted an early hard bargaining strategy, not 'soft' = a puzzle.**
 - Aggressive representation of the other side; redlines announced at outset; unrealistic expectations; non-credible threats; zero-sum mentality; little communication; limited efforts at persuasion.
- **Why? Cultural factors:**
 - Over-estimated UK power; misperception of alternatives; transactional view of EU; compromise as failure.

Seeking a unique deal

- More than **Canada**, less than **Norway**?
- **Withdrawal Agreement: UK leaves 29th March 2019**

- Status quo till **December 2020**.
- Period to **negotiate a future relationship**



Joint *Political Declaration* on future: ambitious, but still to be defined.

- FTA for goods
- ‘Ambitious, comprehensive & balanced arrangements... for services & investment’... ‘well beyond WTO provisions’.
- Not agriculture, fisheries: autonomy.
- Foreign policy & security: ‘close, flexible’ coop.
- ‘An overarching institutional framework’.



Agree no hard border in Ireland:

- Beyond 2020, UK-EU will be 'a single customs territory' & NI close to single market rules.
- This 'Backstop' guarantee continues unless both EU & UK agree to an 'alternative'.
 - UK 'locked in' to a permanent CU.
- Technology? Time limits? Arbitration Council?



Deal or No deal ?

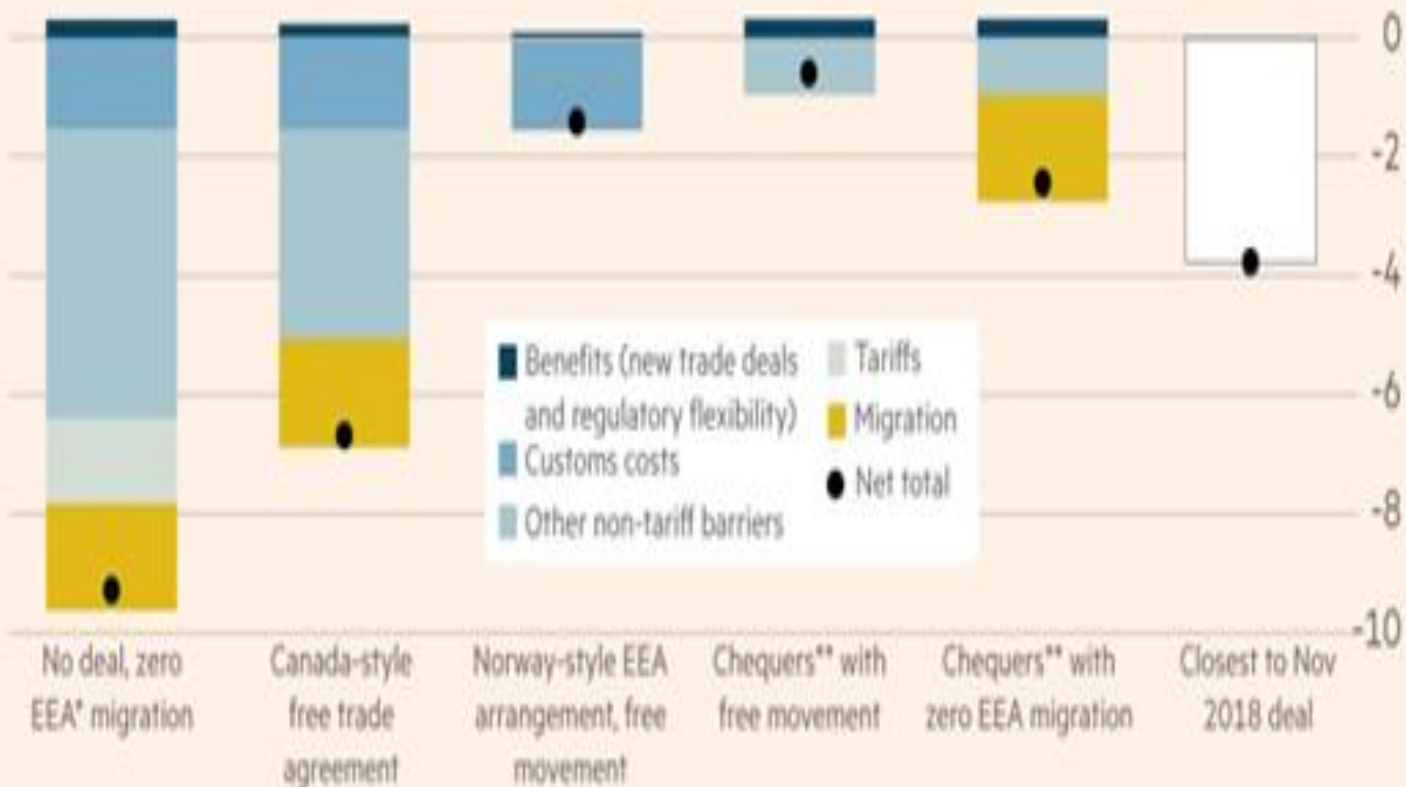
Economic forecasts



- Only '*Economists for Free Trade*' forecast GDP gain from BREXIT (4%-7%).
 - If UK unilaterally adopts *completely free trade*.
- All other BREXIT forecasts involve a loss of GDP
- HM Treasury: compared to EU membership after 15 years
 - Norway/EEA: [c.-1.8%]
 - PM's BREXIT plan: - 3.9% GDP
 - Canada: -6.7% GDP
 - No deal: -9.3%

The government's models of Brexit scenarios

Long-term change in GDP compared with today's arrangements (%)



Source: HM government
© FT

* European Economic Area ** July 2018 white paper, assuming frictionless trade

Projections over 15 year period. See FT 28.11.18.

Public & BREXIT: no consensus

How good would these Brexit outcomes be?

Imagine that the final outcome of Brexit was [x]. Would you consider this to be... %

■ A good outcome ■ An acceptable compromise ■ Not sure ■ A bad outcome

Britain leaving the European Union
without any deal



Britain accepting the negotiated deal and leaving
the European Union on those terms



Britain leaving the European Union with an
alternative deal that included remaining in the
single market and customs union



Britain having a new referendum and voting to
remain in the EU after all



YouGov | yougov.com

22-23 February 2019

ComRes Poll: **44% agree UK should leave with 'no deal'**
(33% disagree). 10.3.19

Parliament & BREXIT



- ‘Hard’ BREXITers in **minority**
- **Most likely outcome: a ‘soft’ BREXIT deal**
 - PM’s deal
 - A Norway+ deal (Single Market & CU)
- **Art. 50 extended: beyond 29.3.19**
- **Risks:**
 - 2nd referendum
 - Theresa May resigns
 - ‘Norway’, then ‘Canada’: soft, then hard BREXIT.

Short-term BREXIT...

- Tuesday's Meaningful vote: PM's deal.
- Wednesday's vote on 'no deal'
- Thursday's vote on delaying BREXIT (Art. 50)
- Indicative votes?
- PM tries 3rd time?

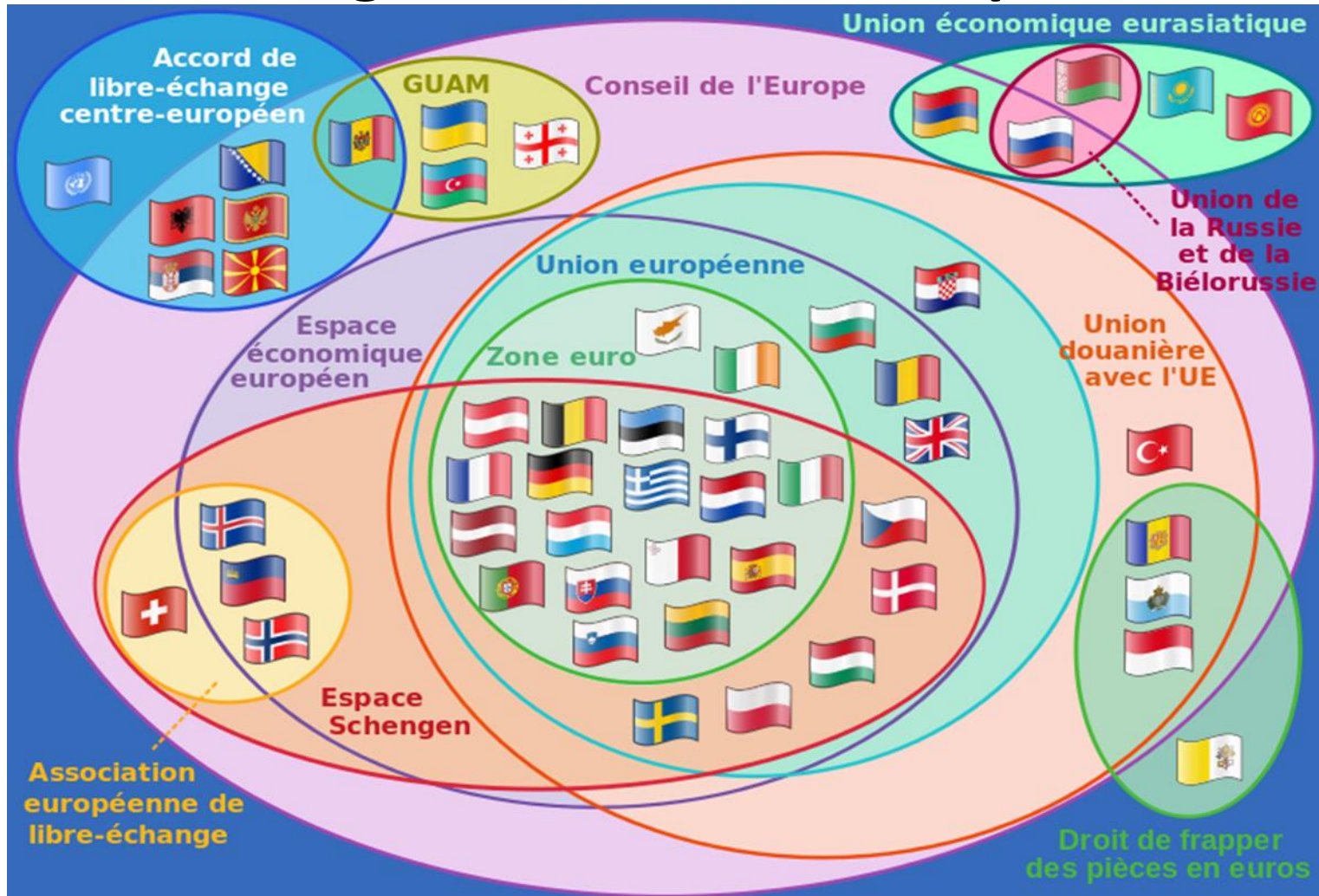


BREXIT impact on UK



- 'BREXITERNITY'
- 2nd referendum: **a culture war** (S. Schama)
- **Fractured politics**
- **A shift of economic model?** Depends on deal.
 - A new industrial strategy? Regions
 - 'Singapore on Thames'.
 - The City?

How much fragmentation can Europe handle?



BREXIT implications for EU?



- **Economic policy: pro-liberal trade, structural reform coalition weaker without UK?**
- **A lesser global role? More inward-looking?**
 - Loss of military, diplomatic capacity
 - Loss of strongest Atlanticist advocate
 - Loss of most interventionist state
 - Loss of state with strongest ties to Far East.
- **Gain: bring EU closer together:** all 27 or core?
(Sibiu, May 2019).